

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2017

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 001-35151

AG MORTGAGE INVESTMENT TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

245 Park Avenue, 26th Floor
New York, New York
(Address of Principal Executive Offices)

27-5254382
(I.R.S. Employer
Identification No.)

10167
(Zip Code)

(212) 692-2000

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class:

Common Stock, \$0.01 par value per share
8.25% Series A Cumulative Redeemable Preferred Stock
8.00% Series B Cumulative Redeemable Preferred Stock

Name of exchange on which registered:

New York Stock Exchange (NYSE)
New York Stock Exchange (NYSE)
New York Stock Exchange (NYSE)

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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"/> (Do not check if a smaller reporting company)	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 Act). Yes ☐ No ☒

The aggregate market value of the registrant's voting common stock held by non-affiliates as of June 30, 2017 was \$492,223,445.

As of February 16, 2018, there were 28,195,673 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2018 annual meeting of stockholders, to be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

AG MORTGAGE INVESTMENT TRUST, INC.
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Forward-Looking Statements

We make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), in this report that are subject to substantial known and unknown risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans, objectives, the composition of our portfolio, actions by governmental entities, including the Federal Reserve, and the potential effects of actual and proposed legislation on us, and our views on certain macroeconomic trends. When we use the words “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “may” or similar expressions, we intend to identify forward-looking statements.

These forward-looking statements are based upon information presently available to our management and are inherently subjective, uncertain and subject to change. There can be no assurance that actual results will not differ materially from our expectations. Some, but not all, of the factors that might cause such a difference include, but are not limited to, changes in interest rates, changes in the yield curve, changes in prepayment rates, the availability and terms of financing, changes in the market value of our assets, general economic conditions, conditions in the market for Agency RMBS, Non-Agency RMBS, ABS and CMBS securities and loans, and legislative and regulatory changes that could adversely affect us. We caution investors not to rely unduly on any forward-looking statements, which speak only as of the date made, and urge you to carefully consider the risks noted above and identified under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K and any subsequent filings. New risks and uncertainties arise from time to time, and it is impossible for us 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. All forward-looking statements that we make, or that are attributable to us, are expressly qualified by this cautionary notice.

PART I

ITEM 1. BUSINESS

Our company

AG Mortgage Investment Trust, Inc. (“we,” “us,” “the Company” or “our”) was incorporated in Maryland on March 1, 2011 and commenced operations in July 2011 after the successful completion of our initial public offering. We focus on investing in, acquiring and managing a diversified portfolio of residential mortgage assets, other real estate-related securities and financial assets, which we refer to as our target assets.

We conduct our operations to qualify and be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. Accordingly, we generally will not be subject to U.S. federal income taxes on our taxable income that we distribute currently to our stockholders as long as we maintain our intended qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act. Our common stock is traded on the New York Stock Exchange, or the NYSE, under the ticker symbol MITT. Our 8.25% Series A Cumulative Redeemable Preferred Stock and our 8.00% Series B Cumulative Redeemable Preferred Stock trade on the NYSE under the ticker symbols MITT-PA and MITT-PB, respectively.

We are externally managed and advised by AG REIT Management, LLC (our “Manager”), a subsidiary of Angelo, Gordon & Co., L.P. (“Angelo, Gordon”). Pursuant to the terms of our management agreement with AG REIT Management, LLC, our Manager provides us with our management team, including our officers, along with appropriate support personnel. All of our officers are employees of Angelo, Gordon or its affiliates. We do not have any employees. Our Manager is at all times subject to the supervision and oversight of our board of directors and has only such functions and authority as our board of directors delegates to it. Our Manager, pursuant to a delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility with respect to our Manager’s day-to-day duties and obligations arising under our management agreement.

Our investment portfolio

Our investment portfolio is comprised of Agency RMBS, Residential Investments, Commercial Investments, and ABS, each of which is described below.

Agency RMBS

Our investment portfolio is comprised primarily of residential mortgage-backed securities, or RMBS. Certain of the assets in our RMBS portfolio have an explicit guarantee of principal and interest by a U.S. government agency such as the Government National Mortgage Association, or Ginnie Mae, or by a government-sponsored entity such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac (each, a “GSE”). We refer to these securities as Agency RMBS. Our Agency RMBS portfolio includes:

- Fixed rate securities (held as mortgage pass-through securities);
- Sequential pay fixed rate collateralized mortgage obligations (“CMOs”);
- CMOs where the holder is entitled only to the interest payments made on the mortgages underlying certain mortgage backed securities (“MBS”) whose coupon has an inverse relationship to its benchmark rate, such as LIBOR (“Inverse interest-only securities”);
- CMOs where the holder is entitled only to the interest payments made on the mortgages underlying certain MBS “interest-only strips” (“Interest-only securities”);
- Excess mortgage servicing rights (“Excess MSRs”) whose underlying collateral is securitized in a trust held by a U.S. government agency or GSE (grouped with Agency RMBS interest-only securities throughout Item 7); and
- Certain Agency RMBS for which the underlying collateral is not identified until shortly (generally two days) before the purchase or sale settlement date (“TBAs”).

Residential Investments

Our investment portfolio also includes a significant portion of Residential Investments. The Residential Investments that we own include RMBS that are not issued or guaranteed by Ginnie Mae or a GSE, which we refer to as our Non-Agency RMBS. Our Non-Agency RMBS include investment grade and non-investment grade fixed and floating-rate securities. We categorize certain of our Residential Investments by weighted average credit score at origination:

- Prime (weighted average credit score above 700)
- Alt-A (weighted average credit score between 700 and 620); and
- Subprime (weighted average credit score below 620)

The Residential Investments that we do not categorize by weighted average credit score at origination include our:

- CRTs (defined below)
- RPL/NPL (described below)
- RMBS Interest-Only securities (Non-Agency RMBS backed by interest-only strips)
- Excess MSRs whose underlying collateral is securitized in a trust not held by a U.S. government agency or GSE (grouped with RMBS Interest-Only securities throughout this Form 10-K, except in the Notes to Consolidated Financial Statements where it is grouped within Excess mortgage servicing rights); and
- Residential Whole Loans (described below).

Credit Risk Transfer securities (“CRTs”) include:

- Unguaranteed and unsecured mezzanine, junior mezzanine and first loss securities issued either by GSEs or issued by other third-party institutions to transfer their exposure to mortgage default risk to private investors. These securities reference a specific pool of newly originated single family mortgages from a specified time period (typically around the time of origination). The risk of loss on the reference pool of mortgages is transferred to investors who may experience losses when adverse credit events such as defaults, liquidations or delinquencies occur in the underlying mortgages. Owners of these securities generally receive an uncapped floating interest rate equal to a predetermined spread over one-month LIBOR.

RPL/NPL include:

- Mortgage-backed securities collateralized by re-performing mortgage loans (“RPL”) and/or non-performing mortgage loans (“NPL”). The RPL/NPL that we own represent the senior and mezzanine tranches of such securitizations. These RPL/NPL securitizations are structured with significant credit enhancement (typically, approximately 50% to the senior tranche and 40% to the mezzanine tranche), which mitigates our exposure to credit risk on these securities. “Credit enhancement” refers to the value of the subordinated tranches available to absorb all credit losses prior to those losses being allocated to more senior tranches. For a senior tranche in this type of securitization to experience loss, the value of the collateral underlying the securitization would have to decrease by 50%. Subordinate tranches typically receive no cash flow (interest or principal) until the senior and mezzanine tranches have been paid off. In addition, the RPL/NPL that we own contain an “interest rate step-up” feature, whereby the interest rate or “coupon” on the senior tranche increases by typically 300 basis points or typically 400 basis points in the case of mezzanine tranches (a “step up”) if the security that we hold has not been redeemed or repurchased by the issuer within 36 months of issuance. We expect that the combination of the priority cash flow of the senior and mezzanine tranches and the 36-month step-up feature will result in these securities exhibiting short average lives and, accordingly, reduced interest rate sensitivity.

Residential Whole Loans include:

- RPLs or NPLs in securitized form that we purchase from an affiliate (or affiliates) of the Manager. The securitizations typically take the form of various classes of notes and a trust certificate.

- RPLs or NPLs that we hold through interests in certain consolidated trusts. These investments are included in the “Residential mortgage loans, at fair value” line item on our consolidated balance sheets.
- “Non-QMs,” which are residential mortgage loans that are not deemed “qualified mortgage,” or “QM,” loans under the rules of the Consumer Financial Protection Bureau (the “CFPB”) that we hold alongside other private funds under the management of Angelo, Gordon. Non-QMs are not eligible for delivery to Fannie Mae, Freddie Mac, or Ginnie Mae. These investments are held in one of our unconsolidated subsidiaries, Mortgage Acquisition Trust I LLC (refer to Item 7 below for more detail), and are included in the “Investments in debt and equity of affiliates” line item on our consolidated balance sheets.

Commercial Investments

We also invest in Commercial Investments. Our Commercial Investments include commercial mortgage-backed securities, or CMBS, Freddie Mac K-Series CMBS (described below), CMBS interest-only securities (CMBS backed by interest-only strips) and commercial mortgage loans.

Freddie Mac K-Series CMBS (“K-Series CMBS”) include:

- CMBS, CMBS interest-only and CMBS principal-only securities which are regularly-issued by Freddie Mac as structured pass-through securities backed by multifamily mortgage loans. These K-Series CMBS feature a wide range of investor options which include guaranteed senior and interest-only bonds as well as unguaranteed senior, mezzanine, subordinate and interest-only bonds. Our K-Series CMBS portfolio includes unguaranteed senior, mezzanine, subordinate and interest-only bonds. Throughout Item 7, we categorize our Freddie Mac K-Series CMBS interest-only bonds as part of our “CMBS Interest-Only” assets.

ABS

We also invest in asset backed securities, or ABS. Our ABS portfolio may include securities collateralized by various asset classes, including automobiles, credit cards and student loans, among others.

Investment classification

Throughout this report, (1) we use the terms “credit portfolio” and “credit investments” to refer to our Residential Investments, Commercial Investments and ABS, inclusive of investments held within affiliated entities but exclusive of AG Arc (discussed below); (2) we refer to our residential whole loans (exclusive of our RPLs or NPLs in securitized form that we purchase from an affiliate (or affiliates) of the Manager and Non-QMs) and commercial mortgage loans, collectively, as our “loans”; (3) we use the term “credit securities” to refer to our credit portfolio, excluding Excess MSRs and loans; and (4) we use the term “real estate securities” or “securities” to refer to our Agency RMBS portfolio, exclusive of Excess MSRs, and our credit securities. Our “investment portfolio” refers to our combined Agency RMBS portfolio and credit portfolio and encompasses all of the investments described above.

We also use the term “GAAP investment portfolio” which consists of (i) our Agency RMBS, exclusive of TBAs (our “GAAP Agency RMBS portfolio”) and (ii) our credit portfolio, exclusive of (x) all investments held within affiliated entities (our “GAAP credit portfolio”), and (y) any investments classified as “Other assets” on our consolidated balance sheets. See Note 2 to the Notes to Consolidated Financial Statements for a discussion of our investments held within affiliated entities.

This presentation of our investment portfolio is consistent with how our management evaluates our business, and we believe this presentation, when considered with the GAAP presentation, provides supplemental information useful for investors in evaluating our investment portfolio and financial condition.

Arc Home LLC

We, alongside private funds under the management of Angelo, Gordon, through AG Arc LLC, one of our indirect subsidiaries (“AG Arc”), formed Arc Home LLC (“Arc Home”). Arc Home, through its wholly-owned subsidiary, originates conforming, Government, Jumbo and other non-conforming residential mortgage loans, retains the mortgage servicing rights associated with the loans that it originates, and purchases additional mortgage servicing rights from third-party sellers. Arc Home has licenses to conduct business in 47 states, including Washington D.C., and utilizes four channels to do so: retail, direct, correspondent and wholesale. As of December 31, 2017, Arc Home had 101 employees, including 18 commission based retail loan officers.

Our strategies

Our investment strategy

We invest in a diversified pool of mortgage assets to generate attractive risk-adjusted returns for our investors over the long-term through a combination of dividends and capital appreciation. We rely on the experience of our Manager's personnel to direct the Company's investments. Our Manager's investment philosophy is based on a rigorous and disciplined approach to credit analysis and is focused on fundamental in-depth research, taking a conservative valuation approach. Our Manager makes investment decisions based on a variety of factors, including expected risk-adjusted returns, relative value, credit fundamentals, vintage of collateral, prepayment speeds, supply and demand trends, general economic and market sector trends, the shape of the yield curve, liquidity, availability of adequate financing, borrowing costs, macroeconomic conditions, and maintaining our REIT qualification and our exemption from registration under the Investment Company Act. We continue to optimize our capital allocation across our target assets, using leverage to increase potential returns to our stockholders.

Our financing and hedging strategy

We generate income principally from the yields earned on our investment portfolio and, to the extent that leverage is deployed, on the difference between (i) the yields earned on our investments and (ii) the sum of our borrowing costs and hedging costs. We use leverage to increase potential returns to our stockholders and to fund the acquisition of our assets.

As of December 31, 2017 our non-GAAP "at-risk" and GAAP debt-to-equity leverage ratios were 4.4 to 1 and 4.2 to 1, respectively. As of December 31, 2016 our non-GAAP "at-risk" and GAAP debt-to-equity leverage ratios were 2.9 to 1 and 2.9 to 1, respectively. To calculate our leverage ratios, we divide our non-GAAP "at-risk" leverage and our GAAP leverage by our GAAP stockholders' equity. We define non-GAAP "at-risk" leverage as the sum of: (i) our GAAP repurchase agreements, (ii) repurchase agreements held through affiliated entities but exclusive of any financing utilized through AG Arc (iii) the amount payable on purchases that have not yet settled less the financing remaining on sales that have not yet settled, (iv) the consolidated tranche issued by the Consolidated VIE (refer to Item 7 below for a definition of "Consolidated VIE"), (v) the Participation Interest (refer to Item 7 below for a definition of "Participation Interest") and (vi) our net TBA position (at cost). Our calculations of each type of leverage exclude repurchase agreements and net receivables/payables on unsettled trades pertaining to U.S. Treasury securities due to the highly liquid and temporary nature of these investments. For a tabular representation of our leverage, refer to the "Financing activities" section of Item 7.

Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our Investment Company Act exemption, to the extent leverage is deployed, we may use a number of sources to finance our investments. We currently finance the acquisition of certain assets within our portfolio with repurchase agreements. Prior to March 31, 2016, we also financed our Agency RMBS portfolio with advances from the Federal Home Loan Bank of Cincinnati (the "FHLBC"). As of December 31, 2017, we, either directly or through our equity method investments in affiliates, had master repurchase agreements, ("MRAs") or loan agreements with 39 counterparties, under which we had borrowed an aggregate \$3.0 billion, on a non-GAAP basis from 27 counterparties. As of December 31, 2017, the borrowings under our repurchase agreements had maturities between January 2, 2018 and December 9, 2019.

In July 2015, our captive insurance subsidiary, MITT Insurance Company LLC ("MITT Insurance"), was granted membership in the FHLBC and commenced obtaining advances from the FHLBC. However, in January 2016, the Federal Housing Finance Agency, the FHFA, issued RIN 2590-AA39, Members of Federal Home Loan Banks ("the Final Rule"), which expressly excluded captive insurance companies, such as MITT Insurance ("Excluded Captives"), from being eligible for membership in the FHLBC and prevented Excluded Captives from taking new advances or renewing existing advances following the effective date of the Final Rule. As of December 31, 2017, we had no outstanding advances with the FHLBC.

Subject to maintaining our qualification as a REIT and our Investment Company Act exemption, to the extent leverage is deployed, we utilize hedging instruments, including interest rate swaps, Eurodollar futures and U.S. Treasury futures (collectively, "Futures"), and other financial instruments such as short positions in U.S. Treasury securities (collectively, our "Hedges") in an effort to hedge the interest rate risk associated with the financing of our portfolio. Specifically, we may seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate hedges, our objectives are to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a spread between the yield on our assets and the costs of our financing and hedging. As of December 31, 2017, we had entered into \$2.2 billion notional amount of interest rate swaps that have variable maturities between October 30, 2019 and December 22, 2027, \$270.0 million notional amount of swaption agreements that have variable maturities between May 1, 2018 and November 1, 2018, \$24.7 million notional amount of short positions in U.S. Treasury securities that have variable maturities between September 30, 2022 and November 15, 2027 and \$52.5 million notional amount of short positions in U.S. Treasury Futures that have variable maturities between January 29, 2023, and January 29, 2028.

Risk management strategy

Our overall portfolio strategy is designed to generate attractive returns through various phases of the economic cycle. We believe that our broad approach within the real estate market, which considers all major categories of real estate assets, allows us to invest in a variety of attractive investment opportunities and helps insulate our portfolio from some of the risks that arise from investing in a single collateral type.

The components of our risk management strategy are:

- *Disciplined adherence to risk-adjusted return.* Our Manager deploys capital when it believes that risk-adjusted returns are attractive. In this analysis, our Manager considers the initial net interest spread of the investment, the cost of hedging and our ability to optimize returns over time through rebalancing activities. Our Manager's management team has extensive experience implementing this approach.
- *Focus on multiple sectors.* Our Manager looks for attractive investment opportunities in all major sectors of the U.S. mortgage market. Our management team evaluates investment opportunities in residential mortgage loans and securities and across a wide spectrum of commercial property types. We believe this approach enables our Manager to identify attractive investments when it believes certain portions of the market are attractively priced or when investment opportunities in one or more sectors are scarce. By pursuing a broad investment strategy within the mortgage market, we believe our investment mortgage portfolio is less exposed to dislocations in specific sectors of the market. We believe a diversified investment portfolio outperforms the traditional single strategy portfolios in the REIT market, with returns that are more resistant to changes in the interest rate and consumer credit environment.
- *Concurrent evaluation of interest rate and credit risk.* Our Manager seeks to balance our portfolio with both credit risk-intensive assets and interest rate risk-intensive assets. Both of these primary risk types are evaluated against a common risk-adjusted return framework.
- *Active hedging and rebalancing of portfolio.* Our Manager periodically evaluates our portfolio against pre-established risk tolerances and will take corrective action through asset sales, asset acquisitions, and dynamic hedging activities to bring the portfolio back within these risk tolerances. We believe this approach generates more attractive long-term returns than an approach that either attempts to hedge away a majority of the interest rate or credit risk in the portfolio at the time of acquisition, on the one end of the risk spectrum, or a highly speculative approach that does not attempt to hedge any of the interest rate or credit risk in the portfolio, on the other end of the risk spectrum.
- *Opportunistic approach to increased risk.* Our Manager's investment strategy is to preserve our ability to extend our risk-taking capacity during periods of changing market fundamentals.

Investment policies

We comply with investment policies and procedures and investment guidelines (our "Investment Policies") that are approved by our board of directors and implemented by our Manager. Our Manager reports on our investment portfolio at each regularly scheduled meeting of our board of directors. Our independent directors do not review or approve individual investment, leverage or hedging decisions made by our Manager made in accordance with our Investment Policies.

Our Investment Policies include the following guidelines, among others:

- No investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;
- No investment shall be made that would cause us to be regulated as an investment company under the Investment Company Act; and
- Our investments will be in our target assets.

Our Investment Policies may be changed by our board of directors without the approval of our stockholders.

Our target assets

Our target asset classes and the principal investments in which we invest are as follows:

Asset Class	Principal Investments
Agency RMBS	<ul style="list-style-type: none">• RMBS for which Ginnie Mae, Fannie Mae or Freddie Mac guarantees payments of principal and interest on the securities they issue.
Non-Agency RMBS	<ul style="list-style-type: none">• Fixed and floating-rate residential Non-Agency RMBS, including investment grade and non-investment grade classes. The mortgage loan collateral for residential Non-Agency RMBS consists of residential mortgage loans that do not generally conform to underwriting guidelines issued by U.S. government agencies or U.S. government-sponsored entities.
Other real estate-related assets and financial assets	<ul style="list-style-type: none">• Fixed and floating-rate CMBS, including investment grade and non-investment grade classes. CMBS are secured by, or evidence ownership interest in, a single commercial mortgage loan or a pool of commercial mortgage loans.• Residential mortgage loans secured by residential real property, including prime, Alt-A, and subprime mortgage loans.• Commercial mortgage loans secured by commercial real property, including mezzanine loans and preferred equity.• First or second lien loans, subordinate interests in first mortgages, bridge loans to be used in the acquisition, construction or redevelopment of a property and mezzanine financing secured by interests in commercial real estate.• Other real estate structured finance products, excess MSRs, other real estate-related loans and securities and other financial assets.• Investment grade and non-investment grade debt and equity tranches of securitizations backed by various asset classes including, but not limited to, small balance commercial mortgages, aircraft, automobiles, credit cards, equipment, manufactured housing, franchises, recreational vehicles and student loans.• Interests in certain types of real estate.

Our board of directors has adopted a set of investment guidelines that outline our target assets and other criteria which are used by our Manager to evaluate specific investment opportunities as well as our overall portfolio composition. Our Manager makes day-to-day determinations as to the timing and percentage of our assets that will be invested in each of the approved asset classes. These decisions depend upon prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. As a result, we cannot predict the percentage of our assets that will be invested in any one of our approved asset classes at any given time. We may change our strategy and policies without a vote of our stockholders. We believe that the diversification of our portfolio of assets and the flexibility of our strategy combined with our Manager's and its affiliates' experience will enable us to achieve attractive risk-adjusted returns under a variety of market conditions and economic cycles.

Our competitive advantages

We believe that our competitive advantages include the following:

Investment team with extensive RMBS experience

The experience of Angelo, Gordon's investment professionals provides competitive advantages to us. Angelo, Gordon has over 160 investment professionals across its lines of investment disciplines. Of those, approximately 90 are involved in one of Angelo, Gordon's real estate investment disciplines—RMBS, CMBS, commercial real estate, private equity real estate, real estate debt and net lease real estate. The insights, experience, and contacts of these professionals are available to us as a resource. Our Manager's dedicated RMBS investment team is led by Thomas Durkin and has approximately 20 investment professionals that are part of the broader Angelo, Gordon Structured Credit Platform. The senior investment professionals have significant experience in managing residential mortgage-related assets through a variety of market cycles and credit and interest rate environments. The RMBS team has oversight from Michael Gordon, David Roberts, Josh Baumgarten and Thomas Durkin who have an average of over 25 years of investment experience. Angelo, Gordon is an established leader in the alternative investment field and its overall investment philosophy is credit and value-centric in that its investment process is based on a highly analytical framework and, with respect to RMBS, takes into account factors such as loan-level cash flows, historical and current borrower performance and collateral valuation.

Breadth of Angelo, Gordon's experience

Although our core investment strategy is focused on RMBS, Angelo, Gordon's expertise in related investment disciplines such as residential and consumer debt, commercial real estate debt, commercial real estate, net lease real estate, distressed credit, leveraged loans and private equity provides our Manager with both (i) valuable investment insights to our RMBS investment selection and strategy and (ii) flexibility to opportunistically invest in target assets other than RMBS as market conditions warrant. As market conditions change and new opportunities are created that are consistent with our strategy and are structurally appropriate for us, we believe Angelo, Gordon's extensive experience can assist our Manager in moving quickly to take advantage of those opportunities on our behalf.

Angelo, Gordon was founded in 1988 and is an SEC-registered investment adviser with approximately \$28 billion under management as of December 31, 2017. The firm manages capital across four investment categories: (i) corporate credit, (ii) direct lending, (iii) securitized products, and (iv) real estate. Angelo, Gordon has over 400 employees, including over 160 investment professionals. The firm is headquartered in New York with associated offices in Chicago, Houston, Los Angeles, San Francisco, London, Amsterdam, Frankfurt, Hong Kong, Tokyo and Seoul.

Access to our Manager's relationships

Angelo, Gordon has created a broad network of deal sources, including relationships with major issuers of residential debt securities and the broker-dealers that trade these securities, augmented by ongoing dialogue with a substantial number of smaller, regional firms that tend to find investment opportunities that are often priced and sold on an off-market basis. Our Manager's investment team has extensive industry contacts and client relationships which have generated proprietary deal flow.

Disciplined investment approach and granular credit analysis

We seek to maximize our risk-adjusted returns through our Manager's disciplined investment approach, which relies on rigorous quantitative and qualitative analysis. Our investment thesis is predicated upon in-depth loan-level analysis and our proprietary analytics, which allow us to underwrite loans individually based on updated borrower credit information and property attributes. Our focus on fundamental granular analysis remains the cornerstone of our investment philosophy, and we believe that through this approach we can identify attractive investment opportunities.

Access to Angelo, Gordon's well developed infrastructure and asset management systems

Angelo, Gordon has invested and continues to invest in the technology, analytics and systems that we believe are required to effectively and comprehensively evaluate potential investments. Our Manager's investment team and Angelo, Gordon's technology group have developed proprietary databases, portfolio systems and quantitative models to enhance valuation analytics (pipeline modeling, roll rates and severity of loss, amongst others). Our Manager's investment team has developed proprietary prepayment, default, delinquency, roll rate and loss severity models to analyze current mark-to-market home values on a loan-by-loan basis using borrower monthly performance statistics, credit characteristics and home price appreciation (or depreciation) by metropolitan statistical area for most of the residential market.

Our Manager utilizes Angelo, Gordon's well developed accounting, tax and internal risk management departments, comprising over 50 certified public accountants. Additionally, our Manager has access to Angelo, Gordon's technology, client service, disaster recovery and operational infrastructure to support our operations.

Operating and regulatory structure

REIT qualification

We have elected to be treated as a REIT under Sections 856 through 859 of the Internal Revenue Code of 1986, as amended, or the Code. Our qualification as a REIT depends upon our ability to meet on a continuing basis, through actual investment and operating results, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our shares. We believe that we are organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our manner of operation enables us to meet the requirements for qualification and taxation as a REIT.

To qualify as a REIT, we generally need to distribute at least 90% of our ordinary taxable income each year (subject to certain adjustments) to our stockholders in order to qualify as a REIT under the Code. Our ability to make distributions to our stockholders depends, in part, upon the performance of our investment portfolio. For the year ended December 31, 2017, we elected to satisfy the REIT distribution requirements in part with a dividend paid in 2018. In conjunction with this, we accrued an excise tax of \$1.5 million in 2017, which is included in the "Taxes payable" line item on the consolidated balance sheets in Item 8.

As a REIT, we generally are not subject to U.S. federal income tax on our REIT taxable income that we distribute currently to our stockholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal income tax at regular corporate rates and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we lost our REIT qualification. Accordingly, our failure to qualify as a REIT could have a material adverse impact on our results of operations and our ability to pay distributions, if any, to our stockholders. Even if we qualify for taxation as a REIT, we may be subject to some U.S. federal, state and local taxes on our income or property. In addition, any income earned by a domestic taxable REIT subsidiary, or TRS, will be subject to corporate income taxation.

Investment Company Act exemption

We conduct our operations so that we are not considered an investment company under Section 3(a)(1)(C) of the Investment Company Act. Under Section 3(a)(1)(C) of the Investment Company Act, a company is deemed to be an investment company if it is engaged, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, (the "40% test"). "Investment securities" do not include, among other things, U.S. government securities and securities issued by majority-owned subsidiaries that (i) are not investment companies and (ii) are not relying on the exceptions from the definition of investment company provided by Section 3(c)(1) or 3(c)(7) of the Investment Company Act.

The operations of many of our wholly-owned or majority-owned subsidiaries' are generally conducted so that they are exempted from investment company status in reliance upon Section 3(c)(5)(C) of the Investment Company Act. Because entities relying on Section 3(c)(5)(C) are not investment companies, our interests in those subsidiaries do not constitute "investment securities" for purposes of Section 3(a)(1)(C). To the extent that our direct subsidiaries qualify only for either Section 3(c)(1) or 3(c)(7) exemptions from the Investment Company Act, we limit our holdings in those kinds of entities so that, together with other investment securities, we satisfy the 40% test. Although we continuously monitor our and our subsidiaries' portfolios on an ongoing basis to ensure compliance with that test, there can be no assurance that we will be able to maintain the exemptions from registration for us and each of our subsidiaries.

The method we use to classify our subsidiaries' assets for purposes of Section 3(c)(5)(C) of the Investment Company Act is based in large measure upon no-action positions taken by the SEC staff. These no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations we may face, and a number of these no-action positions were issued decades ago. No assurance can be given that the SEC or its staff will concur with our classification of our or our subsidiaries' assets or that the SEC or its staff will not, in the future, issue further guidance that may require us to reclassify those assets for purposes of qualifying for an exclusion from registration under the Investment Company Act. There can be no assurance that the laws and regulations governing the Investment Company Act status of companies primarily owning real estate related assets, including the SEC or its staff providing more specific or different guidance regarding these exemptions, will not change in a manner that adversely affects our operations. To the extent that the SEC or its staff provides more specific guidance regarding Section 3(c)(5)(C) or any of the other matters bearing upon the definition of investment company and the exceptions to that definition, we may be required to adjust our investment strategy accordingly. Additional guidance from the SEC or its staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the investment strategy we have chosen.

Conducting our operations so as not to be considered an investment company under the Investment Company Act limits our ability to make certain investments. For example, these restrictions limit our and our subsidiaries' ability to invest directly in mortgage-related securities that represent less than the entire ownership in a pool of mortgage loans, debt and equity tranches of securitizations, certain real estate companies and assets not related to real estate.

Restrictions on ownership and transfer of shares

Our charter, subject to certain exceptions, prohibits any person from directly or indirectly owning (i) more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding common stock, or (ii) more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding capital stock. We refer to those limitations in this report collectively as the "share ownership limits." Our charter also prohibits any person from directly or indirectly owning shares of any class of our stock if such ownership would result in our being "closely held" under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT.

Our charter generally provides that any capital stock owned or transferred in violation of the foregoing restrictions will be deemed to be transferred to a charitable trust for the benefit of a charitable beneficiary, and the purported owner or transferee will acquire no rights in such shares. If the foregoing is ineffective for any reason to prevent a violation of these restrictions, then the transfer of such shares will be void *ab initio*.

Competition

Our net income depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing and hedging costs. In acquiring our investments, we compete with other REITs, specialty finance companies, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies, hedge funds, and other entities. In addition, there are numerous REITs and specialty finance companies with similar asset acquisition objectives. These other REITs and specialty finance companies increase competition for the available supply of our target assets suitable for purchase. Many of our competitors are significantly larger than we are, have access to greater capital and other resources and may have other advantages over us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than we can. Market conditions may attract more competitors, which may increase the competition for sources of financing. An increase in the competition for sources of financing could adversely affect the availability and cost of financing.

We have access to our Manager's professionals and their industry expertise, which we believe provides us with a competitive advantage. These professionals help us assess investment risks and determine appropriate pricing for certain potential investments. These relationships enable us to compete more effectively for attractive investment opportunities. Despite certain competitive advantages, we may not be able to achieve our business goals or expectations due to the competitive risks that we face.

Staffing

We are managed by our Manager pursuant to a management agreement. Our Manager, pursuant to a delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility with respect to our Manager's day-to-day duties and obligations arising under our management agreement. In addition, all of our officers are employees of Angelo, Gordon or its affiliates. We have no employees. Angelo, Gordon has over 400 employees.

Available information

Our principal executive offices are located at 245 Park Avenue, 26th Floor, New York, New York 10167. Our telephone number is (212) 692-2000. Our website can be found at www.agmit.com. We make available free of charge on, or through the SEC filings section of our website, access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as are filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as our proxy statements with respect to our annual meetings of stockholders, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Exchange Act reports filed with, or furnished to, the SEC are also available at the SEC's website at www.sec.gov and can also be found on our website at www.agmit.com. The content of any website referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted. You also may inspect and copy these reports, proxy statements and other information, as well as the annual report and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and stockholders may lose some or all of their investment.

Risks related to our business

Increases in interest rates could adversely affect the value of our investments and cause our interest expense to increase, which could result in reduced earnings or losses and negatively affect our profitability as well as the cash available for distribution to our stockholders.

Our investment portfolio contains a significant allocation to RMBS, as well as other assets such as ABS, CMBS and mortgage loans. The relationship between short-term and longer-term interest rates is often referred to as the “yield curve.” In a normal yield curve environment, an investment in such assets will generally decline in value if long-term interest rates increase. Declines in market value may ultimately reduce earnings or result in losses to us, which may negatively affect cash available for distribution to our stockholders.

Ordinarily, short-term interest rates are lower than longer-term interest rates. If short-term interest rates rise disproportionately relative to longer-term interest rates (a flattening of the yield curve), our borrowing costs will generally increase more rapidly than the interest income earned on our assets. In 2017, the yield curve experienced a significant flattening due to various factors, amongst which include the Federal Reserve’s increase in short term interest rates and a continued strong demand for longer duration, fixed-income assets.

Because our investments will generally bear interest based on longer-term rates than our borrowings, a flattening of the yield curve would tend to decrease our net interest margin, net income, book value and the market value of our net assets. It is also possible that short-term interest rates may exceed longer-term interest rates (a yield curve inversion), in which event our borrowing costs may exceed our interest income and we could incur operating losses. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested, the spread between the yields on the new investments and available borrowing rates may decline, which would likely decrease our net income.

A significant risk associated with our target assets is the risk that both long-term and short-term interest rates will increase significantly. If long-term rates increase significantly, the market value of these investments will decline, and the duration and weighted average life of the investments will increase. At the same time, an increase in short-term interest rates will increase the amount of interest owed on the repurchase agreements we enter into to finance the purchase of our investments.

We may experience periods of illiquidity for our assets, which could adversely impact the value of our assets, our ability to finance our business or operate profitably.

Possible market developments, including adverse developments in financial and capital markets, could reduce the liquidity in the markets of the assets that we own. A lack of liquidity may result from the absence of a willing buyer or an established market for these assets, legal or contractual restrictions on resale or disruptions in the secondary markets. Such decreased liquidity can cause us to sell our assets at a price lower than we would normally sell them or cause us to hold our assets longer than we would normally hold them. In addition, such illiquidity could cause our lenders to require us to pledge additional assets as collateral. If we are unable to obtain sufficient short-term financing or our assets are insufficient to meet the collateral requirements, then we may be compelled to liquidate particular assets at an inopportune time. We bear the risk of being unable to dispose of our assets at advantageous times or in a timely manner, and if such assets experience periods of illiquidity, our profitability may be adversely affected and we could incur substantial losses.

We may change our investment and operational policies without stockholder consent, which may adversely affect the market value of our common stock and our ability to make distributions to our stockholders.

Our board of directors determines our operational policies and may amend or revise such policies, including our policies with respect to our REIT qualification, acquisitions, dispositions, operations, indebtedness and distributions, or approve transactions that deviate from these policies, without a vote of, or notice to, our stockholders. Operational policy changes could adversely affect the market value of our common stock and our ability to make distributions to our stockholders.

We may also change our investment strategies and policies and target asset classes at any time without the consent of our stockholders, which could result in our making investments that are different in type from, and possibly riskier than, our current assets or the investments contemplated in this report. A change in our investment strategies and policies and target asset classes may increase our exposure to interest rate risk, default risk and real estate market fluctuations, which could adversely affect the market value of our common stock and our ability to make distributions to our stockholders.

The failure of servicers to effectively service the mortgage loans underlying the RMBS in our portfolio or any mortgage loans we own may materially and adversely affect us.

Most residential mortgage loans and securitizations of residential mortgage loans require a servicer to manage collections on each of the underlying loans. We do not service the mortgage loans underlying the RMBS in our portfolio or any mortgage loans we own, and we rely exclusively on these third-party servicers to provide for the primary and special servicing of these securities and loans. In that capacity, these servicers control all aspects of loan collection, loss mitigation, default management and ultimate resolution of a defaulted loan, including, as applicable, the foreclosure and sale of real estate owned (“REO”) properties. Both default frequency and default severity of loans may depend upon the quality of the servicer. If servicers are not vigilant in encouraging borrowers to make their monthly payments, the borrowers may be far less likely to make these payments, which could result in a higher frequency of default. If servicers take longer to liquidate non-performing assets, losses may be higher than originally anticipated. Higher losses may also be caused by less competent dispositions of REO properties. In the case of pools of securitized loans, servicers may be required to advance interest on delinquent loans to the extent the servicer deems those advances recoverable. In the event the servicer does not advance interest on delinquent loans, interest may not be able to be paid even on more senior securities. Servicers may also advance more interest than is in fact recoverable once a defaulted loan is disposed, and the loss to the trust may be greater than the outstanding principal balance of that loan. The failure of servicers to effectively service the mortgage loans underlying the RMBS in our portfolio or any mortgage loans we own could negatively impact the value of our investments and our performance.

Servicer quality is of prime importance in the performance of residential mortgage loans and RMBS. The servicer has a fiduciary obligation to act in the best interest of the securitization trust, but significant latitude exists with respect to its servicing activities. The servicer also has a contractual obligation to obey all laws and regulations (including federal, state, and local laws and regulations) and to act in accordance with applicable servicing standards; however, as we do not control these servicers, we cannot be sure that they are acting in accordance with their contractual obligations, which could expose us to regulatory scrutiny if the ownership of the loans is tied to the servicing of those loans. Our risk management operations may not be successful in limiting future delinquencies, defaults or losses. If a third-party servicer fails to perform its duties under the securitization documents or its duties to us, this may result in a material increase in delinquencies or losses on the MBS or mortgage loans we own or in a fine or adverse finding from a regulatory authority. As a result, the value of such MBS or mortgage loans may be impacted, and we may incur losses on our investment. If a third-party servicer fails to perform its contractual duties to us, this may result in fines or adverse action from a regulatory authority if the ownership of loans is tied to the servicing of those loans.

Many servicers have gone out of business over the last several years, requiring a transfer of servicing to another servicer. This transfer takes time, and loans may become delinquent because of confusion or lack of attention, which could cause us to incur losses that may materially and adversely affect us. In addition, when servicing is transferred, servicing fees may increase, which may have an adverse effect on the RMBS held by us.

We are highly dependent on information systems and systems failures, breaches or cyber-attacks could significantly disrupt our business, which could have a material adverse effect on our results of operations and cash flows.

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

Our business is highly dependent on the communications and information systems of our Manager. Any failure, unauthorized access or interruption of these networks or systems could cause delays or other problems in our securities trading activities, which could have a material adverse effect on our results of operations and cash flows and negatively affect the market price of our common stock and our ability to make distributions to our stockholders.

System breaches in particular are evolving. Computer malware, viruses, computer hacking, phishing attacks, ransomware, and other electronic security breaches have become more prevalent in our industry. These breaches could result in disruptions of our communications and information systems, unauthorized release of confidential or proprietary information and damage or corruption of data. These events could lead to regulatory fines, higher operating costs from remedial actions, loss of business and potential liability.

Our Manager and its affiliates are and will continue to be from time to time the target of attempted cyber and other security threats. We rely on our Manager to continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. There is no guarantee that these efforts will be successful. Even with all reasonable security efforts, not every breach can be prevented or even detected.

Cybersecurity risks and cyber incidents may adversely affect the Company's business by causing a disruption to the Company's operations, a compromise or corruption of the Company's confidential information, and/or damage to the Company's business relationships, all of which could negatively impact the Company's financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the Company's information resources. These incidents could involve gaining unauthorized access to the Company's information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to the Company's investor relationships. As the Company's reliance on technology has increased, so have the risks posed to its information systems, including those provided by the Manager and third-party service providers. Angelo, Gordon's processes, procedures and internal controls that are designed to mitigate cybersecurity risks and cyber intrusions do not guarantee that a cyber incident will not occur or that the Company's financial results, operations or confidential information will not be negatively impacted by such an incident.

Financial institutions, in their capacity as trustee, may withhold funds to cover legal costs that would otherwise be due to owners of certain residential mortgage-backed securities.

In June 2017, Wells Fargo Bank, N.A., in its capacity as trustee in 20 residential mortgage-backed securitizations, withheld more than \$90 million that was supposed to be paid to the bondholders of the securities in those securitizations. The funds were withheld to cover potential legal costs related to certain potential claims that could be brought by investors in these securitizations to recover losses suffered during the financial crisis. It is not clear if Wells Fargo Bank, N.A., as the trustee in other securitizations, will withhold funds to cover the potential legal expenses in these other deals or whether other financial institutions, as trustees in these types of securitizations, will withhold funds for similar reasons. We do not hold the bonds in any of the 20 residential mortgage-backed securitizations where Wells Fargo Bank, N.A. withheld funds. However, if we hold securities in securitizations where funds are withheld by the trustees in such securitizations, we could incur losses that may materially and adversely affect our financial condition and results of operations.

Risks related to our investments

The residential mortgage loans that we acquire, the mortgages underlying the RMBS that we acquire, the commercial mortgage loans we originate and acquire, the commercial mortgage loans underlying the CMBS that we acquire and the assets underlying the ABS that we acquire are all subject to defaults, foreclosure timeline extension, fraud, price depreciation and unfavorable modification of loan principal amount, interest rate and premium, any of which could result in losses to us.

In the event of any default under a mortgage loan held directly by us or through a Non-Agency securitization structure we invest in, we bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor in possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

Our investments in residential mortgage loans and Non-Agency RMBS are subject to the risks of default, foreclosure timeline extension, fraud, home price depreciation and unfavorable modification of loan principal amount, interest rate and amortization of principal, accompanying the underlying residential mortgage loans. The ability of a borrower to repay a mortgage loan secured by a residential property is dependent upon the income or assets of the borrower. A number of factors may impair borrowers' abilities to repay their loans, including:

- adverse changes in national and local economic and market conditions;
- the availability of affordable refinancing options; and
- uninsured or under-insured property losses caused by earthquakes, floods and other natural disasters.

In the event of defaults on the residential mortgage loans and residential mortgage loans that underlie our investments in RMBS and the exhaustion of any underlying or any additional credit support, we may not realize our anticipated return on our investments and we may incur a loss on these investments.

The CMBS that we invest in are secured by a single commercial mortgage loan or a pool of commercial mortgage loans and are subject to all of the risks of the respective underlying commercial mortgage loans. Our commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency foreclosure and loss that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property, such as a multifamily or commercial property, typically is dependent primarily upon the successful business operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired and duration may be extended. Net operating income of an income-producing property can be affected by a number of factors that include:

- overall macroeconomic conditions in the area in which the properties underlying the mortgages are located;
- tenant mix and the success of tenant businesses;
- property location, condition and management decisions;
- competition from comparable types of properties; and
- changes in laws that increase operating expenses or limit rents that may be charged.

We invest in ABS backed by various asset classes including, but not limited to, small balance commercial mortgages, aircraft, automobiles, credit cards, equipment, manufactured housing, franchises, recreational vehicles and student loans. ABS remain subject to the credit exposure of the underlying receivables. In the event of increased rates of delinquency with respect to any receivables underlying our ABS, we may not realize our anticipated return on these investments.

Our Manager’s due diligence of potential investments may not reveal all of the liabilities associated with such investments and may not reveal other weaknesses in such investments, which could lead to investment losses.

Our Manager values our target assets based on loss-adjusted yields, taking into account estimated future losses on the mortgage loans included in the securitization’s pool of loans, and the estimated impact of these losses on expected future cash flows. Our Manager’s loss estimates may not prove accurate, as actual results may vary from estimates. In the event that our Manager underestimates the pool level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

Before making an investment, our Manager assesses the strengths and weaknesses of the originators, borrowers, and the underlying property values, as well as other factors and characteristics that are material to the performance of the investment. In making the assessment and otherwise conducting customary due diligence, our Manager relies on resources available to it and, in some cases, an investigation by third parties. There can be no assurance that our Manager’s due diligence process will uncover all relevant facts or that any investment will be successful.

Our investments are subject to a significant change in prepayments speeds affecting the value of our portfolio and possibly adversely affecting yields.

The value of our assets may be affected by prepayment rates on residential mortgage loans. We acquire RMBS and anticipate that the underlying residential mortgages loans will prepay at a projected rate generating an expected yield. If we purchase assets at a premium to par value, when borrowers prepay their residential mortgage loans faster than expected, the corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. In the case of Agency RMBS whole pools and certain other investment grade rated securities, we will be required to make a retrospective adjustment to historical amortization. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their residential mortgage loans slower than expected, the decrease in corresponding prepayments on the RMBS may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated.

Commercial mortgages frequently limit the ability of the borrower to prepay, thereby providing a certain level of prepayment protection. Common restrictions include yield maintenance and prepayment penalties, the proceeds of which are generally at least partially allocable to these securities.

These changes in prepayment rates may affect our ability to maintain targeted amounts of leverage on our portfolio and may result in reduced earnings or losses for us and negatively affect the cash available for distribution to our stockholders.

Our hedging strategies are generally not designed to mitigate spread risk.

When the market spread widens between the yield on our assets and benchmark interest rates, our net book value could decline if the value of our assets falls by more than the offsetting fair value increases on our hedging instruments tied to the underlying benchmark interest rates. We refer to this scenario as an example of “spread risk” or “basis risk.” The spread risk associated with our mortgage assets and the resulting fluctuations in fair value of these securities can occur independently of changes in benchmark interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by the Federal Reserve, market liquidity, or changes in required rates of return on different assets. Consequently, while we use interest rate swaps, Eurodollar futures, U.S. Treasury note futures, put options and interest rate swap futures and other supplemental hedges to attempt to protect against moves in interest rates, such instruments typically will not protect our net book value against spread risk, which could adversely affect our financial condition and results of operations.

Because we acquire mainly fixed-rate securities, an increase in interest rates may adversely affect our book value.

Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the volume of fixed-rate target assets available to us, which could adversely affect our ability to acquire assets that satisfy our investment objectives. Rising interest rates may also cause fixed-rate target assets that were issued prior to an interest rate increase to provide yields that are below prevailing market interest rates. If rising interest rates cause us to be unable to acquire a sufficient volume of our fixed-rate target assets with a yield that is above our borrowing cost, our ability to satisfy our investment objectives and to generate income and pay dividends may be materially and adversely affected. Additionally, in periods of rising interest rates, our Agency RMBS may experience reduced returns if the owners of the underlying mortgages pay off their mortgages more slowly than anticipated. This could cause the prices of our Agency RMBS to fall more than we anticipated and for our hedge portfolio to underperform relative to the decline in the value of our Agency RMBS which could negatively affect our book value.

Mezzanine loan assets involve greater risks of loss than senior loans.

We hold mezzanine loans which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or any of our initial investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our mezzanine loans would result in operating losses for us and may limit our ability to make distributions to our stockholders.

Rapid changes in the values of our residential mortgage loans and other real estate-related assets may make it more difficult for us to maintain our qualification as a REIT or exemption from registration under the Investment Company Act.

If the market value or income potential of our residential mortgage loans and other real estate-related assets declines as a result of increased interest rates, prepayment rates or other factors, we may need to increase certain real estate investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or exemption from registration under the Investment Company Act. If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of certain investments. We may have to make investment decisions that we otherwise would not make absent our REIT and Investment Company Act considerations.

We may be adversely affected by risks affecting borrowers or the asset or property types in which our investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions.

Our assets are not subject to any geographic, diversification or concentration limitations except that we concentrate in residential mortgage-related investments. Accordingly, our investment portfolio may be concentrated by geography, asset, property type and/or borrower, increasing the risk of loss to us if the particular concentration in our portfolio is subject to greater risks or undergoing adverse developments. In addition, adverse conditions in the areas where the properties securing or otherwise underlying our investments are located (including business layoffs or downsizing, industry slowdowns, changing demographics and other factors) and local real estate conditions (such as oversupply or reduced demand) may have an adverse effect on the value of our investments. A material decline in the demand for real estate in these areas may materially and adversely affect us. Lack of diversification can increase the correlation of non-performance and foreclosure risks among our investments.

Our investments are generally recorded at fair value, and quoted prices or observable inputs may not be available to determine such value, resulting in the use of significant unobservable inputs to determine value.

The values of some of our investments may not be readily determinable. We measure the fair value of these investments in accordance with guidance set forth in Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC 820-10, "Fair Value Measurements and Disclosures." Ultimate realization of the value of an asset depends to a great extent on economic and other conditions that are beyond the control of our Manager, our Company or our board of directors. Further, fair value is only an estimate based on good faith judgment of the price at which an investment can be sold since market prices of investments can only be determined by negotiation between a willing buyer and seller. If we were to liquidate a particular asset, the realized value may be more than or less than the fair value that we ascribe to that asset.

To a large extent, our Manager’s determination of the fair value of our investments depends on inputs provided by third-party dealers and pricing services. Valuations of certain securities in which we invest are often difficult to obtain or are unreliable. In general, dealers and pricing services heavily disclaim their valuations. Dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental, or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of a security, valuations of the same security can vary substantially from one dealer or pricing service to another. Therefore, our results of operations for a given period could be adversely affected if our determinations regarding the fair market value of these investments are materially higher than the values that we ultimately realize upon their disposal.

Our Manager utilizes analytical models and data in connection with the evaluation of our investments, and any incorrect, misleading or incomplete information used in connection therewith will subject us to potential risks.

Given the complexity of certain of our investments and strategies, our Manager must rely heavily on analytical models (both proprietary models developed by our Manager and those supplied by third parties) and information and data supplied by third parties. We use this information to value investments or potential investments and also to hedge our investments. When this information proves to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on this potentially faulty information, especially valuation models, our Manager may be induced to buy certain investments at prices that are too high, to sell certain other investments at prices that are too low or to miss favorable opportunities altogether. Similarly, any hedging may prove to be unsuccessful.

Some of the risks of relying on analytical models and third-party data are particular to analyzing tranches from securitizations, such as mortgage-backed securities. These risks include, but are not limited to, the following: (i) collateral cash flows and/or liability structures may be incorrectly modeled in all or only certain scenarios, or may be modeled based on simplifying assumptions that lead to errors; (ii) information about collateral may be incorrect, incomplete, or misleading; (iii) collateral or bond historical performance (such as historical prepayments, defaults, cash flows, etc.) may be incorrectly reported or subject to interpretation (*e.g.*, different issuers may report delinquency statistics based on different definitions of what constitutes a delinquent loan); or (iv) collateral or bond information may be outdated, in which case the models may contain incorrect assumptions as to what has occurred since the date information was last updated.

Some of the analytical models used by our Manager, such as mortgage prepayment models, mortgage default models, and models providing risk sensitivities and duration output, are predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses on a cash flow and/or a mark-to-market basis. Incorrect sensitivities and duration output may lead to an unsound hedging strategy. In addition, the predictive models used by our Manager may differ substantially from those models used by other market participants, with the result that valuations based on these predictive models may be substantially higher or lower for certain investments than actual market prices. Furthermore, since predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data and the ability of these historical models to accurately reflect future periods.

All valuation models rely on correct market data inputs. If incorrect market data is entered into even a well-founded valuation model, the resulting valuations will be incorrect. However, even if the input of market data is correct, “model prices” often differ substantially from market prices, especially for securities that are illiquid and have complex characteristics, such as derivative securities.

Our investments in unsecuritized residential and commercial whole loans are difficult to value and are dependent upon the ability to finance, refinance and securitize such investments. The inability to do so could materially and adversely affect our liquidity and earnings and limit the cash available for distribution to our stockholders.

Our investments include investments in RPLs and NPLs. RPLs are loans on which a borrower was previously delinquent but has resumed repaying. Our ability to sell RPLs for a profit depends on the borrower continuing to make payments. An RPL could become a NPL, which could reduce our earnings. Investments in NPLs and sub-performing loans may involve workout negotiations, restructuring and the possibility of foreclosure, all of which are executed by third-party servicers. These processes may be lengthy and expensive. If loans become REO, servicing companies continue to manage these properties and may not be able to sell them. See the “Our ability to sell REO on terms acceptable to us or at all may be limited” risk factor.

We may seek to refinance an NPL or RPL to realize greater value from such loan. However, there may be impediments to executing a refinancing strategy for NPLs and RPLs. For example, many mortgage lenders have adjusted their loan programs and underwriting standards to be more conservative, which has reduced the availability of mortgage credit to prospective borrowers. This has resulted in reduced availability of financing alternatives for borrowers seeking to refinance their mortgage loans. The decline in housing prices may also result in higher loan-to-value ratios and leave borrowers with insufficient equity in their homes to permit them to refinance. To the extent prevailing mortgage interest rates rise from current levels, these risks would be exacerbated. The effect of the above would likely serve to make refinancing of NPLs and RPLs potentially more difficult and less profitable for us.

Arc Home originates conforming and non-conforming residential mortgage loans and owns mortgage servicing rights (“MSRs”). Each of these lines of business carry considerable risk.

Arc Home’s mortgage business seeks to mitigate the risks inherent in its mortgage lending operations by adhering to specific underwriting practices. These practices will often include, among other things, analysis of a borrower’s prior credit history, credit score, employment, income verification, financial statements, tax returns, cash flow projections, valuation of collateral, and verification of liquid assets. If Arc Home’s underwriting process fails to capture accurate information or proves to be inadequate, Arc Home may incur losses on mortgage loans that meet its underwriting criteria, and those losses may exceed the amounts set aside as reserves, which would adversely impact Arc Home’s income and the value of our investment in Arc Home.

Arc Home generally retains MSRs in connection with its sale of mortgage loans to the Agencies where it assumes the obligation to service such loans on their behalf. Arc Home subservices this obligation to third-party servicers. Arc Home also purchases MSRs from third-party sellers. Risks associated with the acquisition of MSRs include but are not limited to, the use of certain estimates and assumptions in making a determination of the fair value of MSRs, changes in interest rates, changes in prepayment speeds of the mortgage loans underlying the MSRs, and the numerous federal, state and local laws and regulations related to MSR servicing activities.

Additionally, there is uncertainty regarding the future of Fannie Mae and Freddie Mac, including with respect to how long they will continue to be in existence, the extent of their roles in the market and what forms they will take. The elimination or modification of the traditional roles of Fannie Mae or Freddie Mac could adversely affect Arc Home’s mortgage origination business and the value of our investment in Arc Home.

Residential mortgage loans that are not guaranteed by a U.S. Government agency or a GSE are subject to risks of delinquency, foreclosure and loss during the period of time that loans are held pending sale, generally 20-30 days. The ability of a borrower to repay a loan secured by a residential property depends upon the income or assets of the borrower as well as a number of other factors. In the event of any default or underwriting flaw under a mortgage loan held directly by Arc Home’s mortgage business, it may bear, or be required to indemnify against, a risk of loss of principal to the extent of any deficiency between the value of the collateral on the one hand and the principal and accrued interest of the mortgage loan on the other, which could have a material adverse effect on its cash flow from operations.

Any of the above factors could have a material impact on Arc Home’s business, financial condition, results of operations, cash flows, or liquidity and thus could impact the value of our investment in Arc Home.

Our acquisition of Excess MSRs exposes us to significant risks.

We purchase Excess MSRs from third-party sellers and Arc Home. The Excess MSRs we acquire are recorded at fair value on our consolidated balance sheets. The determination of the fair value of Excess MSRs requires our Manager to make numerous estimates and assumptions. Such estimates and assumptions include, without limitation, estimates of future cash flows associated with Excess MSRs based upon assumptions involving interest rates as well as the prepayment rates, delinquencies and foreclosure rates of the underlying serviced mortgage loans. The ultimate realization of the value of Excess MSRs may be materially different than the values of such Excess MSRs as may be reflected in our consolidated balance sheet as of any particular date. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets. Accordingly, there may be material uncertainty about the fair value of any Excess MSRs we acquire.

Prepayment speeds significantly affect Excess MSRs. We base the price we pay for Excess MSRs and the rate of amortization of those assets on, among other things, our projection of the cash flows from the related pool of mortgage loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speed expectations increase significantly, the fair value of the Excess MSRs could decline, and we may be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from Excess MSRs, and we could ultimately receive substantially less than what we paid for such assets. Moreover, delinquency rates have a significant impact on the valuation of any Excess MSRs. If delinquencies are significantly greater than what we expect, the estimated fair value of the Excess MSRs could be diminished.

Residential whole loans, including RPLs, NPLs and Non-QMs, are subject to increased risks.

We acquire and manage residential whole loans. Residential whole loans, including RPLs, NPLs and Non-QMs, are subject to increased risk of loss. Unlike Agency RMBS, residential mortgage loans generally are not guaranteed by the U.S. Government or any GSE, though in some cases they may benefit from private mortgage insurance. Additionally, by directly acquiring residential whole loans, we do not receive the structural credit enhancements that benefit senior tranches of RMBS. A residential whole loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower, and the priority and enforceability of the lien will significantly impact the value of such mortgage loan. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses.

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

We may acquire and sell from time to time Non-QMs, which may subject us to legal, regulatory and other risks, which could adversely impact our business and financial results.

We may from time to time acquire Non-QMs that will not have the benefit of enhanced legal protections otherwise available in connection with the origination of residential mortgage loans to a more restrictive credit standard than just determining a borrower's ability to repay, as further described below.

The ownership of Non-QMs will subject us to legal, regulatory and other risks, including those arising under federal consumer protection laws and regulations designed to regulate residential mortgage loan underwriting and originators' lending processes, standards, and disclosures to borrowers. These laws and regulations include the CFPB TILA-RESPA Integrated Disclosure rule (also referred to as "TRID"), the "ability-to-repay" rules ("ATR Rules") under the Truth-in-Lending Act and "qualified mortgage" regulations, in addition to various federal, state and local laws and regulations intended to discourage predatory lending practices by residential mortgage loan originators and servicers. The ATR Rules specify the characteristics of a "qualified mortgage" and two levels of presumption of compliance with the ATR Rules: a safe harbor and a rebuttable presumption for higher priced loans. The "safe harbor" under the ATR Rules applies to a covered transaction that meets the definition of "qualified mortgage" and is not a "higher-priced covered transaction." For any covered transaction that meets the definition of a "qualified mortgage" and is not a "higher-priced covered transaction," the creditor or assignee will be deemed to have complied with the ability-to-repay requirement and, accordingly, will be conclusively presumed to have made a good faith and reasonable determination of the consumer's ability to repay. Creditors or assignees will have the benefit of a rebuttable presumption of compliance with the applicable ATR Rules if they have complied with the qualified mortgage characteristics of the ATR Rules other than the residential mortgage loan being higher-priced in excess of certain thresholds. Non-QMs, such as residential mortgage loans with a debt-to-income ratio exceeding 43%, are among the loan products that we may acquire that do not constitute qualified mortgages and, accordingly, do not have the benefit of either a safe harbor from liability under the ATR Rules or a rebuttable presumption of compliance with the ATR Rules. Application of certain standards set forth in the ATR Rules is highly subjective and subject to interpretive uncertainties. As a result, a court may determine that a residential mortgage loan did not meet the standard or test even if the originator reasonably believed such standard or test had been satisfied. Failure of residential mortgage loan originators or servicers to comply with these laws and regulations could subject us, as an assignee or purchaser of these loans (or as an investor in securities backed by these loans), to monetary penalties assessed by the CFPB through its administrative enforcement authority and by mortgagors through a private right of action against lenders or as a defense to foreclosure, including by recoupment or setoff of finance charges and fees collected, and could result in rescission of the affected residential mortgage loans, which could adversely impact our business and financial results. Such risks may be higher in connection with the acquisition of Non-QMs. Borrowers under Non-QMs may be more likely to challenge the analysis conducted under the ATR Rules by lenders. Even if a borrower does not succeed in the challenge, additional costs may be incurred in connection with challenging and defending such claims, which may be more costly in judicial foreclosure jurisdictions than in non-judicial foreclosure jurisdictions, and there may be more of a likelihood such claims are made since the borrower is already exposed to the judicial system to process the foreclosure.

We may engage in securitization transactions relating to residential mortgage loans which may expose us to potentially material risks.

Engaging in securitization transactions and other similar transactions generally requires us to accumulate loans or other assets prior to securitization. If demand for investing in securitization transactions weakens, we may be unable to complete the securitization of loans accumulated for that purpose, and we may have to hold them on our consolidated balance sheets. We make assumptions about the cash flows that will be generated from those loans and the market value of those loans. If these assumptions are wrong, or if market values change or other conditions change, it could result in a transaction that is less favorable to us than initially assumed, which would typically have a negative impact on our financial results.

Furthermore, if we are unable to complete the securitization of these loans, it could have a negative impact on our business and financial results. Our inability to securitize these loans would require us to secure financing in the form of repurchase agreements. Repurchase agreements may be shorter term in nature as compared to the financing term achieved by way of securitization and will subject us to the risk of margin calls and the risk that we may not be able to refinance these repurchase agreements. These risks may have an adverse impact on our business and our liquidity.

Prior to acquiring loans or other assets for securitizations, we may undertake underwriting and due diligence efforts with respect to various aspects of the loan or asset. When underwriting or conducting due diligence, we rely on resources and data available to us, which may be limited, and we rely on investigations by third parties. We may also only conduct due diligence on a sample of a pool of loans or assets we are acquiring and assume that the sample is representative of the entire pool. Our underwriting and due diligence efforts may not reveal matters which could lead to losses. If our underwriting process is not robust enough or if we do not conduct adequate due diligence, or the scope of our underwriting or due diligence is limited, we may incur losses. Losses could occur due to the fact that a counterparty that sold us a loan or other asset refuses or is unable (e.g., due to its financial condition) to repurchase that loan or asset or pay damages to us if we determine subsequent to purchase that one or more of the representations or warranties made to us in connection with the sale was inaccurate.

When engaging in securitization transactions, we may prepare marketing and disclosure documentation, including term sheets and prospectuses, that include disclosures regarding the securitization transactions and the assets being securitized. If our marketing and disclosure documentation are alleged or found to contain inaccuracies or omissions, we may be liable under federal and state securities laws (or under other laws) for damages to third parties that invest in these securitization transactions, including in circumstances where we relied on a third party in preparing accurate disclosures, or we may incur other expenses and costs in connection with disputing these allegations or settling claims. Additionally, we may retain various third-party service providers when we engage in securitization transactions, including underwriters or initial purchasers, trustees, administrative and paying agents, and custodians, among others. We may contractually agree to indemnify these service providers against various claims and losses they may suffer in connection with the provision of services to us and/or the securitization trust. To the extent any of these service providers are liable for damages to third parties that have invested in these securitization transactions, we may incur costs and expenses as a result of these indemnities.

Our ability to sell REO assets on terms acceptable to us or at all may be limited.

REO assets are illiquid relative to other assets we may own. Furthermore, the real estate market is affected by many factors that are beyond our control, such as general economic conditions, availability of financing, interest rates and supply and demand. We cannot predict whether we will be able to sell any REO assets for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of an REO asset. In certain circumstances, we may be required to expend cash to correct defects or to make improvements before a property can be sold, and we cannot assure that we will have cash available to correct defects or make improvements. As a result, our ownership of REO assets could materially and adversely affect our liquidity, earnings and cash available for distribution to our stockholders.

Risks related to financing and hedging

We have incurred significant debt, which subjects us to increased loss and may reduce cash available for distributions to our stockholders.

Subject to market conditions and availability, we may further increase our debt in the future. We use leverage to finance our assets through borrowings from repurchase agreements and other secured and unsecured forms of borrowing. The amount of leverage we deploy for particular assets depends upon our Manager's assessment of the credit and other risks of those assets. In addition, we may leverage individual assets at substantially higher levels. Incurring debt could subject us to many risks that, if realized, could materially and adversely affect us, including the risk that:

- our cash flow from operations may be insufficient to make required payments of principal and interest on the debt or we may fail to comply with any of the other debt covenants, which will likely result in (i) an acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision) that we may be unable to repay from internal funds or to refinance on favorable terms, or at all, (ii) our inability to borrow unused amounts under our financing agreements, even if we are current in payments on borrowings under those agreements and/or (iii) the loss of some or all of our assets to foreclosure or sale;
- our debt increases our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase with higher financing costs;
- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, investments, stockholder distributions or other purposes; and
- we may not be able to refinance debt that matures prior to the investment it was used to finance on favorable terms, or at all.

We depend, and may in the future depend, on repurchase agreement or warehouse facility financing to acquire target assets, and our inability to access this funding could have a material adverse effect on our results of operations, financial condition and business.

We use repurchase agreement or warehouse facility financing as a strategy to increase the return on our assets. However, we may not be able to achieve our desired leverage ratio for a number of reasons, including if the following events occur:

- our lenders do not make financing arrangements available to us at acceptable rates;
- certain of our lenders exit the repurchase market;
- our lenders require that we pledge additional collateral to cover our borrowings, which we may be unable to do; or
- we determine that the leverage would expose us to excessive risk.

Our ability to fund our purchases of target assets may be impacted by our ability to secure financing arrangements on acceptable terms. We can provide no assurance that lenders will be willing or able to provide us with sufficient financing. In addition, because financing arrangements represent commitments of capital, lenders may respond to market conditions by making it more difficult for us to secure continued financing. During certain periods of the credit cycle, lenders may curtail their willingness to provide financing. In addition, while a target asset is financed under a repurchase agreement or warehouse facility, to the extent the market value of the target asset declines (which market value is generally determined by the counterparty under the financing arrangement), we are required to either immediately reacquire the target asset or meet a margin requirement to pledge additional collateral, such as cash or additional assets, in an amount at least equal to the decline in value.

If major lenders stop financing our target assets, the value of our target assets could be negatively impacted, thus reducing net stockholders' equity, or book value. Furthermore, if many of our lenders or potential lenders are unwilling or unable to provide us with financing arrangements, we could be forced to sell our target assets at an inopportune time when prices are depressed.

In addition, if the regulatory capital requirements imposed on our lenders change, our lenders may be required to significantly increase the cost of the financing that they provide to us. Our lenders also may revise their eligibility requirements for the types of assets they are willing to finance or the terms of such financings, based on, among other factors, the regulatory environment and their management of perceived risk, particularly with respect to assignee liability.

Moreover, the amount of financing we receive, or may in the future receive, under our financing arrangements is directly related to the lenders' valuations of the target assets that secure the outstanding borrowings. If the valuation of our target assets decreases, we may be unable to access or maintain financing for our target assets, which could have a material adverse effect on our results of operations, financial condition, business and liquidity.

When we fund our purchases of target assets, we aim to secure sufficient financing on terms that are acceptable to us. The terms of the financings we receive are influenced by the demand for similar funding by our competitors, including other REITs, specialty finance companies and other financial entities. Many of our competitors are significantly larger than us, have greater financial resources and significantly larger balance sheets than we do. Any sizable interest rate shocks or disruptions in secondary mortgage markets resulting in the failure of one or more of our largest competitors could pose a significant risk to the U.S. economy, and would be expected to have a material adverse effect on our ability to access or maintain short-term financing for our target assets.

We provide no assurance that we will be successful in establishing sufficient sources of warehouse, repurchase facilities or other short-term debt financing when needed. Our inability to access warehouse and repurchase facilities, credit facilities, or other forms of debt financing on acceptable terms may inhibit our ability to acquire residential and commercial loans, which could have a material adverse effect on our financial results, financial condition, and business.

Interest rate fluctuations could increase the cost of our financing, which could significantly impact our results of operations and decrease our cash flows and the market value of our investments.

Most of our financing costs are determined by reference to floating rates, such as a LIBOR or a Treasury index, plus a margin, the amount of which will depend on a number of factors, including, without limitation, (i) for collateralized debt, the value and liquidity of the collateral, and for non-collateralized debt, our credit, (ii) the level and movement of interest rates and (iii) general market conditions and liquidity. In a period of rising interest rates, our interest expense on floating-rate debt would increase, while any additional interest income we earn on our floating-rate investments may not compensate for such increase in interest expense. Additionally, the interest income we earn on our fixed-rate investments would not change, the duration and weighted average life of our fixed-rate investments would increase and the market value of our fixed-rate investments would decrease. Similarly, in a period of declining interest rates, our interest income on floating-rate investments would decrease, while any decrease in the interest we are charged on our floating-rate debt may not compensate for such decrease in interest income. Additionally, interest we are charged on our fixed-rate debt would not change. Any such scenario could materially and adversely affect us.

Our operating results depend, in large part, on differences between the income earned on our investments, net of credit losses, and our financing and hedging costs. We anticipate that, in most cases, for any period during which our investments are not financed with borrowings of equal duration, the income earned on such investments will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may immediately and significantly decrease our results of operations and cash flows and the market value of our investments.

Our current lenders require, and future lenders may require, us to enter into restrictive covenants relating to our operations.

As of December 31, 2017 and December 31, 2016, we, either directly or through our equity method investments in affiliates, have outstanding MRAs or loan agreements with 39 and 37 counterparties, respectively, under which we had borrowed an aggregate \$3.0 billion and \$1.9 billion, respectively, on a non-GAAP basis and GAAP basis. These agreements generally include customary representations, warranties and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each master repurchase or loan agreement, typical supplemental terms include requirements of minimum equity, leverage ratios, performance triggers or other financial ratios. If we fail to meet or satisfy any covenants, supplemental terms or representations and warranties, we would be in default under these agreements and our lenders could elect to declare all amounts outstanding under the agreements to be immediately due and payable, enforce their respective interests against collateral pledged under such agreements and restrict our ability to make additional borrowings. Certain financing agreements may contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default. Further, under our repurchase agreements, we may be required to pledge additional assets to our lenders in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional securities, loans or cash.

Future lenders may impose similar restrictions on us that would affect our ability to incur additional debt, make certain investments or acquisitions, reduce liquidity below certain levels, make distributions to our stockholders, redeem debt or equity securities and impact our flexibility to determine our operating policies and investment strategies. For example, our loan documents may contain negative covenants that limit, among other things, our ability to repurchase our common stock, distribute more than a certain amount of our net income or funds from operations to our stockholders, employ leverage beyond certain amounts, sell assets, engage in mergers or consolidations, grant liens and enter into transactions with affiliates. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We are also subject to cross-default and acceleration rights and, with respect to collateralized debt, the posting of additional collateral and foreclosure rights upon default. Further, this could also make it difficult for us to satisfy the qualification requirements necessary to maintain our status as a REIT for U.S. federal income tax purposes.

Counterparties may require us to maintain a certain amount of cash uninvested or to set aside non-levered assets sufficient to maintain a specified liquidity position which would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would choose, which could reduce our return on equity.

If a counterparty to our repurchase transaction defaults on its obligation to resell or return the underlying security back to us at the end of the transaction term, or if the value of the underlying security has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we will lose money on such financing arrangement.

When we engage in financing arrangements, we generally sell securities to lenders (i.e., repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell or return the same securities back to us at the end of the term of the transaction. Because the cash we receive from lenders when we initially sell or deliver the securities to the lender is less than the value of those securities (this difference is the haircut), if the lender defaults on its obligation to resell or return the same securities back to us we may incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). On December 31, 2017, we had greater than 5% stockholders' equity at risk on a non-GAAP and GAAP basis with each of 2 repurchase agreement counterparties: RBC (Barbados) Trading Bank Corporation and Barclays Capital Inc.

We will also lose money on financing arrangements if the value of the underlying securities has declined as of the end of the transaction term, as we will have to repurchase or reclaim the securities for their initial value but will receive securities worth less than that amount. Further, if we default on one of our obligations under a financing arrangement, the lender will be able to terminate the transaction and cease entering into any other financing arrangements with us. If a default occurs under any of our financing arrangements and the lenders terminate one or more of our financing arrangements, we may need to enter into replacement financing arrangements with different lenders. There can be no assurance that we will be successful in entering into such replacement financing arrangements on the same terms as the financing arrangements that were terminated or at all. Any losses we incur on our financing arrangements could adversely affect our earnings and thus our cash available for distribution to our stockholders.

Our rights under our repurchase agreements may be subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of us or our lenders under the financing arrangements, which may allow our lenders to repudiate our financing arrangements.

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

Pursuant to the terms of borrowings under our financing arrangements, we are subject to margin calls that could result in defaults or force us to sell assets under adverse market conditions or through foreclosure.

We enter into financing arrangements to finance the acquisition of our target assets. Pursuant to the terms of borrowings under our financing arrangements, a decline in the value of the collateral may result in our lenders initiating margin calls. A margin call requires us to pledge additional collateral to re-establish the ratio of the value of the collateral to the amount of the borrowing. The specific collateral value to borrowing ratio that would trigger a margin call is not set in the master repurchase agreements or loan agreements and is not determined until we engage in a repurchase transaction or borrowing arrangement under these agreements. Our fixed-rate collateral generally may be more susceptible to margin calls as periods of increased interest rates tend to affect more negatively the market value of fixed-rate securities. In addition, some collateral may be more illiquid than other instruments in which we invest, which could cause them to be more susceptible to margin calls in a volatile market environment. Moreover, collateral that prepays more quickly increases the frequency and magnitude of potential margin calls as there is a significant time lag between when the prepayment is reported (which reduces the market value of the security) and when the principal payment is actually received. If we are unable to satisfy margin calls, our lenders may foreclose on our collateral. The threat of or occurrence of a margin call could force us to sell, either directly or through a foreclosure, our collateral under adverse market conditions. Because of the leverage we expect to have, we may incur substantial losses upon the threat or occurrence of a margin call.

Hedging against interest rate exposure may materially and adversely affect our results of operations and cash flows.

Subject to maintaining our qualification as a REIT and our exemption under the Investment Company Act, we pursue hedging strategies to reduce our exposure to adverse changes in interest rates. Our hedging activity will vary in scope based on the level of interest rates, the type of investments held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability or asset;
- the amount of income that a REIT may earn from hedging transactions to offset interest rate losses is limited by U.S. federal tax provisions governing REITs;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty owing the money in the hedging transaction may default on its obligation to pay.

In addition, we may fail to recalculate, re-adjust and execute hedges in an efficient manner which may negatively affect our earnings and book value. The degree of correlation between price movements of the instruments used in hedging strategies and price movements in the portfolio positions or liabilities being hedged may vary materially. It will be impossible to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to increased risk of loss.

We may enter into hedging transactions that could expose us to contingent liabilities in the future.

Subject to maintaining our qualification as a REIT, part of our investment strategy involves entering into hedging transactions that could require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). The amount due would be equal to the unrealized loss of the open hedging positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and our access to capital at the time. The need to fund these obligations could adversely impact our financial condition.

Clearing facilities or exchanges upon which some of our hedging instruments are traded may increase margin requirements on our hedging instruments in the event of uncertainty or adverse developments in financial markets.

In response to events having or expected to have adverse economic consequences or which create market uncertainty, clearing facilities or exchanges upon which some of our hedging instruments, such as interest rate swaps, are traded may require us to post additional collateral against our hedging instruments. Generally, independent margin goes up in times of interest rate volatility. In the event that future adverse economic developments or market uncertainty result in increased margin requirements for our hedging instruments, it could materially adversely affect our liquidity position, business, financial condition and results of operations.

It may be uneconomical to “roll” our TBA dollar roll transactions or we may be unable to meet margin calls on our TBA contracts, which could negatively affect our financial condition and results of operations.

We utilize TBA dollar roll transactions as a means of investing in and financing Agency RMBS. TBA contracts enable us to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of collateral, but the particular Agency RMBS to be delivered are not identified until shortly before the TBA settlement date. Prior to settlement of the TBA contract we may choose to move the settlement of the securities out to a later date by entering into an offsetting position (referred to as a “pair off”), net settling the paired off positions for cash, and simultaneously purchasing a similar TBA contract for a later settlement date, collectively referred to as a “dollar roll.” The Agency RMBS purchased for a forward settlement date under the TBA contract are typically priced at a discount to Agency RMBS for settlement in the current month. This difference (or discount) is referred to as the “price drop.” The price drop is the economic equivalent of net interest carry income on the underlying Agency RMBS over the roll period (interest income less implied financing cost) and is commonly referred to as “dollar roll income.” Consequently, dollar roll transactions and such forward purchases of Agency RMBS represent a form of off-balance sheet financing and increase our “at-risk” leverage.

Under certain market conditions, TBA dollar roll transactions may result in negative carry income whereby the Agency RMBS purchased for a forward settlement date under the TBA contract are priced at a premium to Agency RMBS for settlement in the current month. Under such conditions, it may be uneconomical to roll our TBA positions prior to the settlement date, and we could have to take physical delivery of the underlying securities and settle our obligations for cash. We may not have sufficient funds or alternative financing sources available to settle such obligations. In addition, pursuant to the margin provisions established by the Mortgage-Backed Securities Division (“MBSD”) of the Fixed Income Clearing Corporation we are subject to margin calls on our TBA contracts. Further, our prime brokerage agreements may require us to post additional margin above the levels established by the MBSD. Negative carry income on TBA dollar roll transactions or failure to procure adequate financing to settle our obligations or meet margin calls under our TBA contracts could result in defaults or force us to sell assets under adverse market conditions or through foreclosure and adversely affect our financial condition and results of operations.

Risks associated with our management and relationship with our Manager and its affiliates

We are dependent upon our Manager, its affiliates and their key personnel and may not find a suitable replacement if the management agreement with our Manager is terminated or such key personnel are no longer available to us, which would materially and adversely affect us.

In accordance with our management agreement, we are externally managed and advised by our Manager, and all of our officers are employees of Angelo, Gordon or its affiliates. We have no separate facilities, and we have no employees. Pursuant to our management agreement, our Manager is obligated to supply us with our senior management team, and the members of that team may have conflicts in allocating their time and services between us and other entities or accounts managed by our Manager and its affiliates, now or in the future, including other Angelo, Gordon funds. Substantially all of our investment, financing and risk management decisions are made by our Manager and not by us, and our Manager also has significant discretion as to the implementation of our operating policies and strategies. Furthermore, our Manager has the sole discretion to hire and fire employees, and our board of directors and stockholders have no authority over the individual employees of our Manager or Angelo, Gordon, although our board of directors does have authority over our officers who are supplied by our Manager. Accordingly, we are completely reliant upon, and our success depends exclusively on, our Manager’s personnel, services, resources, facilities, relationships and contacts. No assurance can be given that our Manager will act in our best interests with respect to the allocation of personnel, services and resources to our business. In addition, the management agreement does not require our Manager to dedicate specific personnel to us or to require personnel servicing our business to allocate a specific amount of time to us. The failure of any of our Manager’s key personnel to service our business with the requisite time and dedication, or the departure of such personnel from our Manager, or the failure of our Manager to attract and retain key personnel, would materially and adversely affect our ability to execute our business plan. Further, when there are turbulent conditions in the real estate industry, distress in the credit markets or other times when we will need focused support and assistance from our Manager, the attention of our Manager’s personnel and executive officers and the resources of Angelo, Gordon will also be required by the other funds and accounts managed by our Manager and its affiliates, placing our Manager’s resources in high demand. In such situations, we may not receive the level of support and assistance that we may receive if we were internally managed or if our Manager and its affiliates did not act as a manager for other entities. If the management agreement is terminated and a suitable replacement for our Manager is not secured in a timely manner or at all, we would likely be unable to execute our business plan, which would materially and adversely affect us.

The management agreement was not negotiated on an arm's length basis and the terms, including the fees payable to our Manager, may not be as favorable to us as if the agreement was negotiated with unaffiliated third parties.

All of our officers and our non-independent directors are employees of Angelo, Gordon or its affiliates. The management agreement was negotiated between related parties, and we did not have the benefit of arm's length negotiations of the type normally conducted with an unaffiliated third party and the terms, including the fees payable to our Manager, may not be as favorable to us. We may choose not to enforce, or to enforce less vigorously, our rights under the management agreement because of our desire to maintain our ongoing relationship with our Manager.

We expect that our Manager will source all of our investments, and existing or future entities or accounts managed by our Manager and its affiliates may compete with us for, or may participate in, some of those investments, which could result in conflicts of interest.

Although we are subject to Angelo, Gordon's allocation policy, which specifically addresses some of the conflicts relating to our investment opportunities, there is no assurance that this policy will be adequate to address all of the conflicts that may arise, or address such conflicts in a manner that results in the allocation of a particular investment opportunity to us or is otherwise favorable to us. Our Manager may be precluded from transacting in particular investments in certain situations, including, but not limited to, situations where Angelo, Gordon or its affiliates may have a prior contractual commitment with other accounts or clients or as to which Angelo, Gordon or any of its affiliates possess material, non-public information. Consistent with Angelo, Gordon's fiduciary duty to all of its clients, it may give priority in the allocation of investment opportunities to certain clients to the extent necessary to apply regulatory requirements, client guidelines or contractual obligations. Angelo, Gordon or our Manager may determine that an investment opportunity is appropriate for a particular account, but not for another. In addition, Angelo, Gordon or its employees may invest in opportunities declined by our Manager for us. The investment allocation policy may be amended by Angelo, Gordon at any time without our consent. As the investment programs of the various entities and accounts managed by Angelo, Gordon change and develop over time, additional issues and considerations may affect Angelo, Gordon's allocation policy and its expectations with respect to the allocation of investment opportunities.

Our Manager and Angelo, Gordon and their respective employees also may have ongoing relationships with the obligors of investments or the clients' counterparties and they or their clients may own equity or other securities or obligations issued by such parties. In addition, Angelo, Gordon, either for its own accounts or for the accounts of other clients, may hold securities or obligations that are senior to, or have interests different from or adverse to, the securities or obligations that are acquired for us. Employees may also invest in other entities managed by other managers which are eligible to purchase target assets. Angelo, Gordon or our Manager and their respective employees may make investment decisions for us that may be different from those undertaken for their personal accounts or on behalf of other clients (including the timing and nature of the action taken). Angelo, Gordon and its affiliates may at certain times simultaneously seek to purchase or sell the same or similar investments for clients or for themselves. Likewise, our Manager may on our behalf purchase or sell an investment in which another Angelo, Gordon client or affiliate is already invested or has co-invested. Such transactions may differentiate across Angelo, Gordon clients or affiliates.

We may enter into transactions to purchase or sell investments with entities or accounts managed by our Manager or its affiliates.

Our Manager may make, or may be required to make, investment decisions on our behalf where our trading counterparty is an entity affiliated with or an account managed by our Manager or its affiliates. Although we have adopted an Affiliated Transactions Policy, which specifically addresses the requirements of these types of trades, there is no assurance that this policy will ensure the most favorable outcome for us or will ensure that this policy will be adequate to address all of the conflicts that may arise. There is no assurance that the terms of such transactions would be as favorable to us as transacting in the open market with unaffiliated third parties. As the investment programs of the various entities and accounts managed by our Manager and its affiliates change over time, additional issues and considerations may affect our Affiliated Transactions Policy and our Manager's expectations with respect to such transactions.

Our board of directors has approved very broad investment policies for our Manager and does not review or approve each investment decision made by our Manager.

Our Manager is authorized to follow very broad investment policies and, therefore, has great latitude in determining the types of assets that are proper investments for us, the allocations among asset classes and individual investment decisions. In the future, our Manager may make investments with lower rates of return than those anticipated under current market conditions or may make investments with greater risks to achieve those anticipated returns. Our board of directors periodically reviews our investment policies and our investment portfolio but does not review or approve each proposed investment by our Manager. In addition, in conducting periodic reviews, our board of directors relies primarily on information provided to it by our Manager. Furthermore, our Manager may use complex strategies and transactions that may be costly, difficult or impossible to unwind by the time they are reviewed by our board of directors.

The management fee may not provide sufficient incentive to our Manager to maximize risk-adjusted returns on our investment portfolio because it is based on our stockholders' equity, adjusted for certain non-cash and other items, and not on our performance.

Our Manager is entitled to receive a management fee at the end of each quarter that is based on our Stockholders' Equity as further discussed in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." Accordingly, the possibility exists that significant management fees could be payable to our Manager for a given quarter despite the fact that we could experience a net loss during that quarter. Our Manager's entitlement to such significant non-performance-based compensation may not provide sufficient incentive to our Manager to devote its time and effort to source and maximize risk-adjusted returns on our investment portfolio, which could, in turn, adversely affect our ability to make distributions to our stockholders and the market price of our common stock. The compensation payable to our Manager will increase as a result of any future issuances of our equity securities, even if the issuances are dilutive to existing stockholders.

There may be conflicts of interest between us and our executive officers.

Certain members of our management team may have a stake in our Manager or its affiliates. The owners of the Manager or its affiliates may be entitled to receive profit from the management fee we pay to our Manager either in the form of distributions by our Manager or increased value of their ownership interests (whether direct or indirect) in the Manager. This may cause our management to have interests that conflict with our interests and those of our stockholders.

Conflicts of interest could arise in connection with our executive officers' discharge of fiduciary duties to our stockholders.

Our current executive officers are members or employees of the Manager or its affiliates while continuing to be executive officers of MITT. Our executive officers, by virtue of their positions, have fiduciary duties to us and our stockholders. The duties of our executive officers to us and our stockholders may come into conflict with the interests of such officers in their capacities as members or employees of the Manager and/or its affiliates. As the Manager and its affiliates manage additional entities, our executive officers could face conflicts of interest in allocating their time among us and such additional entities.

The ownership by our executive officers and directors of equity interests or limited partnership interests managed by affiliates of our Manager may create, or may create the appearance of, conflicts of interest.

Some of our officers may hold positions with other entities managed by affiliates of our Manager and some of our officers and directors may own equity interests or limited partnership interests in such entities. Such ownership may create, or may create the appearance of, conflicts of interest when these directors and officers are faced with decisions that could have different implications for such entities than they do for us.

Our governance and operational structure could result in conflicts of interest.

Our Manager is managed by Angelo, Gordon, whose interests may not always be aligned with ours or our Manager's. The employees of Angelo, Gordon that devote time to managing our business may have conflicting interests between us and Angelo, Gordon when managing our business. Angelo, Gordon may decide to sell or transfer an equity interest in the Manager, which could increase the potential conflicts.

There are conflicts of interest inherent in our relationship with our Manager insofar as our Manager and its affiliates invest in real estate and other securities and loans, consumer loans and interests in Excess MSRs and whose investment objectives overlap with our investment objectives. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles. Certain employees of our Manager and its affiliates who are our officers also may serve as officers and/or directors of these other entities. We may compete with entities affiliated with our Manager for certain target assets. From time to time, affiliates of our Manager focus on investments in assets with a similar profile as our target assets that we may seek to acquire. These affiliates may have meaningful purchasing capacity. To the extent such other investment vehicles acquire or divest of the same target assets as us, the scope of opportunities otherwise available to us may be adversely affected and/or reduced.

We have broad investment guidelines, and we have co-invested and may co-invest with Angelo, Gordon funds in a variety of investments. We also may invest in securities that are senior or junior to securities owned by funds managed by our Manager or its affiliates. There can be no assurance that any procedural protections will be sufficient to assure that these transactions will be made on terms that will be at least as favorable to us as those that would have been obtained in an arm's length transaction.

Our Manager will not be liable to us for any acts or omissions performed in accordance with the Management Agreement, including with respect to the performance of our investments.

Pursuant to our Management Agreement, our Manager will not assume any responsibility other than to render the services called for thereunder in good faith and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Our Manager, its members, managers, officers and employees will not be liable to us or any of our subsidiaries, to our board of directors, or our or any subsidiary's stockholders or partners for any acts or omissions by our Manager, its members, managers, officers or employees, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement. We shall, to the full extent lawful, reimburse, indemnify and hold our Manager, its members, managers, officers and employees and each other person, if any, controlling our Manager harmless of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including attorneys' fees) in respect of or arising from any acts or omissions of an indemnified party made in good faith in the performance of our Manager's duties under our Management Agreement and not constituting such indemnified party's bad faith, willful misconduct, gross negligence or reckless disregard of our Manager's duties under our Management Agreement.

Termination of our management agreement would be costly and, in certain cases, not permitted.

It is difficult and costly to terminate the management agreement we have entered into with our Manager without cause. Our independent directors review our Manager's performance and the management fees annually. The management agreement renews automatically each year for an additional one-year period, subject to certain termination rights. As of December 31, 2017, our management agreement has not been terminated. The management agreement provides that it may be terminated annually by us without cause upon the affirmative vote of at least two-thirds of our independent directors or by a vote of the holders of at least two-thirds of our outstanding common stock, in each case based upon (i) our Manager's unsatisfactory performance that is materially detrimental to us or (ii) our determination that the management fees payable to our Manager are not fair, subject to our Manager's right to prevent termination based on unfair fees by accepting a reduction of management fees agreed to by at least two-thirds of our independent directors. Our Manager must be provided 180-days' prior notice of any such termination. We may not terminate or elect not to renew the management agreement, even in the event of our Manager's poor performance, without having to pay substantial termination fees. Upon any such termination without cause, the management agreement provides that we will pay our Manager a termination fee equal to three times the average annual management fee earned by our Manager during the 24-month period prior to termination, calculated as of the end of the most recently completed fiscal quarter. While under certain circumstances the obligation to make such a payment might not be enforceable, this provision may increase the cost to us of terminating the management agreement and adversely affect our ability to terminate the management agreement without cause.

Our Manager may terminate our management agreement, which could materially adversely affect our business.

Our Manager may terminate the management agreement if we become required to register as an investment company under the Investment Company Act with termination deemed to occur immediately before such event, in which case we would not be required to pay a termination fee to our Manager. Our Manager may decline to renew the management agreement by providing us with 180 days' written notice, in which case we would not be required to pay a termination fee to our Manager. Our Manager may also terminate the management agreement upon at least 60 days' prior written notice if we default in the performance of any material term of the management agreement and the default continues for a period of 30 days after written notice to us, whereupon we would be required to pay to our Manager the termination fee described above. If the management agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan.

Depository institutions that finance our investments may require that AG REIT Management, LLC remain as our Manager under the management agreement and that certain key personnel of our Manager continue to service our business. If AG REIT Management, LLC ceases to be our Manager or one or more of our Manager's key personnel are no longer servicing our business, it may constitute an event of default and the depository institution providing the arrangement may have acceleration rights with respect to outstanding borrowings and termination rights with respect to our ability to finance our future investments with that institution. If we are unable to obtain financing for our accelerated borrowings and for our future investments under such circumstances, we may be required to curtail our asset acquisitions and/or dispose of assets at an inopportune time.

We have engaged Red Creek Asset Management LLC, an affiliate of our Manager (the "Asset Manager") to manage certain of our residential mortgage loans and Securitized Whole Loans. The terms of the asset management agreement with the Asset Manager may not be as favorable to us as if the agreement was negotiated with unaffiliated third parties.

In connection with our investments in residential loans and Securitized Whole Loans, we engage asset managers to provide advisory, consultation, asset management and other services to help our third-party servicers formulate and implement strategic plans to manage, collect and dispose of loans in a manner that is reasonably expected to maximize the amount of proceeds from each loan. We engaged the Asset Manager, a related party of the Manager and direct subsidiary of Angelo, Gordon, as the asset manager for certain of our residential loans and Securitized Whole Loans. We pay separate arm's-length asset management fees as assessed and confirmed by a third-party valuation firm for (i) non-performing loans and (ii) re-performing loans, in each case, to the Asset Manager. The asset management agreement was negotiated between related parties, and we did not have the benefit of arm's-length negotiations as we normally would with unaffiliated third parties. As such, the terms may not be as favorable to us as they otherwise might have been.

Risks related to U.S. government programs

The Federal Reserve's recent increases of the federal funds rate could impact the market for and the value of the Agency RMBS in which we invest as well as our net asset value, net interest margin, net income and book value.

In 2017, the Federal Reserve raised the target range of the federal funds rate three times; on March 15, 2017, by 25 basis points, to a range of 0.75% - 1.00%, on June 14, 2017, by 25 basis points, to a range of 1.00% - 1.25% and on December 13, 2017, by 25 basis points, to a range of 1.25% - 1.50%. A large portion of our portfolio is comprised of Agency RMBS, whose value decreases when interest rates rise, and as a result, our net asset value, net interest margin, net income and book value could be negatively affected by additional increases in the federal funds rate.

Adoption of the Basel III standards could negatively affect our access to future financings.

In response to various financial crises and the volatility of financial markets, the Basel Committee on Banking Supervision, (the "Basel Committee") an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States, adopted the Basel III standards several years ago. The final package of Basel III reforms was approved by the G20 leaders in November 2010. U.S. regulators have elected to implement substantially all of the Basel III standards, which plan to be fully phased in by January 1, 2019. One of these standards involves implementing a supplemental leverage ratio ("SLR") and a liquidity coverage ratio ("LCR").

The SLR applies to U.S. bank holding companies with \$700 billion or more in consolidated assets, or over \$10 trillion in assets under custody, and their bank subsidiaries. The SLR requires that a covered institution maintain a regulatory leverage buffer of 2% above the minimum leverage ratio that is otherwise required (3%), for a total of 5%, and covered bank subsidiaries must maintain a 6% leverage ratio to be considered well-capitalized. The LCR applies to all banking organizations with \$250 billion or more in total consolidated assets, or \$10 billion or more in foreign exposure on the organization's balance sheet, and a less stringent LCR applies to a banking organization with \$50 billion or more in consolidated assets that does not meet the other tests. The LCR creates a minimum liquidity standard that requires a banking organization to hold high quality, liquid assets that would meet net cash outflows during a 30-day stress period. The SLR will be effective on January 1, 2018 and the LCR was effective on January 1, 2017. Implementation of these ratios may increase the financing costs of highly liquid assets, which may negatively impact our net interest margin and book value.

The Basel III standards will require certain banks to (i) hold more capital, predominantly in the form of common equity, than under the current capital framework, (ii) maintain specific leverage and liquidity ratios, (iii) decrease their reliance on short term, unstable financing and obtain and rely on funding sources that are stable and longer term in nature, (iv) calculate capital requirements using standardized models rather than the banks' own internal models, (v) limit internal transfers between trading books and banking books, limiting the amount of capital that banks have available for deployment, and (vi) provide additional reporting regarding risk monitoring, among others. The adoption of these standards could impact the leverage and funding profiles of large financial institutions and their affiliates, including many broker-dealers and other subsidiaries that are affiliated with large banking organizations and from which we obtain financing, and may constrain our ability to obtain attractive future financings and increase the cost of such financings if they are obtained. If the adoption of these standards causes the availability of financing to decline, we may have fewer financing options in the future which could lead to lower profitability and could adversely affect our financial condition, net interest margin and book value.

The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between these agencies and the U.S. government, may adversely affect our business.

The payments we receive on the Agency RMBS in which we invest depend upon a steady stream of payments on the mortgages underlying the securities and are guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac. Ginnie Mae is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the United States. Fannie Mae and Freddie Mac are U.S. Government-sponsored entities, or GSEs, but their guarantees are not backed by the full faith and credit of the United States.

In 2008 Congress and the U.S. Treasury undertook a series of actions to stabilize financial markets, generally, and Fannie Mae and Freddie Mac, in particular. The Housing and Economic Recovery Act of 2008 was signed into law on July 30, 2008, and established the Federal Housing Finance Agency, or the FHFA, with enhanced regulatory authority over, among other things, the business activities of Fannie Mae and Freddie Mac and the size of their portfolio holdings. On September 7, 2008, in response to the deterioration in the financial condition of Fannie Mae and Freddie Mac, the FHFA placed Fannie Mae and Freddie Mac into conservatorship, which is a statutory process pursuant to which the FHFA operates Fannie Mae and Freddie Mac as conservator in an effort to stabilize the entities. The appointment of the FHFA as conservator of both Fannie Mae and Freddie Mac allows the FHFA to control the actions of the two GSEs without forcing them to liquidate, which would be the case under receivership. In addition, the U.S. Treasury took steps to capitalize and provide financing to Fannie Mae and Freddie Mac and agreed to purchase direct obligations and Agency RMBS issued or guaranteed by them.

Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the U.S. Treasury, in announcing the actions, noted that the guarantee structure of Fannie Mae and Freddie Mac required examination and that changes in the structures of the entities were necessary to reduce risk to the financial system. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be eliminated or considerably limited relative to historical measurements. Any changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac could redefine what constitutes Agency RMBS and could have broad adverse market implications as well as negatively impact our liquidity, financing rates, net income, and book value.

The problems faced by Fannie Mae and Freddie Mac that resulted in their being placed into federal conservatorship have stirred debate among some federal policy makers regarding the continued role of the U.S. Government in providing liquidity for the residential mortgage market. The gradual recovery of the housing market has made Fannie Mae and Freddie Mac profitable again and increased the uncertainty about their futures. If federal policy makers decide that the U.S. Government's role in providing liquidity for the residential mortgage market should be reduced or eliminated, each of Fannie Mae and Freddie Mac could be dissolved and the U.S. Government could decide to stop providing liquidity support of any kind to the mortgage market. If Fannie Mae or Freddie Mac were eliminated, or their structures were to change radically, we would not be able to acquire Agency RMBS from these companies, which would drastically reduce the amount and type of Agency RMBS available for investment.

Our income could be negatively affected in a number of ways depending on the manner in which related events unfold. For example, the continued backing of Fannie Mae and Freddie Mac by the U.S. Treasury and, any additional credit support it may provide in the future to the GSEs could have the effect of lowering the interest rate we receive from Agency RMBS, thereby tightening the spread between the interest we earn on our Agency RMBS portfolio and our cost of financing that portfolio. A reduction in the supply of Agency RMBS could also increase the prices of Agency RMBS we seek to acquire thereby reducing the spread between the interest we earn on our portfolio of targeted assets and our cost of financing that portfolio.

Any new laws affecting these GSEs may exacerbate market uncertainty and have the effect of reducing the actual or perceived credit quality of securities issued or guaranteed by Fannie Mae or Freddie Mac. It is also possible that such laws could adversely impact the market for such securities and the spreads at which they trade. All of the foregoing could materially adversely affect the pricing, supply, liquidity and value of our target assets and otherwise materially adversely affect our business, operations and financial condition.

We are subject to the risk that agencies of and entities sponsored by the U.S. government may not be able to fully satisfy their guarantees of Agency RMBS or that these guarantee obligations may be repudiated, which may adversely affect the value of our investment portfolio and our ability to sell or finance these securities.

The interest and principal payments we receive on the Agency RMBS in which we invest are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Unlike the Ginnie Mae certificates in which we may invest, the principal and interest on securities issued by Fannie Mae and Freddie Mac are not guaranteed by the U.S. government. All the Agency RMBS in which we invest depend on a steady stream of payments on the mortgages underlying the securities.

As conservator of Fannie Mae and Freddie Mac, the FHFA may disaffirm or repudiate (subject to certain limitations for qualified financial contracts) contracts that Freddie Mac or Fannie Mae entered into prior to the FHFA's appointment as conservator if it determines, in its sole discretion, that performance of the contract is burdensome and that disaffirmation or repudiation of the contract promotes the orderly administration of its affairs. The Housing and Economic Recovery Act of 2008, or HERA, requires the FHFA to exercise its right to disaffirm or repudiate most contracts within a reasonable period of time after its appointment as conservator. Fannie Mae and Freddie Mac have disclosed that the FHFA has disaffirmed certain consulting and other contracts that these entities entered into prior to the FHFA's appointment as conservator. Freddie Mac and Fannie Mae have also disclosed that the FHFA has advised that it does not intend to repudiate any guarantee obligation relating to Fannie Mae and Freddie Mac's mortgage-related securities, because the FHFA views repudiation as incompatible with the goals of the conservatorship. In addition, HERA provides that mortgage loans and mortgage-related assets that have been transferred to a Freddie Mac or Fannie Mae securitization trust must be held for the beneficial owners of the related mortgage-related securities, and cannot be used to satisfy the general creditors of Freddie Mac or Fannie Mae.

If the guarantee obligations of Freddie Mac or Fannie Mae were repudiated by the FHFA, payments of principal and/or interest to holders of Agency RMBS issued by Freddie Mac or Fannie Mae would be reduced in the event of any borrowers' late payments or failure to pay or a servicer's failure to remit borrower payments to the trust. In that case, trust administration and servicing fees could be paid from mortgage payments prior to distributions to holders of Agency RMBS. Any actual direct compensatory damages owed due to the repudiation of Freddie Mac or Fannie Mae's guarantee obligations may not be sufficient to offset any shortfalls experienced by holders of Agency RMBS. The FHFA also has the right to transfer or sell any asset or liability of Freddie Mac or Fannie Mae, including its guarantee obligation, without any approval, assignment or consent. If the FHFA were to transfer Freddie Mac or Fannie Mae's guarantee obligations to another party, holders of Agency RMBS would have to rely on that party for satisfaction of the guarantee obligation and would be exposed to the credit risk of that party. If the new party does not guarantee these Agency RMBS, we are subject to credit loss on the Agency RMBS which could negatively affect liquidity, net income and book value.

Mortgage loan modification and refinancing programs may adversely affect the value of, and our returns on, mortgage-backed securities and residential mortgage loans.

The U.S. government, through the Federal Reserve, the FHA, the FHFA and the FDIC, has implemented a number of federal programs designed to assist homeowners, including the Home Affordable Modification Program, or HAMP, which provides homeowners with assistance in avoiding residential mortgage loan foreclosures, and the Home Affordable Refinance Program, or HARP, which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments at loan-to-value ratios up to 125% without new mortgage insurance. Similar modification programs are also offered by several large non-GSE financial institutions.

HAMP, HARP and other loss mitigation programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans (through forbearance and/or forgiveness) and/or the rate of interest payable on the loans, or to extend the payment terms of the loans. Non-Agency RMBS and residential mortgage loan yields and cash flows could particularly be negatively impacted by a significant number of loan modifications with respect to a given security or residential mortgage loan pool, including, but not limited to, those related to principal forgiveness and coupon reduction. These loan modification, loss mitigation and refinance programs may adversely affect the value of, and the returns on, mortgage-backed securities and residential mortgage loans that we own or may purchase.

We cannot predict the impact, if any, on our earnings or cash available for distribution to our stockholders of the FHFA's proposed revisions to Fannie Mae's and Freddie Mac's existing infrastructures in order to align the standards and practices of the two entities.

On May 13, 2014, the FHFA released its updated 2014 *Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*, which set forth three goals for the next phase of the Fannie Mae and Freddie Mac conservatorships. These three goals are to (i) maintain foreclosure prevention activities and credit availability for new and refinanced mortgages, which should refine and improve servicing initiatives for distressed borrowers (ii) reduce taxpayer risk by expanding the credit risk transfer transactions which would increase the participation of private capital in assuming credit risk associated with the secondary mortgage market, and (iii) build a new single-family securitization infrastructure for use by the GSEs and adaptable for use by other participants in the secondary market in the future. This would be done by replacing the current, outdated infrastructures of Fannie Mae and Freddie Mac with a common, more efficient securitization infrastructure that aligns the standards and practices of the two entities, beginning with core functions performed by both entities such as issuance, master servicing, bond administration, collateral management and data integration, also known as the Common Securitization Platform (“CSP”). There are a number of factors that could influence the FHFA’s success in achieving its goals and we cannot predict the impact, if any, on our earnings or cash available of the FHFA’s proposed revisions to Fannie Mae’s and Freddie Mac’s existing infrastructure.

Risks related to our organization and structure

Loss of our exemption from regulation under the Investment Company Act would negatively affect the value of shares of our common stock and our ability to distribute cash to our stockholders.

We conduct our operations so that we maintain an exemption from the Investment Company Act. Under Section 3(a)(1)(A) of the Investment Company Act, a company is an investment company if it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Under Section 3(a)(1)(C) of the Investment Company Act, a company is deemed to be an investment company if it is engaged, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire “investment securities” having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis (the “40% test”). “Investment securities” do not include, among other things, U.S. government securities, and securities issued by majority-owned subsidiaries that (i) are not investment companies and (ii) are not relying on the exceptions from the definition of investment company provided by Section 3(c)(1) or 3(c)(7) of the Investment Company Act (the so called “private investment company” exemptions).

We are not engaged, except to a minor extent, in actively investing, reinvesting or trading in securities. Rather, we are primarily engaged in the business of owning or holding the securities of our wholly-owned or majority-owned subsidiaries that are in real estate-related businesses. Therefore, we believe that we are not an investment company as defined in Section 3(a)(1)(A).

We also believe we are not considered an investment company under Section 3(a)(1)(C) of the Investment Company Act. The operations of many of our wholly-owned or majority-owned subsidiaries’ are generally conducted so that they are exempted from investment company status in reliance upon Section 3(c)(5)(C) of the Investment Company Act. Because entities relying on Section 3(c)(5)(C) are not investment companies, our interests in those subsidiaries do not constitute “investment securities” for purposes of Section 3(a)(1)(C). To the extent that our direct subsidiaries qualify only for either Section 3(c)(1) or 3(c)(7) exemptions from the Investment Company Act, we limit our holdings in those kinds of entities so that, together with other investment securities, we satisfy the 40% test. Although we continuously monitor our and our subsidiaries’ portfolios on an ongoing basis to determine compliance with that test, there can be no assurance that we will be able to maintain the exemptions from registration for us and each of our subsidiaries.

As discussed, we generally conduct our wholly-owned or majority-owned subsidiaries’ operations so that they are exempted from investment company status in reliance upon Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C) exempts from the definition of “investment company” entities primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. The staff of the Securities and Exchange Commission, or the SEC, generally requires an entity relying on Section 3(c)(5)(C) to invest at least 55% of its portfolio in “qualifying assets” and at least another 25% in additional qualifying assets or in “real estate-related” assets (with no more than 20% comprised of miscellaneous assets).

The method we use to classify our and our subsidiaries' assets for purposes of the Investment Company Act is based in large measure upon no-action positions taken by the SEC staff. These no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations we may face, and a number of these no-action positions were issued decades ago. No assurance can be given that the SEC or its staff will concur with our classification of our or our subsidiaries' assets or that the SEC or its staff will not, in the future, issue further guidance that may require us to reclassify those assets for purposes of qualifying for an exclusion from regulation under the Investment Company Act. In August 2011, the SEC solicited public comment on a wide range of issues relating to Section 3(c)(5)(C), including the nature of the assets that qualify for purposes of the exemption and leverage used by mortgage related vehicles. There can be no assurance that the laws and regulations governing the 1940 Act status of companies primarily owning real estate related assets, including the SEC or its staff providing more specific or different guidance regarding these exemptions, will not change in a manner that adversely affects our operations. To the extent that the SEC or its staff provides more specific guidance regarding Section 3(c)(5)(C) or any of the other matters bearing upon the definition of investment company and the exceptions to that definition, we may be required to adjust our investment strategy accordingly. Additional guidance from the SEC or its staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the investment strategy we have chosen.

Qualification for exemption from the definition of investment company under the Investment Company Act limits our ability to make certain investments. For example, these restrictions limit our and our subsidiaries' ability to invest directly in mortgage-related securities that represent less than the entire ownership in a pool of mortgage loans, debt and equity tranches of securitizations, certain real estate companies or assets not related to real estate. If we fail to qualify for these exemptions, or the SEC determines that companies that invest in RMBS are no longer able to rely on these exemptions, we could be required to restructure our activities in a manner that, or at a time when, we would not otherwise choose to do so, or we may be required to register as an investment company under the Investment Company Act. Either of these outcomes could negatively affect the value of shares of our stock and our ability to make distributions to our stockholders.

If we were required to register with the CFTC as a Commodity Pool Operator, it could materially adversely affect our business, financial condition and results of operations.

Under the Dodd-Frank Act, the U.S. Commodity Futures Trading Commission, or the CFTC, was given jurisdiction over the regulation of swaps. Under rules implemented by the CFTC, companies that utilize swaps as part of their business model, including many mortgage REITs, may be deemed to fall within the statutory definition of Commodity Pool Operator, or CPO, and, absent relief from the CFTC's Division of Swap Dealer and Intermediary Oversight, may be required to register with the CFTC as a CPO. As a result of numerous requests for no-action relief from CPO registration, in December 2012 the CFTC issued no-action relief entitled "No-Action Relief from the Commodity Pool Operator Registration Requirement for Commodity Pool Operators of Certain Pooled Investment Vehicles Organized as Mortgage Real Estate Investment Trusts," which permits a CPO to receive relief from registration requirements by filing a claim stating that the CPO meets the criteria specified in the no-action letter. We submitted a claim for relief within the required time period and believe we meet the criteria for such relief. There can be no assurance, however, that the CFTC will not modify or withdraw the no-action letter in the future or that we will be able to continue to satisfy the criteria specified in the no-action letter in order to qualify for relief from CPO registration. If we were required to register as a CPO in the future or change our business model to ensure that we can continue to satisfy the requirements of the no-action relief, it could materially and adversely affect our financial condition, our results of operations and our ability to operate our business.

Certain provisions of Maryland law could inhibit a change in our control.

Certain provisions of the Maryland General Corporation Law, or the MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change in our control under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then prevailing market price of such shares. We are subject to the "business combination" provisions of the MGCL that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our then outstanding voting shares or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding voting shares) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder and, thereafter, imposes special stockholder voting requirements to approve these combinations unless the consideration being received by common stockholders satisfies certain conditions. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by the board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has, by resolution, exempted business combinations between us and any other person, provided that the business combination is first approved by our board of directors. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or our board of directors does not otherwise approve a business combination, this statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

The “control share” provisions of the MGCL provide that “control shares” of a Maryland corporation (defined as shares which, when aggregated with all other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in the election of directors) acquired in a “control share acquisition” (defined as the acquisition of “control shares,” subject to certain exceptions) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquirer of control shares, our officers and our directors who are also our employees. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of our shares. There can be no assurance that this provision will not be amended or eliminated at any time in the future.

The “unsolicited takeover” provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain provisions (since we have a class of equity securities registered under the Exchange Act and at least three directors who are not officers or employees of the corporation and are not affiliated with any acquiring person). These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in our control under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then current market price.

Our authorized but unissued common and preferred shares may prevent a change in our control.

Our charter authorizes us to issue additional authorized but unissued common stock and preferred shares. In addition, our board of directors may, without stockholder approval, increase the aggregate number of our authorized shares or the number of shares of any class or series that we have authority to issue and classify or reclassify any unissued common stock or preferred shares and may set the preferences, rights and other terms of the classified or reclassified shares. As a result, among other things, our board may establish a class or series of common stock or preferred shares that could delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

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

Our charter limits the liability of our present and former directors and officers to us and our stockholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our present and former directors and officers will not have any liability to us or our stockholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action.

Our charter authorizes us to indemnify our present and former directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each present and former director or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to pay or reimburse the expenses incurred by our present and former directors and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. As a result, we and our stockholders may have more limited rights against our present and former directors and officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with other companies, which could limit your recourse in the event of actions not in your best interest.

Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.

Our charter and bylaws provide that, subject to the rights of any series of preferred shares, a director may be removed only for “cause” (as defined in our charter), and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. Vacancies generally may be filled only by a majority of the remaining directors in office, even if less than a quorum, for the full term of the director who vacated. These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in our control that is in the best interests of our stockholders.

Risks related to taxation

Our failure to qualify as a REIT would result in higher taxes and reduced cash available for distribution to our stockholders.

We operate in a manner that is intended to cause us to qualify as a REIT for U.S. federal income tax purposes. However, the U.S. federal income tax laws governing REITs are complex, and interpretations of the U.S. federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis.

Our ability to satisfy the asset tests depends upon the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Although we intend to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year.

If we fail to qualify as a REIT in any calendar year, we would be required to pay U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Further, if we fail to qualify as a REIT, we might need to borrow money or sell assets in order to pay any resulting tax. Our payment of income tax would decrease the amount of our income available for distribution to our stockholders. Furthermore, if we fail to maintain our qualification as a REIT, we no longer would be required to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT was subject to relief under U.S. federal tax laws, we could not re-elect to qualify as a REIT for four taxable years following the year in which we failed to qualify.

Complying with the REIT requirements can be difficult and may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our shares. We may be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue otherwise attractive investments in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

The REIT distribution requirements could adversely affect our ability to execute our business strategies.

We generally must distribute annually at least 90% of our net taxable income, excluding any net capital gain, in order for corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax, and may be subject to state and local income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal income tax laws. We intend to make distributions to our stockholders to comply with the requirements of the Code and to avoid paying corporate income tax. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Code.

We may find it difficult or impossible to meet distribution requirements in certain circumstances. Due to the nature of the assets in which we will invest, we may be required to recognize taxable income from those assets in advance of our receipt of cash flow on or proceeds from disposition of such assets. For example, we may be required to accrue interest and discount income on mortgage loans, mortgage-backed securities, and other types of debt securities or interests in debt securities before we receive any payments of interest or principal on such assets. We also acquire distressed debt investments that may be subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are “significant modifications” under the applicable Treasury regulations, the modified debt may be considered to have been reissued to us at a gain in a debt-for-debt exchange with the borrower, with gain recognized by us to the extent that the principal amount of the modified debt exceeds our cost of purchasing it prior to modification. Finally, we may be required under the terms of indebtedness that we incur to use cash received from interest payments to make principal payments on that indebtedness, with the effect of recognizing income but not having a corresponding amount of cash available for distribution to our stockholders.

As a result, to the extent such income is not recognized within a domestic TRS, the requirement to distribute a substantial portion of our net taxable income could cause us to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt or (iv) make a taxable distribution of our shares as part of a distribution in which stockholders may elect to receive shares or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with REIT requirements. Moreover, if our only feasible alternative were to make a taxable distribution of our shares to comply with the REIT distribution requirements for any taxable year and the value of our shares was not sufficient at such time to make a distribution to our stockholders in an amount at least equal to the minimum amount required to comply with such REIT distribution requirements, we would generally fail to qualify as a REIT for such taxable year and would be precluded from being taxed as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT.

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

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from certain activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold certain assets through, and derive a significant portion of our taxable income and gains in, TRSs. Such subsidiaries are subject to corporate level income tax at regular rates. Any of these taxes would decrease cash available for distribution to our stockholders.

Liquidation of assets may jeopardize our REIT qualification.

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

The failure of assets subject to repurchase agreements to be treated as owned by us for U.S. federal income tax purposes could adversely affect our ability to qualify as a REIT.

We have entered and may in the future enter into repurchase agreements that are structured as sale and repurchase agreements pursuant to which we nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings which are secured by the assets sold pursuant thereto. We believe that we are treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

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

The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under current law, any income that we generate from transactions intended to hedge our interest rate, inflation or currency risks will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if (i) the instrument hedges risk of interest rate or currency fluctuations on indebtedness incurred or to be incurred to carry or acquire real estate assets, (ii) the instrument hedges risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the REIT 75% or 95% gross income tests, or (iii) the instrument was entered into to “offset” certain instruments described in clauses (i) or (ii) of this sentence and certain other requirements are satisfied and such instrument is properly identified under applicable Treasury Regulations. Income from hedging transactions that do not meet these requirements may constitute nonqualifying income for purposes of both the REIT 75% and 95% gross income tests. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous to us and could result in greater risks associated with interest rate fluctuations or other changes than we would otherwise be able to mitigate.

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

We may utilize TBA dollar roll transactions as a means of investing and financing Agency RMBS. The law is unclear regarding whether TBAs will be qualifying assets for the 75% asset test and whether income and gains from dispositions of TBAs will be qualifying income for the 75% gross income test.

Until such time as we seek and receive a favorable private letter ruling from the IRS or we are advised by counsel that TBAs should be treated as qualifying assets for purposes of the 75% asset test, we will limit our net investment in TBAs and any non-qualifying assets to no more than 25% of our assets at the end of any calendar quarter and will limit our investments in TBAs with a single counterparty to no more than 5% of our total assets at the end of any calendar quarter. Further, until such time as we seek and receive a favorable private letter ruling from the IRS or we are advised by counsel that income and gains from the disposition of TBAs should be treated as qualifying income for purposes of the 75% gross income test, we will limit our gains from dispositions of TBAs and any non-qualifying income to no more than 25% of our gross income for each calendar year. Accordingly, our ability to utilize TBA dollar roll transactions as a means of investing and financing Agency RMBS could be limited.

Moreover, even if we are advised by counsel that TBAs should be treated as qualifying assets or that income and gains from dispositions of TBAs should be treated as qualifying income, it is possible that the IRS could successfully take the position that such assets are not qualifying assets and such income is not qualifying income. In that event, we could be subject to a penalty tax or we could fail to qualify as a REIT if (i) the value of our TBAs, together with our non-qualifying assets for the 75% asset test, exceeded 25% of our gross assets at the end of any calendar quarter or if the value of our investments in TBAs with a single counterparty exceeded 5% of our total assets at the end of any calendar quarter or (ii) our income and gains from the disposition of TBAs, together with our non-qualifying income for the 75% gross income test, exceeded 25% of our gross income for any taxable year.

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

A REIT's net income from prohibited transactions is subject to a 100% tax with no offset for losses. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we dispose of or securitize loans in a manner that was treated as a sale of the loans, if we frequently buy and sell securities or open and close TBA contracts in a manner that is treated as dealer activity with respect to such securities or contracts for U.S. federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose to engage in certain sales of loans through a TRS and not at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us.

The share ownership limits applicable to us that are imposed by the Code for REITs and our charter may restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year after our first taxable year. Our charter, with certain exceptions, authorizes our board of directors to take the actions that are necessary or appropriate to preserve our qualification as a REIT. Under our charter, no person may own, directly or indirectly, (i) more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding common stock, or (ii) more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding capital stock. However, our board of directors may, in its sole discretion, grant an exemption to the share ownership limits (prospectively or retrospectively), subject to certain conditions and the receipt by our board of certain representations and undertakings. In addition, our board of directors may change the share ownership limits as described under "Business—Restrictions on ownership and transfer of our shares." The share ownership limit is based upon direct or indirect ownership by "persons," which is defined to include entities and certain groups of stockholders. Our share ownership limits might delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

The constructive ownership rules contained in our charter are complex and may cause the outstanding shares owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than these percentages of the outstanding shares by an individual or entity could cause that individual or entity to own constructively in excess of these percentages of the outstanding shares and thus violate the share ownership limits. Any attempt to own or transfer our common stock or preferred shares (if and when issued) in excess of the share ownership limits without the consent of our board of directors or in a manner that would cause us to be "closely held" under Section 856(h) of the Code (without regard to whether the shares are held during the last half of a taxable year) will result in the shares being deemed to be transferred to a director for a charitable trust or, if the transfer to the charitable trust is not automatically effective to prevent a violation of the share ownership limits or the restrictions on ownership and transfer of our shares, any such transfer of our shares will be void *ab initio*. Further, any transfer of our shares that would result in our shares being held by fewer than 100 persons will be void *ab initio*.

We may lose our REIT status if the IRS successfully challenges our characterization of our income from our foreign TRS.

We have elected to treat one foreign entity as a TRS and we may elect to treat other foreign entities as TRSs in the future. We will likely be required to include in our income, even without the receipt of actual distributions, earnings from our investment in any foreign TRS. Income inclusions from equity investments in foreign corporations are technically neither actual dividends nor any of the other enumerated categories of qualifying income for the 95% gross income test. However, the IRS has issued private letter rulings to other REITs holding that income inclusions from equity investments in foreign corporations would be treated as qualifying income for purposes of the 95% gross income test. Private letter rulings may be relied upon only by the taxpayers to whom they are issued and the IRS may revoke a private letter ruling. Based on those private letter rulings and advice of counsel, we intend to treat such income inclusions as qualifying income for purposes of the 95% gross income test. Nevertheless, no assurance can be provided that the IRS would not successfully challenge our treatment of such income as qualifying income. In the event that such income was determined not to qualify for the 95% gross income test, we could be subject to a penalty tax with respect to such income to the extent it exceeds 5% of our gross income or we could fail to continue to qualify as a REIT.

If our foreign TRS is subject to U.S. federal income tax at the entity level, it would greatly reduce the amounts that entity would have available to distribute to us and pay its creditors.

There is a specific exemption from federal income tax for non-U.S. corporations that restrict their activities in the United States to trading stock and securities (or any activity closely related thereto) for their own account whether such trading (or such other activity) is conducted by the corporation or its employees through a resident broker, commission agent, custodian or other agent. We intend that our foreign TRS and certain other foreign entities we may form or acquire in the future will rely on that exemption or otherwise operate in a manner so that they will not be subject to U.S. federal income tax on their net income at the entity level. If the IRS succeeded in challenging that tax treatment, it would greatly reduce the amount that those entities would have available to distribute to us and to pay to their creditors.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT.

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in our common stock. The U.S. federal tax rules that affect REITs are under review constantly by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to Treasury regulations and interpretations. Revisions in U.S. federal tax laws and interpretations thereof could cause us to change our investments and commitments, which could also affect the tax considerations of an investment in our stock.

Changes to U.S. federal income tax laws could materially and adversely affect us and our stockholders.

The recently enacted Tax Cuts and Jobs Act (the “TCJA”) makes substantial changes to the Code. Among those changes are a significant permanent reduction in the generally applicable corporate tax rate, changes in the taxation of individuals and other non-corporate taxpayers that generally but not universally reduce their taxes on a temporary basis subject to “sunset” provisions, the elimination or modification of various currently allowed deductions (including substantial limitations on the deductibility of interest and, in the case of individuals, the deduction for personal state and local taxes), and preferential rates of taxation on most ordinary REIT dividends and certain business income derived by non-corporate taxpayers in comparison to other ordinary income recognized by such taxpayers. The TCJA also imposes certain additional limitations on the deduction of net operating losses, which may in the future cause us to be required to make distributions that will be taxable to our stockholders to the extent of our current or accumulated earnings and profits in order to comply with the annual REIT distribution requirements. The effect of these, and the many other, changes made in the TCJA is highly uncertain, both in terms of their direct effect on the taxation of an investment in our common stock and their indirect effect on the value of our assets or market conditions generally. Furthermore, many of the provisions of the TCJA will require guidance through the issuance of Treasury regulations in order to assess their effect. There may be a substantial delay before such regulations are promulgated, increasing the uncertainty as to the ultimate effect of the statutory amendments on us. It is also likely that there will be technical corrections legislation proposed with respect to the TCJA next year, the effect of which cannot be predicted and may be adverse to us or our stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2017, we did not own any real estate or other physical property materially important to our operations. Our principal executive offices are located at 245 Park Avenue, 26th Floor, New York, New York 10167. Our telephone number is (212) 692-2000.

ITEM 3. LEGAL PROCEEDINGS

We are at times subject to various legal proceedings arising in the ordinary course of business. In addition, in the ordinary course of business, we can be and are involved in governmental and regulatory examinations, information gathering requests, investigations and proceedings. As of the date of this report, we are not party to any litigation or legal proceedings, or to our knowledge, any threatened litigation or legal proceedings, which we believe, individually or in the aggregate, would have a material adverse effect on our results of operations or financial condition.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market and dividend information

Our common stock is traded on the NYSE under the symbol "MITT." As of February 16, 2018, there were 28,195,673 shares of common stock outstanding and approximately 35 registered holders of our common stock. The 35 holders of record include Cede & Co., which holds shares as nominee for The Depository Trust Company, which itself holds shares on behalf of the beneficial owners of the Company's common stock. Such information was obtained through the Company's registrar and transfer agent, based on the results of a broker search.

The following tables set forth, for the periods indicated, the high and low sale price of our common stock as reported on the NYSE and the dividends declared per share of our common stock.

	Sales Prices	
	High	Low
2017		
First Quarter	\$ 18.14	\$ 17.18
Second Quarter	19.30	17.97
Third Quarter	19.61	18.22
Fourth Quarter	19.66	18.58
2016		
First Quarter	\$ 13.40	\$ 10.78
Second Quarter	14.65	12.78
Third Quarter	16.39	14.18
Fourth Quarter	18.85	14.72

2017

Declaration Date	Record Date	Payment Date	Dividend Per Share
3/10/2017	3/21/2017	4/28/2017	\$ 0.475
6/8/2017	6/19/2017	7/31/2017	0.475
9/11/2017	9/29/2017	10/31/2017	0.575*
12/15/2017	12/29/2017	1/31/2018	0.475

*The combined dividend of \$0.575 includes a dividend of \$0.475 per common share and a special cash dividend of \$0.10 per common share.

2016

Declaration Date	Record Date	Payment Date	Dividend Per Share
3/10/2016	3/21/2016	4/29/2016	\$ 0.475
6/9/2016	6/20/2016	7/29/2016	0.475
9/12/2016	9/23/2016	10/31/2016	0.475
12/6/2016	12/19/2016	1/31/2017	0.475

We intend to pay quarterly dividends and to distribute to our stockholders all of our annual taxable income in a timely manner. This will enable us to maintain our qualification as a REIT under the Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described under the caption "Risk Factors," among others. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status, Maryland law and such other factors as our board of directors may deem relevant from time to time.

Equity compensation plan information

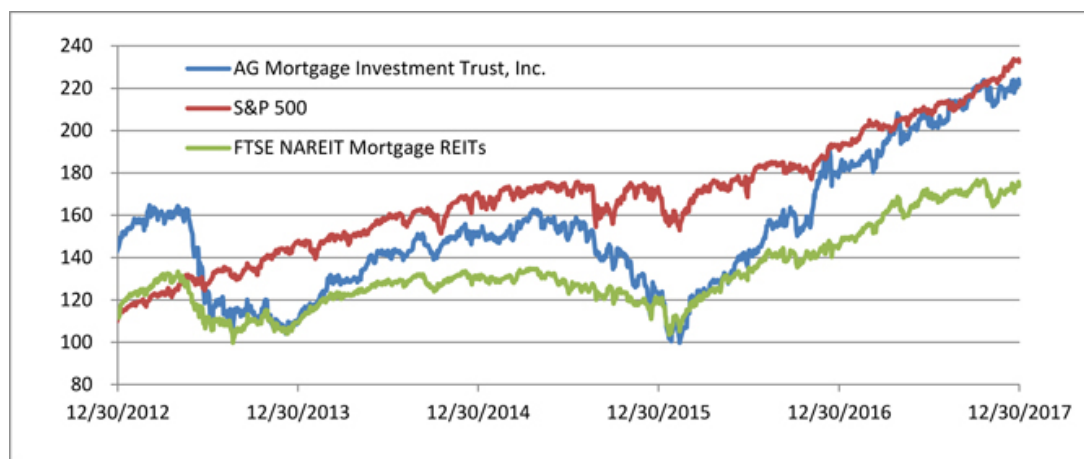
We have adopted equity incentive plans to provide incentive compensation to attract and retain qualified directors, officers, advisors, consultants and other personnel, including our Manager and personnel of our Manager and its affiliates. The total number of shares that may be made subject to awards under our Manager Equity Incentive Plan and our Equity Incentive Plan is 277,500 shares. Awards under our equity incentive plans are forfeitable until they become vested.

The following table presents certain information about our equity incentive plans as of December 31, 2017:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column of this Table)
Equity compensation plans approved by stockholders	-	\$ -	62,138
Equity compensation plans not approved by stockholders	-	-	-
Total	-	\$ -	62,138

Performance graph

The following graph provides a comparison of the cumulative total return on our common stock from December 31, 2012 to the NYSE closing price per share on December 31, 2017 with the cumulative total return on the Standard & Poor's 500 Composite Stock Price Index (the "S&P 500") and an index of selected issuers of FTSE NAREIT Mortgage REITs. Total return values were calculated assuming \$100 invested with the reinvestment of all dividends. Historical prices are not necessarily indicative of future price performance.



Source: Bloomberg.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below has been derived from the Company's audited consolidated financial statements.

The information presented below is only a summary and does not provide all of the information contained in our historical financial statements, including the related notes. You should read the information below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical financial statements, including the related notes, included elsewhere in this report.

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Balance Sheet Data:					
Real estate securities, at fair value:					
Agency	\$ 2,247,161,035	\$ 1,057,663,726	\$ 1,201,441,652	\$ 1,808,314,746	\$ 2,423,002,768
Non-Agency	1,004,255,658	1,043,017,308	1,229,811,018	1,140,077,928	844,217,568
ABS	40,957,553	21,231,956	54,761,837	66,693,243	71,344,784
CMBS	220,168,505	211,652,660	148,948,690	100,520,652	93,251,470
Residential mortgage loans, at fair value	18,889,693	38,195,576	57,080,227	85,089,859	-
Commercial loans, at fair value	57,520,646	60,068,800	72,800,000	72,800,000	-
U.S. Treasury securities, at fair value	-	-	223,434,922	-	-
Investments in debt and equity of affiliates	99,696,347	72,215,919	43,040,191	20,345,131	16,411,314
Excess mortgage servicing rights, at fair value	5,083,514	412,648	425,311	628,367	-
Cash and cash equivalents	15,199,655	52,469,891	46,253,291	64,363,514	86,190,011
Total assets	3,789,295,378	2,628,644,566	3,164,076,232	3,458,405,131	3,684,706,374
Repurchase agreements	3,004,407,018	1,900,509,806	2,034,963,460	2,644,955,948	2,891,634,416
FHLBC Advances	-	-	396,894,000	-	-
Securitized debt	16,477,801	21,491,710	30,046,861	39,777,914	-
Dividend payable	13,391,457	13,157,573	13,496,139	17,031,609	17,020,893
Stockholders' equity	714,259,207	655,876,390	666,944,713	732,675,143	704,430,734
	<u>Year Ended December 31, 2017</u>	<u>Year Ended December 31, 2016</u>	<u>Year Ended December 31, 2015</u>	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>
Statement of Operations Data:					
Net Interest Income					
Interest income	\$ 128,844,959	\$ 123,006,112	\$ 141,273,414	\$ 141,573,188	\$ 151,000,673
Interest expense	43,722,014	33,785,031	31,230,369	26,497,398	25,553,273
	<u>85,122,945</u>	<u>89,221,081</u>	<u>110,043,045</u>	<u>115,075,790</u>	<u>125,447,400</u>
Other Income					
Net realized gain/(loss)	(13,986,292)	(10,391,118)	(17,148,069)	3,637,954	(115,594,848)
Realized loss on periodic interest settlements of derivative instruments, net	(7,762,952)	(6,009,638)	(13,204,884)	(22,261,187)	(27,912,227)
Unrealized gain/(loss) on real estate securities and loans, net	45,528,834	2,672,426	(32,491,857)	72,480,056	(84,195,306)
Unrealized gain/(loss) on derivative and other instruments, net	19,813,356	8,613,084	(12,180,501)	(51,255,430)	89,112,320
Expenses					
Management fee to affiliate	9,835,093	9,809,427	9,971,287	10,089,239	10,688,725
Other operating expenses	10,965,144	10,290,513	12,356,644	11,903,554	10,844,988
Excise tax	1,500,000	1,513,167	1,500,000	1,783,539	1,483,630
Equity in earnings/(loss) from affiliates	12,621,461	1,518,862	3,398,217	3,684,810	2,263,822
Dividends on preferred stock	13,469,416	13,469,416	13,469,416	13,469,416	13,469,416
Net Income/(Loss) Available to Common Stockholders	<u><u>\$ 105,088,194</u></u>	<u><u>\$ 50,213,355</u></u>	<u><u>\$ 349,121</u></u>	<u><u>\$ 83,422,636</u></u>	<u><u>\$ (50,658,661)</u></u>
Share Data:					
Earnings/(Loss) Per Share of Common Stock					
Basic	\$ 3.77	\$ 1.80	\$ 0.01	\$ 3.38	\$ (1.61)
Diluted	\$ 3.77	\$ 1.80	\$ 0.01	\$ 3.37	\$ (1.61)
Dividends Declared Per Share of Common Stock	\$ 2.00	\$ 1.90	\$ 2.275	\$ 2.40	\$ 2.80

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements and should be read in conjunction with our consolidated financial statements and the accompanying notes to our consolidated financial statements, which are included in this report.

Our company

We are a Maryland corporation focused on investing in, acquiring and managing a diversified portfolio of residential mortgage assets, other real estate-related securities and financial assets, which we refer to as our target assets. We are externally managed by our Manager, a wholly-owned subsidiary of Angelo, Gordon, pursuant to a management agreement. Our Manager, pursuant to the delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility of its day-to-day duties and obligations arising under the management agreement. We conduct our operations to qualify and be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. Accordingly, we generally will not be subject to U.S. federal income taxes on our taxable income that we distribute currently to our stockholders as long as we maintain our intended qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act. Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol MITT. Our 8.25% Series A Cumulative Redeemable Preferred Stock and our 8.00% Series B Cumulative Redeemable Preferred Stock trade on the NYSE under the symbols MITT-PA and MITT-PB, respectively.

Market overview

During the fourth quarter, spreads for most mortgage-backed credit sectors were flat to modestly tighter with continued support from strong demand and stable fundamentals, which primarily drove a 1.4% increase to MITT's book value. Credit-risk transfer (CRT) securities outperformed in the fourth quarter as concerns surrounding the 2017 hurricanes in Florida and Texas began to diminish early in the quarter. In late November, the first early-delinquency readings confirmed that delinquencies were within expectations, albeit towards the high end. The reduced concerns surrounding expected losses related to hurricanes and strong demand for newly issued securities drove spreads tighter for the sector, and nearly all CRT securities finished the fourth quarter at or near all-time tights. During the fourth quarter, asset-backed investors continued to reach for yield, driving spreads tighter across sectors, particularly in government-guaranteed student loan ABS and esoteric ABS sectors. Additionally, robust new-issue activity of RMBS and ABS propelled both sectors to their highest new-issue volumes since 2007.

During the quarter, the Federal Reserve (the "Fed") began to shrink its holdings of Agency RMBS by curtailing its monthly reinvestment of paydowns. Despite this, Agency RMBS once again outperformed benchmark swap and Treasury rates during the quarter. The combination of rangebound long-term interest rates, modest supply and subdued volatility continued to support valuations for the sector, while defensive positioning among market participants mitigated the risk of a sudden and sharp widening of spreads.

Housing, economic and interest rate trends

Inclusive of distressed sales, home prices nationwide increased by 7.0% on a year-over-year basis in November 2017 as compared with November 2016, according to data released by CoreLogic. This marks the 70th consecutive monthly increase year-over-year in national home prices. We expect home price appreciation to persist around current levels due to tight supply conditions across most of the nation, improvement in consumer balance sheets and steady employment gains. Further, the U.S. government agencies and the Fed's policy sponsorship of housing via still low mortgage rates coupled with a stable broader domestic economy have provided support for the housing market recovery. For these reasons, we continue to be optimistic about the prospect of further housing recovery and longer-term home price appreciation.

According to CoreLogic, the aggregate negative equity value (homes where the homeowner owes more on the home than the home is worth) decreased \$9.5 billion to \$275.7 billion in the third quarter of 2017, from \$285.2 billion in the third quarter of 2016, a decrease of 3.3%. For much of the country, the negative equity epidemic that developed during the 2008-2009 recession has lifted due to the rise in home prices over the past several years. Additionally, credit performance in terms of serious delinquencies and subsequent default rates continued to be stable-to-improving in 2017 and is anticipated to remain stable in the near future.

At its December meeting, the Fed raised the federal funds interest rate by 0.25%. Progress continues to be made with respect to the Fed’s dual mandate of full employment and price stability, as unemployment remains below 5%, and recent transitory factors depressing inflation seem to be fading. In the December update of the Fed’s Summary of Economic Projections, the median forecast for real GDP growth increased in 2018, 2019 and 2020 while the median forecast for the unemployment rate decreased in each of those years. The projection of the median Fed Funds rates, based on the individual assessments of the FOMC members, was 2.1% in 2018 and 2.7% in 2019.

The market overview and trends outlined above may have a meaningful impact on our operating results and our existing portfolio and may cause us to adjust our investment and financing strategies over time as new opportunities emerge and the risk profile of our business changes.

Recent government activity

On December 22, 2017, tax legislation was enacted, informally known as the Tax Cuts and Jobs Act (the “TCJA”), that significantly changes the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. Technical corrections or other amendments to the TCJA or administrative guidance interpreting the TCJA may be forthcoming at any time. We continue to analyze the overall effects of the TCJA to our operations, our industry and the economy in general. While we do not expect to see a material impact on our operations, we anticipate certain of our individual taxable shareholders may benefit by receiving a 20% deduction on the portion of our dividends characterized as ordinary income. We advise our shareholders to contact their individual tax advisor to determine how their individual tax profile is affected. In connection with the TCJA, our discussion of material federal income tax considerations with respect to ownership of our capital stock, is supplemented by, and should be read together with the information set forth in “Additional Material U.S. Federal Income Tax Considerations,” attached hereto as Exhibit 99.1, which is incorporated herein by reference.

The current regulatory environment may be impacted by future legislative developments, such as amendments to key provisions of the Dodd-Frank Act or changes to Fannie Mae and Freddie Mac, including with respect to how long they will continue to be in existence, the extent of their roles in the market and what forms they will take. There is a lack of clarity around both the timing and the exact details of any such regulatory reform and the impact of such potential reform on our operations.

Results of operations

Our operating results can be affected by a number of factors and primarily depend on the size and composition of our investment portfolio, the level of our net interest income, the market value of our assets and the supply of, and demand for, our target assets in the marketplace, which can be impacted by unanticipated credit events, such as defaults, liquidations or delinquencies, experienced by borrowers whose mortgage loans are included in our investment portfolio. Our primary source of net income available to common stockholders is our net interest income, less our cost of hedging, which represents the difference between the interest earned on our investment portfolio and the costs of financing and hedging our investment portfolio. Our net interest income varies primarily as a result of changes in market interest rates, prepayment speeds, as measured by the Constant Prepayment Rate (“CPR”) on the Agency RMBS in our investment portfolio, and our funding and hedging costs.

The table below presents certain information from our consolidated statements of operations for the years ended December 31, 2017, December 31, 2016 and December 31, 2015:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Statement of Operations Data:			
Net Interest Income			
Interest income	\$ 128,844,959	\$ 123,006,112	\$ 141,273,414
Interest expense	43,722,014	33,785,031	31,230,369
	<u>85,122,945</u>	<u>89,221,081</u>	<u>110,043,045</u>
Other Income			
Net realized gain/(loss)	(13,986,292)	(10,391,118)	(17,148,069)
Realized loss on periodic interest settlements of derivative instruments, net	(7,762,952)	(6,009,638)	(13,204,884)
Unrealized gain/(loss) on real estate securities and loans, net	45,528,834	2,672,426	(32,491,857)
Unrealized gain/(loss) on derivative and other instruments, net	19,813,356	8,613,084	(12,180,501)
Other income	55,447	373,902	66,250
	<u>43,648,393</u>	<u>(4,741,344)</u>	<u>(74,959,061)</u>
Expenses			
Management fee to affiliate	9,835,093	9,809,427	9,971,287
Other operating expenses	10,965,144	10,290,513	12,356,644
Servicing fees	234,264	404,129	671,246
Equity based compensation to affiliate	300,688	298,592	164,487
Excise tax	1,500,000	1,513,167	1,500,000
	<u>22,835,189</u>	<u>22,315,828</u>	<u>24,663,664</u>
Income/(loss) before equity in earnings/(loss) from affiliates	<u>105,936,149</u>	<u>62,163,909</u>	<u>10,420,320</u>
Equity in earnings/(loss) from affiliates	12,621,461	1,518,862	3,398,217
Net Income/(Loss)	<u>118,557,610</u>	<u>63,682,771</u>	<u>13,818,537</u>
Dividends on preferred stock	13,469,416	13,469,416	13,469,416
Net Income/(Loss) Available to Common Stockholders	<u>\$ 105,088,194</u>	<u>\$ 50,213,355</u>	<u>\$ 349,121</u>
Share Data:			
Earnings/(Loss) Per Share of Common Stock			
Basic	\$ 3.77	\$ 1.80	\$ 0.01
Diluted	\$ 3.77	\$ 1.80	\$ 0.01

Net Income/(Loss) Available to Common Stockholders

Net income/(loss) available to common stockholders increased \$54.9 million from \$50.2 million for the year ended December 31, 2016 to \$105.1 million for the year ended December 31, 2017 primarily due to higher prices on our securities, which increased our “Unrealized gain/(loss) on real estate securities and loans, net,” coupled with higher derivative prices, which increased our “Unrealized gain/(loss) on derivative and other instruments, net.” Net income/(loss) available to common stockholders increased \$49.9 million from \$0.3 million for the year ended December 31, 2015 to \$50.2 million for the year ended December 31, 2016 primarily due to higher prices on our securities, which increased our “Unrealized gain/(loss) on real estate securities and loans, net,” coupled with higher derivative prices, which increased our “Unrealized gain/(loss) on derivative and other instruments, net.”

Interest income

Interest income is calculated using the effective interest method for our GAAP investment portfolio and calculated based on the actual coupon rate and the outstanding principal balance on our U.S. Treasury securities.

Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

Interest income increased by \$5.8 million from \$123.0 million at December 31, 2016 to \$128.8 million at December 31, 2017 primarily due to an increase in the weighted average cost of our GAAP investment portfolio and U.S. Treasury securities period over period by \$0.1 billion from \$2.8 billion at December 31, 2016 to \$2.9 billion at December 31, 2017. This was coupled with an increase in the weighted average yield on our GAAP investment portfolio and U.S. Treasury securities during the period of 0.08% from 4.37% at December 31, 2016 to 4.45% at December 31, 2017.

Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

Interest income decreased by \$18.3 million from \$141.3 million at December 31, 2015 to \$123.0 million at December 31, 2016 primarily due to a decrease in the weighted average cost of our GAAP investment portfolio and U.S. Treasury securities period over period by \$0.4 billion from \$3.2 billion at December 31, 2015 to \$2.8 billion at December 31, 2016. This was coupled with a decrease in the weighted average yield on our GAAP investment portfolio and U.S. Treasury securities during the period of 0.08% from 4.45% at December 31, 2015 to 4.37% at December 31, 2016.

Interest expense

Interest expense is calculated based on the actual financing rate and the outstanding financing balance of our GAAP investment portfolio and U.S. Treasury securities.

Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

Interest expense increased by \$9.9 million from \$33.8 million at December 31, 2016 to \$43.7 million at December 31, 2017 primarily due to an increase in the weighted average financing rate on our GAAP investment portfolio and U.S. Treasury securities during the period, by 0.39% from 1.47% at December 31, 2016 to 1.86% at December 31, 2017. The weighted average financing balance on our GAAP investment portfolio and U.S. Treasury securities for the year ended December 31, 2017 approximated the balance for the year ended December 31, 2016. Refer to the “Financing activities” section below for a discussion of material changes in our cost of funds.

Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

Interest expense increased by \$2.6 million from \$31.2 million at December 31, 2015 to \$33.8 million at December 31, 2016 primarily due to an increase in the weighted average financing rate on our GAAP investment portfolio and U.S. Treasury securities during the period, by 0.28% from 1.19% at December 31, 2015 to 1.47% at December 31, 2016. This was offset by a decrease in the weighted average financing balance on our GAAP investment portfolio and U.S. Treasury securities during the year of \$0.3 billion from \$2.6 billion at December 31, 2015 to \$2.3 billion at December 31, 2016.

Net realized gain/(loss)

Net realized gain/(loss) represents the net gain or loss recognized on any (i) sales of real estate securities out of our GAAP investment portfolio, (ii) sales of Residential mortgage loans out of our GAAP investment portfolio, transfers of Residential mortgage loans to Other assets, and sales of Other assets, (iii) sales of derivatives and other instruments, and (iv) other-than-temporary-impairment (“OTTI”) charges recorded during the period. See Note 2, Note 3 and Note 4 of the Notes to Consolidated Financial Statements for further discussion on OTTI. The following table presents a summary of Net realized gain/(loss) for the years ended December 31, 2017, December 31, 2016 and December 31, 2015:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Sale of real estate securities	\$ 195,347	\$ 6,895,045	\$ 7,815,932
Sale of loans and loans transferred to or sold from Other assets	2,972,170	4,110,992	1,919,627
Settlement of derivatives and other instruments	(9,227,746)	(2,028,780)	(18,117,235)
OTTI	(7,926,063)	(19,368,375)	(8,766,393)
Total Net realized gain/(loss)	\$ (13,986,292)	\$ (10,391,118)	\$ (17,148,069)

Realized loss on periodic interest settlement of derivative instruments, net

Realized loss on periodic interest settlement of derivative instruments, net represents the net interest expense paid on our interest rate swaps.

Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

Realized loss on periodic interest settlement of derivative instruments, net increased by \$1.8 million from \$6.0 million at December 31, 2016 to \$7.8 million at December 31, 2017 due to an increase in swap notional amount for the period, coupled with an increase in three-month LIBOR. The weighted average swap notional increased from \$599.8 million for the year ended December 31, 2016 to \$1.4 billion for the year ended December 31, 2017. In addition, three-month LIBOR increased from 0.998% at December 31, 2016 to 1.694% at December 31, 2017.

Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

Realized loss on periodic interest settlement of derivative instruments, net decreased by \$7.2 million from \$13.2 million at December 31, 2015 to \$6.0 million at December 31, 2016 due to a decrease in swap notional amount for the period, coupled with an increase in three-month LIBOR. The weighted average swap notional decreased from \$1.1 billion at December 31, 2015 to \$599.8 million at December 31, 2016. In addition, three-month LIBOR increased from 0.613% at December 31, 2015 to 0.998% at December 31, 2016.

Unrealized gain/(loss) on real estate securities and loans, net

Refer to the “Market overview” section of this Item 7 for a discussion of the changes in market pricing which contributed to our “Unrealized gain/(loss) on real estate securities and loans, net.” Realized gains and losses on sale also may impact our unrealized gains and losses.

Year Ended December 31, 2017

For the year ended December 31, 2017, Unrealized gain/(loss) on real estate securities and loans, net was \$45.5 million. The \$45.5 million was comprised of unrealized gains on securities of \$45.3 million, coupled with unrealized gains on loans of \$0.2 million during the year.

Year Ended December 31, 2016

For the year ended December 31, 2016, Unrealized gain/(loss) on real estate securities and loans, net was \$2.7 million. The \$2.7 million was comprised of unrealized gains on securities of \$3.9 million, offset by unrealized losses on loans of \$1.2 million during the year.

Year Ended December 31, 2015

For the year ended December 31, 2015, Unrealized gain/(loss) on real estate securities and loans, net was \$(32.5) million. The \$(32.5) million was comprised of unrealized losses on securities of \$34.0 million, offset by unrealized gains on loans of \$1.5 million during the year.

Unrealized gain/(loss) on derivative and other instruments, net

Refer to the “Market overview” section of this Item 7 for a discussion of the changes in market pricing which contributed to our “Unrealized gain/(loss) on derivative and other instruments, net” line items. Realized gains and losses on sale may also impact our unrealized gains and losses.

Year Ended December 31, 2017

For the year ended December 31, 2016, Unrealized gain/(loss) on derivative and other instruments, net was \$19.8 million. The \$19.8 million was comprised of unrealized gains on certain derivatives of \$19.2 million, coupled with unrealized gains on TBAs of \$0.6 million during the year.

Year Ended December 31, 2016

For the year ended December 31, 2016, Unrealized gain/(loss) on derivative and other instruments, net was \$8.6 million. The \$8.6 million was comprised of unrealized gains on certain derivatives of \$8.9 million, offset by unrealized losses on TBAs of \$0.3 million during the year.

Year Ended December 31, 2015

For the year ended December 31, 2015, Unrealized gain/(loss) on derivative and other instruments, net was \$(12.2) million. The \$(12.2) million was comprised of unrealized losses on certain derivatives of \$10.6 million, coupled with unrealized losses on TBAs of \$1.6 million during the year.

Other income

Other income pertains to certain fees we receive on our residential mortgage loans.

Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

For the years ended December 31, 2017 and December 31, 2016, Other income was \$55,447 and \$373,902 respectively. The decrease in Other income pertains to decreased fees we received on one of our residential mortgage loan pools.

Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

For the years ended December 31, 2016 and December 31, 2015, Other income was \$373,902 and \$66,250, respectively. The increase in Other income pertains to increased fees we received on one of our residential mortgage loan pools.

Management fee to affiliate

Our management fee is based upon a percentage of our Stockholders' Equity. See the "Contractual obligations" section of this Item 7 for further detail on the calculation of our management fee and for the definition of Stockholders' Equity.

Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

For the years ended December 31, 2017 and December 31, 2016, our management fees were \$9.8 million and \$9.8 million, respectively. Management fees increased slightly primarily due to the increase in our Stockholders' Equity as calculated pursuant to our Management Agreement.

Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

For the years ended December 31, 2016 and December 31, 2015 our management fees were \$9.8 million and \$10.0 million, respectively. Management fees decreased slightly primarily due to the decrease in our Stockholders' Equity as calculated pursuant to our Management Agreement.

Other operating expenses

These amounts are primarily comprised of professional fees, directors' and officers' ("D&O") insurance and directors' fees, as well as certain expenses reimbursable to the Manager. We are required to reimburse our Manager or its affiliates for operating expenses which are incurred by our Manager or its affiliates on our behalf, including certain salary expenses and other expenses relating to legal, accounting, due diligence, and other services. Refer to the "Contractual obligations" section below for more detail on certain expenses reimbursable to the Manager. The following table presents a summary of certain expenses within Other operating expenses for the years ended December 31, 2017, December 31, 2016 and December 31, 2015, exclusive of certain expenses reimbursable to the Manager:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Professional fees	\$ 1,617,453	\$ 1,396,770	\$ 2,017,782
Residential mortgage loan related expenses	780,689	901,650	999,343
D&O insurance	721,931	770,261	904,320
Directors' fees and stock compensation	549,453	428,993	427,953
Total	\$ 3,669,526	\$ 3,497,674	\$ 4,349,398

Servicing fees

We incur servicing fee expenses in connection with the servicing of our residential mortgage loans. As of December 31, 2017, December 31, 2016, and December 31, 2015, we owned residential mortgage loans with fair market value of \$18.9 million, \$38.2 million, and \$57.1 million, respectively.

Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

For the years ended December 31, 2017 and December 31, 2016 our servicing fees were \$234,264 and \$404,129, respectively. The decrease in fees primarily pertains to sales of residential mortgage loans during the period.

Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

For the years ended December 31, 2016 and December 31, 2015 our servicing fees were \$404,129 and \$671,246, respectively. The decrease in fees primarily pertains to sales of residential mortgage loans during the period.

Equity based compensation to affiliate

Equity based compensation to affiliate represents the amortization of the fair value of the restricted stock units granted to our Manager remeasured quarterly, less the present value of dividends expected to be paid on the underlying shares through the requisite period.

Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

For the years ended December 31, 2017 and December 31, 2016, our equity based compensation to affiliate was \$300,688 and \$298,592, respectively. The increase is a result of an increased stock price for the year.

Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

For the years ended December 31, 2016 and December 31, 2015, our equity based compensation to affiliate was \$298,592 and \$164,487, respectively. The increase is a result of an increased stock price for the year.

Excise tax

Excise tax represents a four percent tax on the required amount of our ordinary income and net capital gains not distributed during the year. The quarterly expense is calculated in accordance with applicable tax regulations.

Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

For the years ended December 31, 2017 and December 31, 2016 our excise tax remained relatively unchanged.

Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

For the years ended December 31, 2016 and December 31, 2015 our excise tax remained relatively unchanged.

Equity in earnings/(loss) from affiliates

Equity in earnings/(loss) from affiliates represents our share of earnings and profits of investments held within affiliated entities. A majority of these investments are comprised of real estate securities, loans and our investment in AG Arc.

Year Ended December 31, 2017 compared to the Year Ended December 31, 2016

For the years ended December 31, 2017 and December 31, 2016 we recorded Equity in earnings/(loss) from affiliates of \$12.6 million and \$1.5 million, respectively. The increase primarily pertains to an increased allocation of our capital to investments held within affiliated entities, increased security prices, and realized gains recognized on certain investments held by our affiliates.

Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

For the years ended December 31, 2016 and December 31, 2015 we recorded Equity in earnings/(loss) from affiliates of \$1.5 million and \$3.4 million, respectively. The decrease primarily pertains to unrealized losses on investments held by our affiliates.

Book value per share

As of December 31, 2017, December 31, 2016 and December 31, 2015, our book value per common share was \$19.62, \$17.86, and \$17.88, respectively.

Presentation of investment, financing and hedging activities

In the “Investment activities,” “Financing activities,” “Hedging activities” and “Liquidity and capital resources” sections of this Item 7, where we disclose our investment portfolio and the related repurchase agreements and FHLBC Advances, if applicable, that finance it, we have presented this information inclusive of (i) unconsolidated ownership interests in affiliates that are accounted for under GAAP using the equity method and (ii) TBAs, which are accounted for as derivatives under GAAP. Our investment portfolio and the related repurchase agreements and FHLBC Advances, if applicable, that finance it are presented along with a reconciliation to GAAP. This presentation of our investment portfolio is consistent with how our management evaluates the business, and we believe this presentation, when considered with the GAAP presentation, provides supplemental information useful for investors in evaluating our investment portfolio and financial condition. See Note 2 to the Notes to Consolidated Financial Statements for a discussion of investments in debt and equity of affiliates and TBAs.

Net interest margin and leverage ratio

Net interest margin is calculated by subtracting the weighted average cost of funds from the weighted average yield for our investment portfolio, which excludes cash held by us and any net TBA position. The weighted average yield on our investment portfolio represents an effective interest rate, which utilizes all estimates of future cash flows and adjusts for actual prepayment and cash flow activity as of year-end. The weighted average cost of funds is the sum of the weighted average funding costs on total financing outstanding at year-end and our weighted average hedging cost, which is the weighted average of the net pay rate on our interest rate swaps, the net receive/pay rate on our Treasury long and short positions, respectively, and the net receivable rate on our IO index derivatives, if any. Both elements of cost of funds are weighted by the outstanding repurchase agreements on our investment portfolio, securitized debt, and loan participation payable at year-end, exclusive of repurchase agreements associated with U.S. Treasury securities.

Our GAAP net interest margin is calculated by subtracting the weighted average cost of funds on our GAAP investment portfolio from the weighted average yield for our GAAP investment portfolio, which excludes cash held by us and any net TBA position. Both elements of cost of funds on our GAAP investment portfolio are weighted by the outstanding repurchase agreements on our GAAP investment portfolio, securitized debt, and loan participation payable at year-end, exclusive of repurchase agreements associated with U.S. Treasury securities.

Management believes that net interest margin and leverage ratio should be considered together when evaluating the performance of its investment portfolio as it provides a more meaningful analysis. See the “Financing activities” section below for more detail on leverage ratio.

See below for a chart setting forth the net interest margin and leverage ratio from our investment portfolio as of December 31, 2017, December 31, 2016 and December 31, 2015, and for a reconciliation to the net interest margin and leverage ratio from our GAAP investment portfolio:

December 31, 2017

	GAAP Investment Portfolio	Other Assets	Investments in Debt and Equity of Affiliates	Investment Portfolio*
Weighted Average				
Yield	4.45%	10.03%	12.32%	4.64%
Cost of Funds	2.26%	-	3.80%	2.26%
Net Interest Margin	2.19%	10.03%	8.52%	2.38%
Leverage Ratio	4.2x	N/A	**	4.4x

December 31, 2016

	GAAP Investment Portfolio	Investments in Debt and Equity of Affiliates	Investment Portfolio*
Weighted Average			
Yield	4.94%	14.54%	5.18%
Cost of Funds	2.01%	3.51%	2.02%
Net Interest Margin	2.93%	11.03%	3.16%
Leverage Ratio	2.9x	**	2.9x

December 31, 2015

	GAAP Investment Portfolio	Investments in Debt and Equity of Affiliates	Investment Portfolio*
Weighted Average			
Yield	4.73%	11.32%	4.86%
Cost of Funds	1.79%	3.00%	1.81%
Net Interest Margin	2.94%	8.32%	3.05%
Leverage Ratio	3.4x	**	3.5x

*Excludes any net TBA position.

**Refer to the "Financing activities" section below for an aggregate breakout of leverage.

Core earnings

We define core earnings, a non-GAAP financial measure, as Net Income/(loss) available to common stockholders excluding both unrealized and realized gains/(losses) on the sale or termination of securities and the related tax expense/benefit or disposition expense, if any, on such sale, including (i) investments held in affiliated entities and (ii) derivatives. As defined, Core Earnings include the net interest and other income earned on these investments on a yield adjusted basis, including credit derivatives, investments in debt and equity of affiliates, inverse Agency Interest-Only securities, interest rate derivatives, TBA drop income or any other investment activity that may earn or pay net interest or its economic equivalent. One of our objectives is to generate net income from net interest margin on the portfolio, and management uses Core Earnings to measure this objective. Management believes that this non-GAAP measure, when considered with the Company's GAAP financials, provides supplemental information useful for investors in evaluating our results of operations. This metric, in conjunction with related GAAP measures, provides greater transparency into the information used by our management in its financial and operational decision-making. Our presentation of Core Earnings may not be comparable to similarly-titled measures of other companies, who may use different calculations. This non-GAAP measure should not be considered a substitute for, or superior to, the financial measures calculated in accordance with GAAP. Our GAAP financial results and the reconciliations from these results should be carefully evaluated. Refer to the "Results of Operations" section above for a detailed discussion of our GAAP financial results.

A reconciliation of Net Income/(loss) available to common stockholders to Core Earnings for the years ended December 31, 2017, December 31, 2016 and December 31, 2015 is set forth below:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Net Income/(loss) available to common stockholders	\$ 105,088,194	\$ 50,213,355	\$ 349,121
Add (Deduct):			
Net realized (gain)/loss	13,986,292	10,391,118	17,148,069
Drop income	3,099,492	269,661	2,211,417
Equity in (earnings)/loss from affiliates	(12,621,461)	(1,518,862)	(3,398,217)
Net interest income and expenses from equity method investments*	8,694,784	4,957,071	4,290,149
Unrealized (gain)/loss on real estate securities and loans, net	(45,528,834)	(2,672,426)	32,491,857
Unrealized (gain)/loss on derivative and other instruments, net	(19,813,356)	(8,613,084)	12,180,501
Core Earnings	\$ 52,905,111	\$ 53,026,833	\$ 65,272,897
Core Earnings, per Diluted Share	\$ 1.90	\$ 1.90	\$ 2.30

*For the year ended December 31, 2017, we recognized \$0.6 million or \$0.02 per share of net income/(loss) attributed to our investment in AG Arc. For the year ended December 31, 2016, we recognized \$(0.4) million or \$(0.01) per share of net income/(loss) attributed to our investment in AG Arc. We did not recognize any net income/(loss) on our investment in AG Arc for the year ended December 31, 2015.

Investment activities

We evaluate investments in Agency RMBS using factors including expected future prepayment trends, supply of and demand for Agency RMBS, costs of financing, costs of hedging, expected future interest rate volatility and the overall shape of the U.S. Treasury and interest rate swap yield curves. Prepayment speeds, as reflected by the CPR, and interest rates vary according to the type of investment, conditions in financial markets, competition and other factors, none of which can be predicted with any certainty. In general, as prepayment speeds on our Agency RMBS portfolio increase, the related purchase premium amortization increases, thereby reducing the net yield on such assets.

Our credit investments are subject to risk of loss with regard to principal and interest payments. We evaluate each investment in our credit portfolio based on the characteristics of the underlying collateral and the securitization structure. We maintain a comprehensive portfolio management process that generally includes day-to-day oversight by the portfolio management team and a quarterly credit review process for each investment that examines the need for a potential reduction in accretable yield, missed or late contractual payments, significant declines in collateral performance, prepayments, projected defaults, loss severities and other data which may indicate a potential issue in our ability to recover our capital from the investment. These processes are designed to enable our Manager to evaluate and proactively manage asset-specific credit issues and identify credit trends on a portfolio-wide basis. Nevertheless, we cannot be certain that our review will identify all issues within our portfolio due to, among other things, adverse economic conditions or events adversely affecting specific assets. Therefore, potential future losses may stem from issues with our investments that are not identified by our credit reviews.

The risk-reward profile of our investment opportunities changes continuously with the market, including with labor, housing and economic fundamentals and U.S. monetary policy. As a result, in reacting to market conditions and taking into account a variety of other factors, including liquidity, duration, interest rate expectations and hedging, the mix of our assets changes over time. Our portfolio management and investment decisions have led to an increase in the size of our portfolio from December 31, 2016 to December 31, 2017.

As of December 31, 2017, we had a \$3.6 billion GAAP investment portfolio, which consisted of \$2.3 billion, or 62.7%, of assets in our GAAP Agency RMBS portfolio and \$1.3 billion, or 37.3%, of assets in our GAAP credit portfolio. As of December 31, 2017, our investment portfolio totaled \$3.8 billion, which consisted of \$2.4 billion, or 62.3%, of assets in our Agency RMBS portfolio and \$1.4 billion, or 37.7%, of assets in our credit portfolio. This compares with a \$2.4 billion GAAP investment portfolio as of December 31, 2016, which consisted of \$1.1 billion, or 43.5%, of assets in our GAAP Agency RMBS portfolio and \$1.3 billion, or 56.5%, of assets in our GAAP credit portfolio. As of December 31, 2016, our investment portfolio was \$2.5 billion, which consisted of \$1.1 billion, or 43.5%, of assets in our Agency RMBS portfolio and \$1.4 billion, or 56.5%, of assets in our credit portfolio.

The following table presents a break-down of our investment portfolio as of December 31, 2017 and December 31, 2016:

	Amortized Cost		Fair Value		Weighted Average Yield		Weighted Average Funding Cost (a)		Net Interest Margin (a)		Leverage Ratio (b)	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Agency RMBS	\$ 2,354,789,006	\$ 1,104,119,758	\$ 2,354,915,020	\$ 1,108,913,726	3.27%	3.17%	1.56%	0.97%	1.71%	2.20%	7.5x	5.1x
Residential Investments	969,743,254	1,071,183,137	1,034,816,055	1,091,168,253	6.24%	6.31%	2.77%	2.37%	3.47%	3.94%	3.3x	2.7x
Commercial Investments	345,213,992	327,333,471	351,593,659	325,740,321	8.26%	7.91%	2.90%	2.50%	5.36%	5.41%	1.1x	1.2x
ABS	40,216,509	21,667,978	40,957,553	21,231,956	8.27%	6.32%	2.93%	2.33%	5.34%	3.99%	1.3x	2.4x
Total: Investment Portfolio	\$ 3,709,962,761	\$ 2,524,304,344	\$ 3,782,282,287	\$ 2,547,054,256	4.64%	5.18%	2.26%	2.02%	2.38%	3.16%	4.4x	2.9x
Investments in Debt and Equity of Affiliates	\$ 83,434,417	\$ 65,120,616	\$ 85,292,407	\$ 63,561,582	12.32%	14.54%	3.80%	3.51%	8.52%	11.03%	(c)	(c)
Other Assets	\$ 238,133	\$ -	\$ 242,336	\$ -	10.03%	-	N/A	N/A	10.03%	-	N/A	N/A
TBAs	\$ 102,484,375	\$ 51,427,734	\$ 102,710,940	\$ 51,250,000	N/A	N/A	N/A	N/A	N/A	N/A	(c)	(c)
Total: GAAP Investment Portfolio	\$ 3,523,805,836	\$ 2,407,755,994	\$ 3,594,036,604	\$ 2,432,242,674	4.45%	4.94%	2.26%	2.01%	2.19%	2.93%	4.2x	2.9x

(a) Total weighted average funding cost and total net interest margin includes cost of hedging.

(b) Leverage ratio is calculated off of allocated equity. Total leverage ratio includes any net receivables on TBAs.

(c) Refer to the "Financing activities" section below for an aggregate breakout of leverage.

Our investment portfolio increased by \$1.3 billion from \$2.5 billion at December 31, 2016 to \$3.8 billion at December 31, 2017, primarily due to an increase in our Agency RMBS portfolio. Relatively rangebound interest rates, subdued implied volatility and modest supply continued to serve as a favorable backdrop for Agency RMBS, which supported our tactical rotation of capital to the sector. As a result of our increased allocation to Agency RMBS, our leverage ratio increased, from 2.9 to 1 at December 31, 2016 to 4.4 to 1 at December 31, 2017. We also experienced an increase in financing costs, as the federal-funds rate was increased three different times in 2017. Our weighted average funding cost increased by 24 bps from 2.02% at December 31, 2016 to 2.26% at December 31, 2017.

The following table presents a summary of the allocated equity of our investment portfolio as of December 31, 2017 and December 31, 2016:

	Allocated Equity		Percent of Equity	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Agency RMBS	280,335,793	189,280,511	39.2%	28.9%
Residential Investments	245,934,076	306,911,537	34.5%	46.8%
Commercial Investments	169,953,231	153,225,309	23.8%	23.4%
ABS	18,036,107	6,459,033	2.5%	0.9%
Total	714,259,207	655,876,390	100.0%	100.0%

In managing our portfolio, we allocate our equity by investment using the fair market value of our investment portfolio, less any associated leverage, inclusive of any long TBA position (at cost). We allocate all non-investment portfolio related items based on their respective characteristics in order to sum to stockholders' equity per the consolidated balance sheets. Our equity allocation method is a non-GAAP methodology and may not be comparable to the similarly titled measure or concepts of other companies, who may use different calculations.

The following table presents a reconciliation of our investment portfolio to our GAAP investment portfolio as of December 31, 2017:

Instrument	Current Face	Amortized Cost	Unrealized Mark-to-Market	Fair Value (1)	Weighted Average Coupon (2)	Weighted Average Yield (3)	Weighted Average Life (Years) (3) (8)
Agency RMBS:							
30 Year Fixed Rate	\$ 1,848,172,215	\$ 1,929,305,571	\$ (272,575)	\$ 1,929,032,996	3.79%	3.13%	8.64
Fixed Rate CMO	52,263,914	52,670,416	280,340	52,950,756	3.00%	2.79%	4.13
ARM	176,560,807	175,726,062	661,334	176,387,396	2.35%	2.83%	4.79
Inverse Interest Only	256,982,587	44,704,018	(775,533)	43,928,485	4.20%	7.37%	5.86
Interest Only and Excess MSR (4)	1,209,856,236	49,898,564	5,883	49,904,447	2.66%	6.91%	5.67
Fixed Rate 30 Year TBA (5)	100,000,000	102,484,375	226,565	102,710,940	3.50%	N/A	N/A
Credit Investments:							
Residential Investments							
Prime (6)	550,558,745	437,068,256	35,802,265	472,870,521	4.43%	6.34%	9.72
Alt-A (6)	254,513,753	163,359,961	13,460,646	176,820,607	4.02%	6.15%	7.05
Subprime (6)	56,639,697	53,061,757	2,735,243	55,797,000	4.37%	5.18%	3.84
Credit Risk Transfer	149,710,279	149,785,740	10,712,460	160,498,200	5.11%	5.28%	5.87
RPL/NPL	67,998,537	67,968,193	(91,996)	67,876,197	3.50%	3.57%	1.40
RMBS Interest Only and Excess MSR (7)	421,605,000	3,578,800	(634,428)	2,944,372	0.30%	11.58%	3.13
Residential Whole Loans	126,300,516	94,920,547	3,088,611	98,009,158	5.17%	9.81%	6.46
Commercial Investments							
CMBS	214,051,549	162,225,908	(270,676)	161,955,232	5.48%	6.16%	3.58
Freddie Mac K-Series CMBS	210,838,445	68,969,822	2,109,711	71,079,533	5.84%	13.54%	9.68
CMBS Interest Only (9)	3,493,578,686	57,383,812	3,654,436	61,038,248	0.27%	6.64%	3.70
Commercial Whole Loans	57,738,472	56,634,450	886,196	57,520,646	8.20%	9.41%	1.76
ABS	40,655,000	40,216,509	741,044	40,957,553	7.61%	8.27%	5.43
Total: Investment Portfolio	\$ 9,288,024,438	\$ 3,709,962,761	\$ 72,319,526	\$ 3,782,282,287	2.20%	4.64%	5.65
Investments in Debt and Equity of Affiliates	\$ 1,690,415,462	\$ 83,434,417	\$ 1,857,990	\$ 85,292,407	0.19%	12.32%	5.77
Other Assets	\$ 54,214,609	\$ 238,133	\$ 4,203	\$ 242,336	N/A	10.03%	5.89
TBAs	\$ 100,000,000	\$ 102,484,375	\$ 226,565	\$ 102,710,940	3.50%	N/A	N/A
Total: GAAP Investment Portfolio	\$ 7,443,394,367	\$ 3,523,805,836	\$ 70,230,768	\$ 3,594,036,604	2.65%	4.45%	5.62

(1) Included in Residential Investments and Commercial Investments are \$11.4 million fair market value and \$73.9 million fair market value, respectively, that are included in the "Investments in debt and equity of affiliates" line item on our consolidated balance sheet.

(2) Equity residuals, principal only securities and Excess MSRs with a zero coupon rate are excluded from this calculation.

(3) Fixed Rate 30 Year TBA are excluded from this calculation.

(4) Excess MSRs whose underlying collateral is securitized in a trust held by a U.S. government agency or GSE.

(5) Represents long positions in Fixed Rate 30 Year TBA.

(6) Non-Agency RMBS with credit scores above 700, between 700 and 620 and below 620 at origination are classified as Prime, Alt-A, and Subprime, respectively. The weighted average credit scores of our Prime, Alt-A and Subprime Non-Agency RMBS were 726, 667 and 604, respectively.

(7) Excess MSRs whose underlying collateral is securitized in a trust not held by a U.S. government agency or GSE.

(8) Actual maturities of investments and loans are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(9) Includes Freddie Mac K-Series CMBS interest-only bonds.

The following table presents a reconciliation of our investment portfolio to our GAAP investment portfolio as of December 31, 2016:

Instrument	Current Face	Amortized Cost	Unrealized Mark-to-Market	Fair Value (1)	Weighted Average Coupon (1)	Weighted Average Yield (2)	Weighted Average Life (Years) (3) (7)
Agency RMBS:							
30 Year Fixed Rate	\$ 713,234,586	\$ 741,572,808	\$ (1,845,087)	\$ 739,727,721	3.64%	2.99%	8.68
Fixed Rate CMO	62,570,005	63,101,436	595,962	63,697,398	3.00%	2.80%	4.73
ARM	208,592,111	206,958,936	4,385,116	211,344,052	2.35%	2.84%	5.07
Inverse Interest Only	99,127,607	11,977,729	377,150	12,354,879	3.50%	7.30%	4.35
Interest Only	317,774,720	29,081,115	1,458,561	30,539,676	2.46%	8.65%	4.09
Fixed Rate 30 Year TBA (4)	50,000,000	51,427,734	(177,734)	51,250,000	3.50%	N/A	N/A
Credit Investments:							
Residential Investments							
Prime (5)	619,345,362	497,837,476	14,920,082	512,757,558	4.17%	5.98%	10.44
Alt-A (5)	279,857,391	181,398,827	4,012,575	185,411,402	4.54%	5.57%	7.82
Subprime (5)	127,967,069	122,497,412	135,065	122,632,477	4.04%	5.31%	4.93
Credit Risk Transfer	60,682,441	60,592,617	1,969,919	62,562,536	5.57%	6.82%	6.98
RPL/NPL	114,976,337	114,301,187	(1,141,699)	113,159,488	4.39%	4.88%	1.12
RMBS Interest Only and Excess MSR (6)	508,621,868	4,013,463	160,630	4,174,093	0.25%	14.68%	3.45
Residential Whole Loans	125,543,596	90,542,155	(71,456)	90,470,699	4.89%	12.07%	4.13
Commercial Investments							
CMBS	209,526,282	152,985,726	(2,150,419)	150,835,307	5.04%	6.03%	3.22
Freddie Mac K-Series CMBS	158,976,049	57,058,621	(733,708)	56,324,913	5.66%	13.06%	9.21
CMBS Interest Only (8)	2,855,494,786	57,993,758	517,543	58,511,301	0.31%	6.48%	3.76
Commercial Whole Loans	60,800,000	59,295,366	773,434	60,068,800	7.39%	9.19%	1.54
ABS	22,025,000	21,667,978	(436,022)	21,231,956	5.43%	6.32%	4.50
Total: Non-GAAP Basis	\$ 6,595,115,210	\$ 2,524,304,344	\$ 22,749,912	\$ 2,547,054,256	1.99%	5.18%	5.26
Investments in Debt and Equity of Affiliates	\$ 1,057,695,652	\$ 65,120,616	\$ (1,559,034)	\$ 63,561,582	0.22%	14.54%	5.93
TBAs	\$ 50,000,000	\$ 51,427,734	\$ (177,734)	\$ 51,250,000	3.50%	N/A	N/A
Total: GAAP Basis	\$ 5,487,419,558	\$ 2,407,755,994	\$ 24,486,680	\$ 2,432,242,674	2.28%	4.94%	5.14

(1) Included in Residential Investments and Commercial Investments are \$9.5 million fair market value and \$54.1 million fair market value, respectively, that are included in the "Investments in debt and equity of affiliates" line item on our consolidated balance sheet.

(2) Equity residuals, principal only securities and Excess MSRs with a zero coupon rate are excluded from this calculation.

(3) Fixed Rate 30 Year TBA are excluded from this calculation.

(4) Represents long positions in Fixed Rate 30 Year TBA.

(5) Non-Agency RMBS with credit scores above 700, between 700 and 620 and below 620 at origination are classified as Prime, Alt-A, and Subprime, respectively. The weighted average credit scores of our Prime, Alt-A and Subprime Non-Agency RMBS were 725, 667 and 603, respectively.

(6) Excess MSRs whose underlying collateral is securitized in a trust not held by a U.S. government agency or GSE.

(7) Actual maturities of investments and loans are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(8) Includes Freddie Mac K-Series CMBS interest-only bonds.

The following table presents certain information grouped by vintage as it relates to our credit securities portfolio as of December 31, 2017. We have also presented a reconciliation to GAAP.

Credit Securities:	Current Face	Amortized Cost	Unrealized Mark-to-Market	Fair Value	Weighted Average Coupon (1)	Weighted Average Yield	Weighted Average Life (Years) (2)
Pre 2005	\$ 32,797,908	\$ 31,529,534	\$ 847,061	\$ 32,376,595	4.34%	7.16%	3.95
2005	165,631,051	130,170,185	15,491,076	145,661,261	4.48%	7.00%	9.46
2006	201,096,851	122,980,229	9,863,102	132,843,331	4.58%	6.08%	8.46
2007	163,434,910	124,440,692	11,980,302	136,420,994	4.76%	6.40%	12.54
2008	7,166,000	6,030,872	37,403	6,068,275	6.83%	6.27%	10.85
2010	1,855,207	1,647,798	(761)	1,647,037	1.69%	5.70%	3.35
2011	6,952,515	6,059,141	(111,818)	5,947,323	3.50%	4.48%	5.72
2012	72,880,868	10,354,811	768,174	11,122,985	1.97%	6.31%	2.45
2013	109,465,144	41,716,085	1,873,154	43,589,239	2.48%	5.56%	3.80
2014	1,065,778,577	61,072,987	6,949,247	68,022,234	0.34%	11.08%	1.55
2015	1,341,476,635	234,962,994	8,265,440	243,228,434	1.01%	6.57%	3.85
2016	1,359,008,863	160,539,309	8,006,065	168,545,374	0.81%	6.95%	5.33
2017	970,500,182	339,344,935	6,283,874	345,628,809	1.84%	5.84%	5.92
Total: Non-GAAP Basis	\$ 5,498,044,711	\$ 1,270,849,572	\$ 70,252,319	\$ 1,341,101,891	1.38%	6.61%	4.72
Less: Investments in Debt and Equity of Affiliates	\$ 1,677,993,432	\$ 73,886,654	\$ 1,833,521	\$ 75,720,175	0.13%	13.05%	5.77
Total: GAAP Basis	\$ 3,820,051,279	\$ 1,196,962,918	\$ 68,418,798	\$ 1,265,381,716	1.89%	6.22%	4.26

(1) Equity residual investments and principal only securities are excluded from this calculation.

(2) Actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Actual maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The following table presents certain information grouped by vintage as it relates to our credit securities portfolio as of December 31, 2016. We have also presented a reconciliation to GAAP.

Credit Securities:	Current Face	Amortized Cost	Unrealized Mark-to-Market	Fair Value	Weighted Average Coupon (1)	Weighted Average Yield	Weighted Average Life (Years) (2)
Pre 2005	\$ 88,697,196	\$ 86,085,152	\$ 376,229	\$ 86,461,381	3.68%	6.44%	4.70
2005	193,951,980	154,998,772	6,941,224	161,939,996	4.31%	5.95%	11.37
2006	280,083,255	182,839,758	6,743,899	189,583,657	4.14%	6.02%	9.50
2007	188,265,662	148,015,242	4,266,444	152,281,686	4.17%	6.27%	11.73
2008	16,424,000	13,638,581	491,993	14,130,574	7.00%	5.73%	9.06
2011	7,113,232	5,716,817	(276,523)	5,440,294	3.14%	5.77%	7.66
2012	81,928,364	20,325,054	(178,093)	20,146,961	2.43%	6.04%	2.93
2013	140,878,507	72,931,048	335,727	73,266,775	2.92%	5.46%	4.43
2014	1,149,462,384	122,144,577	(62,871)	122,081,706	0.56%	9.13%	1.76
2015	1,376,578,039	286,726,007	(3,060,150)	283,665,857	1.10%	6.58%	4.09
2016	1,443,943,577	227,893,324	650,169	228,543,493	1.06%	6.31%	5.69
Total: Non-GAAP Basis	\$ 4,967,326,196	\$ 1,321,314,332	\$ 16,228,048	\$ 1,337,542,380	1.51%	6.48%	4.92
Less: Investments in Debt and Equity of Affiliates	\$ 1,054,695,758	\$ 63,163,256	\$ (1,522,800)	\$ 61,640,456	0.21%	14.74%	5.93
Total: GAAP Basis	\$ 3,912,630,438	\$ 1,258,151,076	\$ 17,750,848	\$ 1,275,901,924	1.82%	6.09%	4.64

(1) Equity residual investments and principal only securities are excluded from this calculation.

(2) Actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Actual maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The following table presents the fair value of our credit securities portfolio by credit rating as of December 31, 2017 and December 31, 2016:

Credit Rating - Credit Securities (1)	December 31, 2017	December 31, 2016
AAA	\$ 69,582,019	\$ 88,002,613
A	49,000,012	101,877,530
BBB	10,762,666	21,304,102
BB	65,783,281	33,965,384
B	183,943,696	71,712,259
Below B	370,698,941	503,636,658
Not Rated	591,331,276	517,043,834
Total: Non-GAAP Basis	\$ 1,341,101,891	\$ 1,337,542,380
Less: Investments in Debt and Equity of Affiliates	\$ 75,720,175	\$ 61,640,456
Total: GAAP Basis	\$ 1,265,381,716	\$ 1,275,901,924

(1) Represents the minimum rating for rated assets of S&P, Moody and Fitch credit ratings, stated in terms of the S&P equivalent.

The following table presents the CPR experienced on our GAAP Agency RMBS portfolio on an annualized basis, for the quarterly periods presented in 2017.

Agency RMBS	Three Months Ended (1) (2)			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
30 Year Fixed Rate	7.5%	6.4%	7.5%	8.9%
Fixed Rate CMO	6.3%	11.6%	9.8%	5.1%
ARM	10.8%	13.0%	14.1%	10.8%
Interest Only and Inverse Interest Only	9.8%	14.3%	13.4%	14.9%
Weighted Average	7.8%	7.4%	8.7%	9.3%

(1) Represents the weighted average monthly CPRs published during the quarter for our in-place portfolio during the same period.

(2) Source: Bloomberg

The following table presents the CPR experienced on our GAAP Agency RMBS portfolio, on an annualized basis, for the quarterly periods presented in 2016.

Agency RMBS	Three Months Ended (1) (2)			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
30 Year Fixed Rate	12.7%	9.6%	9.3%	7.8%
Fixed Rate CMO	16.1%	9.6%	7.2%	6.5%
ARM	11.3%	19.1%	11.8%	9.0%
Interest Only and Inverse Interest Only	18.1%	17.1%	14.5%	11.5%
Weighted Average	12.9%	11.7%	9.9%	8.1%

(1) Represents the weighted average monthly CPRs published during the quarter for our in-place portfolio during the same period.

(2) Source: Bloomberg

As noted in the charts above, quarterly CPR decreased from 2016 to 2017. This was due to an increase in interest rates for 2017 as the average 10 year U.S. treasury rate was 1.836% for 2016 and 2.327% for 2017. This increase in rates resulted in slower prepayments of mortgages, a decreased CPR and higher yields on our Agency RMBS portfolio.

The following tables present the geographic concentration of the underlying collateral for our Non-Agency RMBS and CMBS portfolios:

December 31, 2017

Non-Agency RMBS		CMBS	
State	Percentage	State	Percentage
California	22.6%	California	12.5%
Florida	7.8%	Texas	9.4%
New York	7.2%	New York	7.7%
Colorado	4.0%	Arizona	7.5%
Texas	3.9%	New Jersey	6.8%
Other	54.5%	Other	56.1%
Total	100.0%	Total	100.0%

December 31, 2016

Non-Agency RMBS		CMBS	
State	Percentage	State	Percentage
California	23.6%	California	11.4%
Florida	8.1%	Texas	9.7%
New York	7.7%	Florida	7.7%
Texas	4.1%	New Jersey	6.7%
New Jersey	3.9%	Nevada	6.0%
Other	52.6%	Other	58.5%
Total	100.0%	Total	100.0%

The following tables present certain information regarding credit quality for certain categories within our Non-Agency RMBS and CMBS portfolios:

December 31, 2017

Non-Agency RMBS*

Category	Weighted Average 60+ Days Delinquent	Weighted Average Loan Age (Months)	Weighted Average Credit Enhancement
Prime	9.5%	114.48	14.5%
Alt-A	13.9%	144.73	22.2%
Subprime	22.5%	140.13	48.0%
Credit Risk Transfer	0.3%	19.67	1.1%
RPL/NPL	73.3%	108.91	40.7%

CMBS*

Category	Weighted Average 60+ Days Delinquent	Weighted Average Loan Age (Months)	Weighted Average Credit Enhancement
CMBS	4.2%	37.14	18.5%
Freddie Mac K Series CMBS	0.0%	31.22	0.8%

December 31, 2016

Non-Agency RMBS*

Category	Weighted Average 60+ Days Delinquent	Weighted Average Loan Age (Months)	Weighted Average Credit Enhancement
Prime	10.5%	107.29	15.7%
Alt-A	13.9%	127.18	22.7%
Subprime	17.9%	158.67	69.4%
Credit Risk Transfer	0.1%	16.10	0.8%
RPL/NPL	63.4%	108.06	46.0%

CMBS*

Category	Weighted Average 60+ Days Delinquent	Weighted Average Loan Age (Months)	Weighted Average Credit Enhancement
CMBS	3.0%	41.00	14.7%
Freddie Mac K Series CMBS	0.0%	26.24	1.5%

*Sources: Intex, Trepp

Financing activities

We use leverage to complete the purchase of real estate securities and loans in our investment portfolio. In 2017 and 2016, our leverage has been in the form of repurchase agreements, securitized debt, loan participations payable and, for portions of 2016, FHLBC Advances. Repurchase agreements involve the sale and a simultaneous agreement to repurchase the transferred assets or similar assets at a future date. FHLBC Advances involved loan advances made to us by the FHLBC in exchange for the pledge of our real estate securities as collateral. The amount borrowed generally is equal to the fair value of the assets pledged less an agreed-upon discount, referred to as a "haircut." The size of the haircut reflects the perceived risk associated with the pledged asset. Haircuts may change as our repurchase agreements mature or roll and are sensitive to governmental regulations. We have not experienced fluctuations in our haircuts that altered our business and financing strategies for year ended December 31, 2017, but we continue to monitor the regulatory environment, which may influence the timing and amount of our repurchase agreement activity. We seek to obtain financing from several different counterparties in order to reduce our financing risk related to any single counterparty. We had outstanding debt with 27 and 23 counterparties at December 31, 2017 and December 31, 2016, respectively.

Our repurchase agreements and FHLBC Advances, as applicable for 2016, are accounted for as financings and require the repurchase of the transferred securities or loans or repayment of the advance at the end of each agreement's term, typically 30 to 90 days. If we maintain the beneficial interest in the specific assets pledged during the term of the borrowing, we receive the related principal and interest payments. If we do not maintain the beneficial interest in the specific assets pledged during the term of the borrowing, we will have the related principal and interest payments remitted to us by the lender. Interest rates on borrowings are fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the borrowing at which time we may enter into a new borrowing arrangement at prevailing market rates with the same counterparty or repay that counterparty and negotiate financing with a different counterparty. In response to declines in fair value of pledged assets due to changes in market conditions or the publishing of monthly security paydown factors, lenders typically require us to post additional assets as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, referred to as margin calls. As of December 31, 2017 and December 31, 2016, we have met all margin call requirements.

For the year ended December 31, 2017, we noted changes in the spread of our financing arrangements. Spreads on our credit repurchase agreements tightened as a result of increased availability of credit financing. In contrast, as a result of an increase of 25 bps in the federal-funds rate in each of March 2017, June 2017, and December 2017, our cost of financing on our investment portfolio increased by 26 bps from 1.72% at December 31, 2016 to 1.98% at December 31, 2017.

The following table presents the quarter-end balance, average quarterly balance and maximum balance at any month-end for the Company's (i) repurchase agreements on its investment portfolio, U.S Treasury securities, and FHLBC Advances, and (ii) repurchase agreements through affiliated entities, excluding any financing utilized in our investment in AG Arc, with a reconciliation of all quarterly figures to GAAP. Refer to the "Hedging Activities" section below for more information on repurchase agreements secured by U.S. Treasury securities.

Quarter Ended		Quarter-End Balance	Average Quarterly Balance	Maximum Balance at Any Month-End
December 31, 2017				
	Non-GAAP Basis	\$ 3,011,590,715	\$ 2,882,547,257	\$ 3,011,590,715
	Less: Investments in Debt and Equity of Affiliates	7,183,697	8,848,702	9,806,942
	GAAP Basis	\$ 3,004,407,018	\$ 2,873,698,555	\$ 3,001,783,773
September 30, 2017				
	Non-GAAP Basis	\$ 2,703,068,550	\$ 2,596,533,544	\$ 2,746,150,804
	Less: Investments in Debt and Equity of Affiliates	8,516,726	8,697,487	8,868,455
	GAAP Basis	\$ 2,694,551,824	\$ 2,587,836,057	\$ 2,737,282,349
June 30, 2017				
	Non-GAAP Basis	\$ 2,265,226,741	\$ 2,209,990,873	\$ 2,339,132,696
	Less: Investments in Debt and Equity of Affiliates	8,484,353	8,805,678	9,115,429
	GAAP Basis	\$ 2,256,742,388	\$ 2,201,185,195	\$ 2,330,017,267
March 31, 2017				
	Non-GAAP Basis	\$ 1,887,766,585	\$ 1,813,668,360	\$ 1,887,766,585
	Less: Investments in Debt and Equity of Affiliates	8,424,063	8,787,942	9,172,241
	GAAP Basis	\$ 1,879,342,522	\$ 1,804,880,418	\$ 1,878,594,344
December 31, 2016				
	Non-GAAP Basis	\$ 1,910,508,715	\$ 1,972,784,763	\$ 2,009,130,688
	Less: Investments in Debt and Equity of Affiliates	9,998,909	10,525,232	11,019,272
	GAAP Basis	\$ 1,900,509,806	\$ 1,962,259,531	\$ 1,998,111,416
September 30, 2016				
	Non-GAAP Basis	\$ 2,237,848,414	\$ 2,242,396,467	\$ 2,275,367,639
	Less: Investments in Debt and Equity of Affiliates	11,484,705	12,147,413	12,842,577
	GAAP Basis	\$ 2,226,363,709	\$ 2,230,249,054	\$ 2,262,525,062
June 30, 2016				
	Non-GAAP Basis	\$ 2,263,590,848	\$ 2,305,132,749	\$ 2,368,334,965
	Less: Investments in Debt and Equity of Affiliates	13,594,846	14,627,811	15,534,683
	GAAP Basis	\$ 2,249,996,002	\$ 2,290,504,938	\$ 2,352,800,282
March 31, 2016				
	Non-GAAP Basis	\$ 2,573,321,330	\$ 2,559,321,654	\$ 2,582,943,709
	Less: Investments in Debt and Equity of Affiliates	16,405,130	17,168,967	17,982,309
	GAAP Basis	\$ 2,556,916,200	\$ 2,542,152,687	\$ 2,564,961,400
December 31, 2015				
	Non-GAAP Basis	\$ 2,450,495,579	\$ 2,611,418,224	\$ 2,737,440,514
	Less: Investments in Debt and Equity of Affiliates	18,638,119	19,119,157	19,643,832
	GAAP Basis	\$ 2,431,857,460	\$ 2,592,299,067	\$ 2,717,796,682
September 30, 2015				
	Non-GAAP Basis	\$ 2,585,828,163	\$ 2,509,992,155	\$ 2,585,828,163
	Less: Investments in Debt and Equity of Affiliates	20,212,522	20,566,999	20,876,667
	GAAP Basis	\$ 2,565,615,641	\$ 2,489,425,156	\$ 2,564,951,496
June 30, 2015				
	Non-GAAP Basis	\$ 2,534,309,367	\$ 2,618,201,220	\$ 2,689,179,519
	Less: Investments in Debt and Equity of Affiliates	21,091,153	21,209,044	21,267,990
	GAAP Basis	\$ 2,513,218,214	\$ 2,596,992,176	\$ 2,667,911,529
March 31, 2015				
	Non-GAAP Basis	\$ 2,691,920,394	\$ 2,713,017,544	\$ 2,807,851,545
	Less: Investments in Debt and Equity of Affiliates	21,305,161	21,305,161	21,305,161
	GAAP Basis	\$ 2,670,615,233	\$ 2,691,712,383	\$ 2,786,546,384

As noted, we finance the purchase of our investments primarily with repurchase agreements. Our repurchase agreement balance can reasonably be expected to (i) increase as the size of our investment portfolio increases through equity capital raises and as we increase our investment allocation to Agency RMBS and (ii) decrease as the size of our portfolio decreases through asset sales, principal paydowns, and as we increase our investment allocation to credit investments. Credit investments, due to their elevated risk profile, have lower allowable leverage ratios than Agency RMBS, which restricts our financing counterparties from providing as much repurchase agreement financing to us and lowers our total repurchase agreement balance.

Master repurchase agreements on our investment portfolio

As of December 31, 2017 and December 31, 2016, we have entered into master repurchase agreements on our investment portfolio with 39 and 37 counterparties, respectively, under which we had outstanding debt with 27 and 23 counterparties, respectively, inclusive of repurchase agreements in affiliated entities. See Note 6 to the Notes to Consolidated Financial Statements for a description of our material master repurchase agreements.

Our MRAs generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each MRA, typical supplemental terms include requirements of minimum equity, leverage ratios, performance triggers or other financial ratios.

The following table presents, as of December 31, 2017, certain financial information related to our repurchase agreements secured by our real estate securities. It also reconciles these items to GAAP:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Days to Maturity	Weighted Average Haircut
Overnight	\$ 128,779,000	1.80%	2	3.2%
30 days or less	2,106,404,000	1.94%	10	9.6%
31-60 days	611,763,000	1.76%	43	7.6%
61-90 days	32,445,000	3.04%	76	25.9%
91-180 days	1,189,000	3.22%	151	22.8%
Greater than 180 days	93,059,628	3.00%	644	20.4%
Total: Non-GAAP Basis	\$ 2,973,639,628	1.94%	37	9.4%
Investments in Debt and Equity of Affiliates	\$ 1,359,000	3.31%	24	6.0%
Total: GAAP Basis	\$ 2,972,280,628	1.94%	37	9.4%

The following table presents, as of December 31, 2016, certain financial information related to our repurchase agreements secured by our real estate securities. It also reconciles these items to GAAP:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Days to Maturity	Weighted Average Haircut
Overnight	\$ 70,899,000	0.66%	3	3.5%
30 days or less	961,185,000	1.79%	11	14.7%
31-60 days	465,776,000	1.23%	47	8.6%
61-90 days	129,119,000	1.69%	72	13.2%
91-180 days	16,897,000	2.81%	151	21.6%
Greater than 180 days	214,175,906	1.97%	293	5.2%
Total: Non-GAAP Basis	\$ 1,858,051,906	1.63%	57	11.6%
Investments in Debt and Equity of Affiliates	\$ 4,882,802	3.51%	350	26.0%
Total: GAAP Basis	\$ 1,853,169,104	1.63%	57	11.5%

The increase in the balance of our repurchase agreements from December 31, 2016 to December 31, 2017 was due to increased financing as a result of an increase in the size of our securities portfolio.

The following table presents certain financial information related to our repurchase agreements secured by residential mortgage loans and real estate owned as of December 31, 2017 with a reconciliation of such information back to GAAP:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate and Funding Cost (1)	Weighted Average Days to Maturity	Weighted Average Haircut
Greater than 180 days: Non-GAAP Basis	\$ 16,155,087	4.01%	484	33.7%
Investments in Debt and Equity of Affiliates	\$ 5,824,697	3.91%	602	31.7%
Total: GAAP Basis	\$ 10,330,390	4.07%	418	34.8%

(1) As of December 31, 2017, the weighted average rate equaled the weighted average funding cost on our repurchase agreements secured by residential mortgage loans as a result of the full recognition of deferred fee amounts.

The following table presents certain financial information related to our repurchase agreements secured by residential mortgage loans and real estate owned as of December 31, 2016 with a reconciliation of such information back to GAAP:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Days to Maturity	Weighted Average Haircut
Greater than 180 days: Non-GAAP Basis	\$ 30,660,809	3.31%	3.75%	407	29.8%
Investments in Debt and Equity of Affiliates	\$ 5,116,107	3.51%	3.51%	350	27.6%
Total: GAAP Basis	\$ 25,544,702	3.27%	3.79%	419	30.3%

The decrease in the balance of our repurchase agreements secured by residential mortgage loans and real estate owned from December 31, 2016 to December 31, 2017 was due to a decrease in the size of our loan portfolio as financing was repaid in 2017 on certain residential mortgage loans sold throughout the year.

The following table presents certain financial information related to repurchase agreements secured by commercial loans as of December 31, 2017:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate and Funding Cost (1)	Weighted Average Days to Maturity	Weighted Average Haircut
Greater than 180 days	\$ 21,796,000	3.70%	547	33.5%

(1) As of December 31, 2017, the weighted average rate equaled the weighted average funding cost on our repurchase agreements secured by commercial loans as a result of the full recognition of deferred fee amounts.

The following table presents certain financial information related to repurchase agreements secured by commercial loans as of December 31, 2016:

Repurchase Agreements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Days to Maturity	Weighted Average Haircut
Greater than 180 days	21,796,000	2.91%	3.13%	990	33.5%

The following table presents a summary of certain financial information related to repurchase agreements secured by our Investment Portfolio as of December 31, 2017:

Repurchase Agreements Maturing Within: (1)	Agency		Credit	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Overnight	\$ 128,779,000	1.80%	\$ -	-
30 days or less	1,398,411,000	1.57%	707,993,000	2.68%
31-60 days	477,943,000	1.49%	133,820,000	2.75%
61-90 days	-	-	32,445,000	3.04%
91-180 days	-	-	1,189,000	3.22%
Greater than 180 days	-	-	131,010,715	3.24%
Total: Non-GAAP Basis	\$ 2,005,133,000	1.56%	\$ 1,006,457,715	2.77%
Investments in Debt and Equity of Affiliates	\$ -	-	\$ 7,183,697	3.80%
Total: GAAP Basis	\$ 2,005,133,000	1.56%	\$ 999,274,018	2.77%

(1) As of December 31, 2017, our weighted average days to maturity is 43 days and our weighted average original days to maturity is 118 days.

The following table presents a summary of certain financial information related to repurchase agreements secured by our Investment Portfolio as of December 31, 2016:

Repurchase Agreements Maturing Within: (1)	Agency		Credit	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Overnight	\$ 70,899,000	0.66%	\$ -	-
30 days or less	300,041,000	0.95%	661,144,000	2.18%
31-60 days	368,362,000	0.94%	97,414,000	2.33%
61-90 days	67,739,000	0.94%	61,380,000	2.51%
91-180 days	-	-	16,897,000	2.81%
Greater than 180 days	100,000,000	1.40%	166,632,715	2.79%
Total: Non-GAAP Basis	\$ 907,041,000	0.97%	\$ 1,003,467,715	2.33%
Investments in Debt and Equity of Affiliates	\$ -	-	9,998,909	3.51%
Total: GAAP Basis	\$ 907,041,000	0.97%	\$ 993,468,806	2.31%

(1) As of December 31, 2016, our weighted average days to maturity is 74 days and our weighted average original days to maturity is 155 days.

Other financing transactions

In 2014, we entered into a securitization transaction, pursuant to which we created a special purpose entity ("SPE") to facilitate the transaction (the "Resecuritization"). We determined that the SPE was a variable interest entity ("VIE") and that the VIE should be consolidated by us under ASC 810-10 and treated as a secured borrowing (the "Consolidated VIE"). See Note 2 to the Notes to Consolidated Financial Statements for more detail on the Consolidated VIE.

The following table details certain information on the Consolidated VIE as of December 31, 2017:

	Current Face	Fair Value	Weighted Average		Life (Years) (1)
			Coupon	Yield	
Consolidated tranche (2)	\$ 16,354,718	\$ 16,477,801	3.11%	3.92%	2.95
Retained tranche	8,617,903	6,100,571	4.28%	15.48%	9.04
Total resecutitized asset	\$ 24,972,621	\$ 22,578,372	3.51%	7.04%	5.05

(1) Actual maturities of investments and loans are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(2) As of December 31, 2017, the fair market value of the consolidated tranche is included in our consolidated balance sheets as "Non-Agency RMBS". As of December 31, 2017, we have recorded secured financing of \$16.5 million on our consolidated balance sheets in the "Securitized debt, at fair value" line item.

The following table details certain information on the Consolidated VIE as of December 31, 2016:

	Current Face	Fair Value	Weighted Average		Life (Years) (1)
			Coupon	Yield	
Consolidated tranche (2)	\$ 21,595,782	\$ 21,491,710	2.36%	3.87%	3.27
Retained tranche	9,855,821	5,916,595	4.90%	17.13%	10.76
Total resecutitized asset	\$ 31,451,603	\$ 27,408,305	3.15%	6.73%	5.62

(1) Actual maturities of investments and loans are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(2) As of December 31, 2016, the fair market value of the consolidated tranche is included in our consolidated balance sheets as "Non-Agency RMBS". As of December 31, 2016, we have recorded secured financing of \$21.5 million on our consolidated balance sheets in the "Securitized debt, at fair value" line item.

In February 2016, we originated a \$12.0 million commercial loan and, at closing, transferred a 15.0% or \$1.8 million participation interest in the loan (the "Participation Interest") to an unaffiliated third party. The Participation Interest bore interest at a rate of LIBOR+ 10.00% with a LIBOR floor of 0.25%. We determined that the Participation Interest should be consolidated under ASC 860 due to the fact that the sale of the Participation Interest did not meet the sales criteria established under ASC 860. The commercial loan was paid off in full in February 2017. The principal and interest due on the Participation Interest was paid from these proceeds.

Leverage

We define non-GAAP "at-risk" leverage as the sum of: (i) our GAAP repurchase agreements, (ii) repurchase agreements held through affiliated entities but exclusive of any financing utilized through AG Arc (iii) the amount payable on purchases that have not yet settled less the financing remaining on sales that have not yet settled, (iv) the consolidated tranche issued by the Consolidated VIE, (v) the Participation Interest and (vi) our net TBA position (at cost). Our calculations of each type of leverage exclude repurchase agreements and net receivables/payables on unsettled trades pertaining to U.S. Treasury securities due to the highly liquid and temporary nature of these investments. The calculations in the tables below divide our leverage calculations by our GAAP stockholders' equity to derive our leverage ratios. The following tables present a reconciliation of our non-GAAP "at-risk" leverage ratio back to GAAP.

December 31, 2017	Leverage	Stockholders' Equity	Leverage Ratio
GAAP Leverage	\$ 3,023,293,361	\$ 714,259,207	4.2x
Repurchase agreements through affiliated entities	7,183,697		
Net TBA receivable/(payable) adjustment	102,484,375		
Non-GAAP "At Risk" Leverage	\$ 3,132,961,433	\$ 714,259,207	4.4x

December 31, 2016	Leverage	Stockholders' Equity	Leverage Ratio
GAAP Leverage	\$ 1,921,225,560	\$ 655,876,390	2.9x
Repurchase agreements through affiliated entities	9,861,515		
Net TBA receivable/(payable) adjustment	(22,916,016)		
Non-GAAP "At Risk" Leverage	\$ 1,908,171,059	\$ 655,876,390	2.9x

Hedging activities

Subject to maintaining our qualification as a REIT and our Investment Company Act exemption, to the extent leverage is deployed, we utilize hedging instruments, including interest rate swaps, swaption agreements, Futures, and other financial instruments such as short positions in U.S. Treasury securities, in an effort to hedge the interest rate risk associated with the financing of our portfolio. Specifically, we may seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate hedges, our objectives are to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a spread between the yield on our assets and the costs of our financing and hedging.

We utilize multiple hedging instruments as a means to mitigate the interest rate risk of our investment portfolio. As of December 31, 2017, we had entered into \$2.2 billion notional amount of interest rate swaps, \$270.0 million notional amount of swaption agreements, \$24.7 million notional amount of short positions in U.S. Treasury securities and \$52.5 million notional amount of short positions in U.S. Treasury Futures. As of December 31, 2016, we had entered into \$644.0 million notional amount of interest rate swaps, \$24.0 million notional amount of short positions in U.S. Treasury securities and \$141.5 million notional amount of short positions in U.S. Treasury Futures.

Our centrally cleared trades require that we post an “initial margin” to our counterparties for an amount determined by the Chicago Mercantile Exchange (“CME”), the central clearinghouse through which those trades are cleared, which is generally intended to be set at a level sufficient to protect the CME from the maximum estimated single-day price movement in that market participant’s contracts. We also exchange cash “variation margin” with our counterparties on our centrally cleared trades based upon daily changes in the fair value as measured by the CME. Beginning in the first quarter of 2017, as a result of a CME amendment to its rule book governing central clearing activities, the daily exchange of variation margin associated with a CME centrally cleared derivative instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, we account for the daily receipt or payment of variation margin associated with our centrally cleared interest rate swaps and futures as a direct reduction to the carrying value of the interest rate swap and future derivative asset or liability, respectively. Beginning in 2017, the carrying amount of centrally cleared interest rate swaps and futures reflected in our consolidated balance sheets is equal to the unsettled fair value of such instruments. See Note 7 in the Notes to Consolidated Financial Statements for more information.

The following table presents the fair value of our derivative and other instruments and their balance sheet location at December 31, 2017 and December 31, 2016.

Derivates and Other Instruments	GAAP		December 31, 2017	December 31, 2016
	Designation	Balance Sheet Location		
Interest rate swaps	Non-Hedge	Derivative liabilities, at fair value	\$ (450,208)	\$ (1,847,219)
Interest rate swaps	Non-Hedge	Derivative assets, at fair value	1,428,240	3,703,366
Swaptions	Non-Hedge	Derivative assets, at fair value	362,202	-
Short positions on U.S. Treasury Futures	Non-Hedge	Derivative liabilities, at fair value	-	(636,211)
Short positions on U.S. Treasury Futures	Non-Hedge	Derivative assets, at fair value	110,063	-
Short positions on U.S. Treasuries	Non-Hedge	Obligation to return securities borrowed under reverse repurchase agreements, at fair value (1)	(24,379,356)	(22,365,000)

(1) Our obligation to return securities borrowed under reverse repurchase agreements relates to securities borrowed to cover short sales of U.S. Treasury securities. The change in fair value of the borrowed securities is recorded in the "Unrealized gain/(loss) on derivatives and other instruments, net" line item in our consolidated statement of operations.

The following table summarizes the notional amount of certain of our non-hedge derivatives and other instruments:

Non-hedge derivatives and other instruments held long/(short):	December 31, 2017	December 31, 2016
Notional amount of Pay Fix/Receive Float Interest Rate Swap Agreements	\$ 2,227,000,000	\$ 644,000,000
Notional amount of Swaptions	270,000,000	-
Notional amount of short positions on U.S. Treasury Futures (1)	(52,500,000)	(141,500,000)
Notional amount of short positions on U.S. Treasuries	(24,668,000)	(24,000,000)

(1) Each U.S. Treasury Future contract embodies \$100,000 of notional value.

The following table summarizes gains/(losses) related to derivatives and other instruments:

Non-hedge derivatives and other instruments gain/(loss):	Statement of Operations Location	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Interest rate swaps	Unrealized gain/(loss) on derivative and other instruments, net	\$ 20,546,615	\$ 5,009,458	\$ (8,018,902)
Interest rate swaps	Net realized gain/(loss)	(9,959,257)	(10,938,839)	(11,728,954)
Swaptions	Unrealized gain/(loss) on derivative and other instruments, net	(596,298)	-	-
Long positions on Eurodollar Futures	Net realized gain/(loss)	-	(1,045,697)	-
Short positions on Eurodollar Futures	Net realized gain/(loss)	1,371,787	2,104,465	-
Long positions on U.S. Treasury Futures	Net realized gain/(loss)	-	(582,876)	-
Short positions on U.S. Treasury Futures	Unrealized gain/(loss) on derivative and other instruments, net	748,047	(639,030)	-
Short positions on U.S. Treasury Futures	Net realized gain/(loss)	(4,050,496)	2,140,886	-
Long positions on U.S. Treasuries	Unrealized gain/(loss) on derivative and other instruments, net	-	2,588,711	(2,588,711)
Long positions on U.S. Treasuries	Net realized gain/(loss)	-	3,241,250	(5,284,258)
Short positions on U.S. Treasuries	Unrealized gain/(loss) on derivative and other instruments, net	(1,630,918)	1,724,922	-
Short positions on U.S. Treasuries	Net realized gain	1,741,548	280,625	(3,013,867)

The following table summarizes the weighted average life of our non-hedge derivatives and other instruments:

Weighted Average Life (Years) on non-hedge derivatives and other instruments	December 31, 2017	December 31, 2016
Interest rate swaps	4.56	5.01
Swaptions	0.59	-
Short positions on U.S. Treasury Futures	9.13	9.19
Short positions on U.S. Treasuries	6.86	9.38

Interest rate swaps

To help mitigate exposure to increases in short-term interest rates, we use currently-paying and may use forward-starting, one- or three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements. This arrangement helps hedge our exposure to higher short-term interest rates because the variable-rate payments received on the swap agreements help to offset additional interest accruing on the related borrowings due to the higher interest rate, leaving the fixed-rate payments to be paid on the swap agreements as our effective borrowing rate, subject to certain adjustments including changes in spreads between variable rates on the swap agreements and actual borrowing rates.

As of December 31, 2017, our interest rate swap positions consisted of pay-fixed interest rate swaps. The following table presents information about our interest rate swaps as of December 31, 2017:

Maturity	Notional Amount	Weighted Average Pay-Fixed Rate	Weighted Average Receive-Variable Rate	Weighted Average Years to Maturity
2019	\$ 170,000,000	1.36%	1.43%	1.88
2020	835,000,000	1.77%	1.52%	2.54
2022	653,000,000	1.90%	1.51%	4.59
2024	230,000,000	2.06%	1.47%	6.50
2026	75,000,000	2.12%	1.44%	8.89
2027	264,000,000	2.35%	1.50%	9.69
Total/Wtd Avg	\$ 2,227,000,000	1.89%	1.50%	4.56

As of December 31, 2016, our interest rate swap positions consisted of pay-fixed interest rate swaps. The following table presents information about our interest rate swaps as of December 31, 2016:

Maturity	Notional Amount	Weighted Average Pay-Fixed Rate	Weighted Average Receive-Variable Rate	Weighted Average Years to Maturity
2017	\$ 36,000,000	0.88%	0.89%	0.84
2019	170,000,000	1.36%	0.91%	2.88
2020	115,000,000	1.59%	0.90%	3.20
2021	60,000,000	1.86%	0.96%	4.94
2022	53,000,000	1.69%	0.94%	5.69
2023	85,000,000	2.30%	0.94%	6.43
2025	30,000,000	2.48%	0.94%	8.43
2026	95,000,000	2.17%	0.92%	9.90
Total/Wtd Avg	\$ 644,000,000	1.74%	0.92%	5.01

Dividends

We intend to continue to make regular quarterly distributions to holders of our common stock if and to the extent authorized by our board of directors. Federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT ordinary taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our repurchase agreements and other debt payable. If our cash available for distribution is less than our net taxable income, we could be required to sell assets or borrow funds to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. In addition, prior to the time we have fully deployed the net proceeds of our follow-on offerings to acquire assets in our target asset classes we may fund our quarterly distributions out of such net proceeds.

As mentioned above, our distribution requirements are based on taxable income rather than GAAP net income. The primary differences between taxable income and GAAP net income include (i) unrealized gains and losses associated with investment and derivative portfolios which are marked-to-market in current income for GAAP purposes, but excluded from taxable income until realized or settled, (ii) temporary differences related to amortization of premiums and discounts paid on investments, (iii) the timing and amount of deductions related to stock-based compensation, (iv) temporary differences related to the recognition of realized gains and losses on sold investments and certain terminated derivatives and (v) taxes. Undistributed taxable income is based on current estimates and is not finalized until we file our annual tax return, typically in September of the following year. As of December 31, 2017, the Company had estimated undistributed taxable income of approximately \$1.54 per share.

The following tables detail our common stock dividends during the years ended December 31, 2017, 2016 and 2015:

2017

Declaration Date	Record Date	Payment Date	Dividend Per Share
3/10/2017	3/21/2017	4/28/2017	\$ 0.475
6/8/2017	6/19/2017	7/31/2017	0.475
9/11/2017	9/29/2017	10/31/2017	0.575*
12/15/2017	12/29/2017	1/31/2018	0.475

*The combined dividend of \$0.575 includes a dividend of \$0.475 per common share and a special cash dividend of \$0.10 per common share.

2016

Declaration Date	Record Date	Payment Date	Dividend Per Share
3/10/2016	3/21/2016	4/29/2016	\$ 0.475
6/9/2016	6/20/2016	7/29/2016	0.475
9/12/2016	9/23/2016	10/31/2016	0.475
12/6/2016	12/19/2016	1/31/2017	0.475

2015

Declaration Date	Record Date	Payment Date	Dividend Per Share
3/12/2015	3/23/2015	4/30/2015	\$ 0.60
6/11/2015	6/22/2015	7/31/2015	0.60
9/10/2015	9/21/2015	10/30/2015	0.60
12/10/2015	12/21/2015	1/29/2016	0.475

The following tables detail our preferred stock dividends during the years ended December 31, 2017, 2016 and 2015:

2017

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/16/2017	2/28/2017	3/17/2017	\$ 0.51563
8.25% Series A	5/15/2017	5/31/2017	6/19/2017	0.51563
8.25% Series A	8/16/2017	8/31/2017	9/18/2017	0.51563
8.25% Series A	11/16/2017	11/30/2017	12/18/2017	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/16/2017	2/28/2017	3/17/2017	\$ 0.50
8.00% Series B	5/15/2017	5/31/2017	6/19/2017	0.50
8.00% Series B	8/16/2017	8/31/2017	9/18/2017	0.50
8.00% Series B	11/16/2017	11/30/2017	12/18/2017	0.50

2016

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/12/2016	2/29/2016	3/17/2016	\$ 0.51563
8.25% Series A	5/13/2016	5/31/2016	6/17/2016	0.51563
8.25% Series A	8/15/2016	8/31/2016	9/19/2016	0.51563
8.25% Series A	11/16/2016	11/30/2016	12/19/2016	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/12/2016	2/29/2016	3/17/2016	\$ 0.50
8.00% Series B	5/13/2016	5/31/2016	6/17/2016	0.50
8.00% Series B	8/15/2016	8/31/2016	9/19/2016	0.50
8.00% Series B	11/16/2016	11/30/2016	12/19/2016	0.50

2015

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/12/2015	2/27/2015	3/17/2015	\$ 0.51563
8.25% Series A	5/14/2015	5/29/2015	6/17/2015	0.51563
8.25% Series A	8/14/2015	8/31/2015	9/17/2015	0.51563
8.25% Series A	11/13/2015	11/30/2015	12/17/2015	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/12/2015	2/27/2015	3/17/2015	\$ 0.50
8.00% Series B	5/14/2015	5/29/2015	6/17/2015	0.50
8.00% Series B	8/14/2015	8/31/2015	9/17/2015	0.50
8.00% Series B	11/13/2015	11/30/2015	12/17/2015	0.50

Liquidity and capital resources

Our liquidity determines our ability to meet our cash obligations, including commitments to make distributions to our stockholders, pay our expenses, finance our investments and satisfy other general business needs. Our principal sources of cash as of December 31, 2017 consisted of borrowings under repurchase agreements, payments of principal and interest we receive on our Agency RMBS and credit portfolio, cash generated from our operating results, and proceeds from capital market transactions. We typically use cash to repay principal and interest on our repurchase agreements, to purchase real estate securities, loans and other real estate related assets, to make dividend payments on our capital stock, and to fund our operations. At December 31, 2017, we had \$135.3 million available to support our liquidity needs, comprised of \$15.2 million of cash, \$99.3 million of Agency fixed rate securities and CMOs, and \$20.8 million of Agency Interest-only and Inverse interest-only securities that have not been pledged as collateral under any of our financing agreements. Refer to the “Contractual obligations” section of this Item 7 for additional obligations that could impact our liquidity.

Leverage

The amount of leverage we may deploy for particular assets depends upon our Manager’s assessment of the credit and other risks of those assets, and also depends on any limitations placed upon us through covenants contained in our master repurchase agreements. We generate income principally from the yields earned on our investments and, to the extent that leverage is deployed, on the difference between the yields earned on our investments and our cost of borrowing and the cost of any hedging activities. Subject to maintaining both our qualification as a REIT for U.S. federal income tax purposes and our Investment Company Act exemption, to the extent leverage is deployed, we may use a number of sources to finance our investments.

As of December 31, 2017, we had MRAs with 39 counterparties, allowing us to utilize leverage in our operations. As of December 31, 2017, we had debt outstanding of \$3.0 billion from 27 counterparties, inclusive of repurchase agreements through affiliated entities. The borrowings under repurchase agreements have maturities between January 2, 2018 and December 9, 2019. These agreements generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each lending agreement, typical supplemental terms include requirements of minimum equity, leverage ratios, performance triggers or other financial ratios. If we fail to meet or satisfy any covenants, supplemental terms or representations and warranties, we would be in default under these agreements and our lenders could elect to declare all amounts outstanding under the agreements to be immediately due and payable, enforce their respective interests against collateral pledged under such agreements and restrict our ability to make additional borrowings. Certain financing agreements may contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default.

Under our repurchase agreements, we may be required to pledge additional assets to our lenders in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional securities or cash. Certain securities that are pledged as collateral under our repurchase agreements are in unrealized loss positions.

The following table presents contractual maturity information for our repurchase agreements at December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Overnight	\$ 128,779,000	\$ 70,899,000
30 days or less	2,106,404,000	961,185,000
31 to 60 days	611,763,000	465,776,000
61 to 90 days	32,445,000	129,119,000
91-180 days	1,189,000	16,897,000
Greater than 180 days	131,010,715	266,632,715
Total: Non-GAAP Basis	\$ 3,011,590,715	\$ 1,910,508,715
Investment In Affiliates	\$ 7,183,697	\$ 9,998,909
Total: GAAP Basis	\$ 3,004,407,018	\$ 1,900,509,806

As described above in the “Financing activities” section of this Item 7, we entered into the Resecuritization in 2014 that resulted in the consolidation of the VIE created with the SPE. We recorded the proceeds from the issuance of the secured financing in the “Cash Flows from Financing Activities” section of the consolidated statement of cash flows. See Note 3 to the Notes to Consolidated Financial Statements for more detail.

As described above in the “Financing activities” section of this Item 7, we originated a \$12.0 million commercial loan and transferred the Participation Interest to an unaffiliated third party. We recorded proceeds from the transfer in the “Cash Flows from Financing Activities” section of the consolidated statement of cash flows. The commercial loan was paid off in full in February 2017. The principal and interest due on the Participation Interest was paid from these proceeds.

The following table presents information at December 31, 2017 with respect to each counterparty that provides us with financing for which we had greater than 5% of our stockholders’ equity at risk.

Counterparty	Stockholders' Equity at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity
RBC (Barbados) Trading Bank Corporation	\$ 45,239,399	26	6%
Barclays Capital Inc	39,358,150	13	6%

The following table presents information at December 31, 2016 with respect to each counterparty that provides us with financing for which we had greater than 5% of our stockholders’ equity at risk.

Counterparty	Stockholders' Equity at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity
Wells Fargo Bank, N.A.	\$ 50,917,158	357	8%
JP Morgan Securities, LLC	34,885,263	160	5%

Margin requirements

The fair value of our real estate securities and loans fluctuate according to market conditions. When the fair value of the assets pledged as collateral to secure a repurchase agreement decreases to the point where the difference between the collateral fair value and the repurchase agreement amount is less than the haircut, our lenders may issue a “margin call,” which requires us to post additional collateral to the lender in the form of additional assets or cash. Under our repurchase facilities, our lenders have full discretion to determine the fair value of the securities we pledge to them. Our lenders typically value assets based on recent trades in the market. Lenders also issue margin calls as the published current principal balance factors change on the pool of mortgages underlying the securities pledged as collateral when scheduled and unscheduled paydowns are announced monthly. We experience margin calls in the ordinary course of our business. In seeking to manage effectively the margin requirements established by our lenders, we maintain a position of cash and unpledged Agency RMBS. We refer to this position as our “liquidity.” The level of liquidity we have available to meet margin calls is directly affected by our leverage levels, our haircuts and the price changes on our securities. If interest rates increase or if credit spreads widen, then the prices of our collateral (and our unpledged assets that constitute our liquidity) will decline, we will experience margin calls, and we will need to use our liquidity to meet the margin calls. There can be no assurance that we will maintain sufficient levels of liquidity to meet any margin calls. If our haircuts increase, our liquidity will proportionately decrease. In addition, if we increase our borrowings, our liquidity will decrease by the amount of additional haircut on the increased level of indebtedness. We intend to maintain a level of liquidity in relation to our assets that enables us to meet reasonably anticipated margin calls but that also allows us to be substantially invested in securities. We may misjudge the appropriate amount of our liquidity by maintaining excessive liquidity, which would lower our investment returns, or by maintaining insufficient liquidity, which would force us to liquidate assets into potentially unfavorable market conditions and harm our results of operations and financial condition. Further, an unexpected rise in interest rates and a corresponding fall in the fair value of our securities may also force us to liquidate assets under difficult market conditions, thereby harming our results of operations and financial condition, in an effort to maintain sufficient liquidity to meet increased margin calls. Refer to the “Liquidity risk – derivatives” section of Item 7A below for a further discussion on margin.

Similar to the margin calls that we receive on our borrowing agreements, we also receive margin calls on our derivative instruments when their fair values decline. This typically occurs when prevailing market rates change adversely, with the severity of the change also dependent on the terms of the derivatives involved. Our posting of collateral with our counterparties can be done in cash or securities, and is generally bilateral, which means that if the fair value of our interest rate hedges increases, our counterparty will be required to post collateral with us.

Equity distribution agreement

On May 5, 2017, we entered into an equity distribution agreement with each of Credit Suisse Securities (USA) LLC and JMP Securities LLC (collectively, the “Sales Agents”), which we refer to as the “Equity Distribution Agreements,” pursuant to which we may sell up to \$100.0 million aggregate offering price of shares of our common stock from time to time through the Sales Agents, as defined in Rule 415 under the Securities Act. For the year ended December 31, 2017, we sold 460,932 shares of common stock under the Equity Distribution Agreements for net proceeds of approximately \$8.7 million.

Real estate securities

Real estate securities in any remaining unrealized loss position as of the balance sheet date are not considered other than temporarily impaired as we have the ability and intent to hold the securities to maturity or for a period of time sufficient for a forecasted market price recovery up to or above the cost of the investment and we are not required to sell the security for regulatory or other reasons.

Forward-looking statements regarding liquidity

Based upon our current portfolio, leverage and available borrowing arrangements, we believe that the net proceeds of our common equity offerings, preferred equity offerings, and private placements, combined with cash flow from operations and our available borrowing capacity will be sufficient to enable us to meet our anticipated liquidity requirements, including funding our investment activities, paying fees under our management agreement, funding our distributions to stockholders and paying general corporate expenses.

Contractual obligations

Management agreement

On June 29, 2011, we entered into an agreement with our Manager pursuant to which our Manager is entitled to receive a management fee and the reimbursement of certain expenses. The management fee is calculated and payable quarterly in arrears in an amount equal to 1.50% of our Stockholders’ Equity, per annum.

For purposes of calculating the management fee, “Stockholders’ Equity” means the sum of the net proceeds from any issuances of equity securities (including preferred securities) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance, and excluding any future equity issuance to the Manager), plus our retained earnings at the end of such quarter (without taking into account any non-cash equity compensation expense or other non-cash items described below incurred in current or prior periods), less any amount that we pay for repurchases of our common stock, excluding any unrealized gains, losses or other non-cash items that have impacted stockholders’ equity as reported in our financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and excluding one-time events pursuant to changes in GAAP, and certain other non-cash charges after discussions between the Manager and our independent directors and after approval by a majority of our independent directors. Stockholders’ Equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders’ equity shown on our financial statements. For the years ended December 31, 2017, December 31, 2016, and December 31, 2015, we incurred management fees of approximately \$9.8 million, \$9.8 million and \$10.0 million, respectively.

Our Manager uses the proceeds from its management fee in part to pay compensation to its officers and personnel, who, notwithstanding that certain of them also are our officers, receive no compensation directly from us. We are required to reimburse our Manager or its affiliates for operating expenses which are incurred by our Manager or its affiliates on our behalf, including certain salary expenses and other expenses relating to legal, accounting, due diligence and other services. Our reimbursement obligation is not subject to any dollar limitation; however, the reimbursement is subject to an annual budget process which combines guidelines from the Management Agreement with oversight by our board of directors. Of the \$11.0 million, \$10.3 million and \$12.4 million of Other operating expenses for the years ended December 31, 2017, December 31, 2016, and December 31, 2015, respectively, we have accrued \$6.3 million, \$6.0 million and \$7.1 million, respectively, representing a reimbursement of expenses.

Share-based compensation

Pursuant to the Manager Equity Incentive Plan and the Equity Incentive Plan, we can award up to 277,500 shares of common stock in the form of restricted stock, stock options, restricted stock units or other types of awards to our directors, officers, advisors, consultants and other personnel and to our Manager. As of December 31, 2017, 62,138 shares of common stock were available to be awarded under the equity incentive plans. Awards under the equity incentive plans are forfeitable until they become vested. An award will become vested only if the vesting conditions set forth in the applicable award agreement (as determined by the compensation committee) are satisfied. The vesting conditions may include performance of services for a specified period, achievement of performance goals, or a combination of both. The compensation committee also has the authority to provide for accelerated vesting of an award upon the occurrence of certain events in its discretion.

As of December 31, 2017, we have granted an aggregate of 55,112 shares of restricted common stock to our independent directors and 160,250 shares of restricted common stock to our Manager under our equity incentive plans. As of December 31, 2017, 55,112 and 100,250 shares of restricted common stock granted to our independent directors and Manager, respectively, have vested.

On July 1, 2014, we granted 60,000 restricted stock units to the Manager that represented the right to receive an equivalent number of shares of our common stock to be issued if and when such units vest. Annual vesting of approximately 20,000 units occurred on each of July 1, 2015, July 1, 2016, and July 1, 2017.

On July 1, 2017, we granted 60,000 restricted stock units to the Manager that represent the right to receive an equivalent number of shares of our common stock if and when the units vest. Annual vesting of approximately 20,000 units will occur on each of July 1, 2018, July 1, 2019, and July 1, 2020. The units do not entitle the participant the rights of a holder of our common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The vesting of such units is subject to the continuation of the management agreement. If the management agreement terminates, all unvested units then held by the Manager or the Manager's transferees shall be immediately cancelled and forfeited without consideration.

Commercial mortgage loans

On February 28, 2017, we, alongside another private fund under the management of Angelo, Gordon, purchased a mezzanine loan and agreed to fund a commitment of \$21.9 million. Our share of the commitment is \$14.6 million of which we had funded \$10.4 million as of December 31, 2017. As of December 31, 2017, our remaining commitment was \$4.2 million.

Mortgage Acquisition Trust I LLC

On August 29, 2017, we, alongside private funds under the management of Angelo, Gordon, formed MATH to conduct a residential mortgage investment strategy. MATH in turn sponsored the formation of MATT to purchase predominantly Non-QMs, which are residential mortgage loans that are not deemed "qualified mortgage," or "QM," loans under the rules of the CFPB. Non-QMs are not eligible for delivery to Fannie Mae, Freddie Mac, or Ginnie Mae. MATT is expected to make an election to be treated as a real estate investment trust beginning with the 2018 tax year. In furtherance of this business, MATH's sponsoring funds have agreed to provide up to \$75.0 million of capital to MATH, of which we agreed to provide \$33.4 million for use in this mortgage investment business. As of December 31, 2017, we had funded \$4.2 million of our total capital commitment and our outstanding commitment was \$29.2 million.

Other

We have presented a table that details the contractual maturity of our financing arrangements at December 31, 2017 in the "Liquidity and capital resources" section for this Item 7. As of December 31, 2017 and December 31, 2016, we are obligated to pay accrued interest on our repurchase agreements in the amount of \$5.1 million and \$2.5 million, respectively, inclusive of accrued interest accounted for through investments in debt and equity of affiliates, and exclusive of accrued interest on any financing utilized through AG Arc. The change in accrued interest on our repurchase agreements resulted from the increase in our repurchase agreement balance from \$1.9 billion as of December 31, 2016 to \$3.0 billion as of December 31, 2017 as well as an increase in one-month LIBOR from 0.772% at December 31, 2016 to 1.564% at December 31, 2017. As most of our financing arrangements have maturities of one month or less, the change in one-month LIBOR contributed to the increase in our accrued interest.

Off-balance sheet arrangements

We have entered into TBA positions to facilitate the future purchase or sale of Agency RMBS. We record TBA purchases and sales on the trade date and present the purchase or receipt net of the corresponding payable or receivable until the settlement date of the transaction. As of December 31, 2017, we had a net long TBA position with a net payable amount of \$102.5 million and fair market value of \$102.7 million. We recorded \$0.2 million, in the “Derivative assets, at fair value” line item on our consolidated balance sheets.

Our investments in debt and equity of affiliates are comprised of (i) real estate securities and loans, (ii) associated repurchase agreements, (iii) interest receivable/payable on such real estate securities and loans and repurchase agreements and (iv) our interest in AG Arc. Investments in debt and equity of affiliates are accounted for using the equity method of accounting. As of December 31, 2017, our real estate securities and loans, and interest in AG Arc had a fair market value of \$106.2 million. As of December 31, 2017, these investments, inclusive of associated repurchase agreements and interest receivable/payable had a fair market value of \$99.7 million which is included in the “Investments in debt and equity of affiliates” line item on our consolidated balance sheets.

We have committed to fund a \$14.6 million mezzanine loan. As of December 31, 2017 we have funded \$10.4 million, and our remaining commitment was \$4.2 million.

We have committed to invest up to \$33.4 million in MATT through our ownership of MATH. As of December 31, 2017, we have funded \$4.2 million of our commitment to MATH, and our remaining commitment was \$29.2 million.

Management views our TBA position and our investments in debt and equity of affiliates as part of our investment portfolio. In addition, we do not believe these off-balance sheet arrangements, taken as a whole, to be significant to our overall liquidity or capital resources.

Certain related person transactions

Our board of directors has adopted a policy regarding the approval of any “related person transaction,” which is any transaction or series of transactions in which (i) we or any of our subsidiaries is or are to be a participant, (ii) the amount involved exceeds \$120,000, and (iii) a “related person” (as defined under SEC rules) has a direct or indirect material interest. Under the policy, a related person would need to promptly disclose to our Secretary or Assistant Secretary any related person transaction and all material facts about the transaction. Our Secretary or Assistant Secretary, in consultation with outside counsel, to the extent appropriate, would then assess and promptly communicate that information to the audit committee of our board of directors. Based on its consideration of all of the relevant facts and circumstances, the audit committee will review, approve or ratify such transactions as appropriate. The audit committee will not approve or ratify a related person transaction unless it shall have determined that such transaction is in, or is not inconsistent with, our best interests and does not create a conflict of interest. If we become aware of an existing related person transaction that has not been approved under this policy, the transaction will be referred to the audit committee which will evaluate all options available, including ratification, revision or termination of such transaction. Our policy requires any director who may be interested in a related person transaction to recuse himself or herself from any consideration of such related person transaction.

Grants of restricted common stock

As of December 31, 2017, we have granted an aggregate of 55,112 shares of restricted common stock to our independent directors and 160,250 shares of restricted common stock to our Manager under our equity incentive plans. As of December 31, 2017, 55,112 and 100,250 shares of restricted common stock granted to our independent directors and Manager, respectively, have vested. See Note 10 to the Notes to Consolidated Financial Statements for further detail on restricted stock grants.

Red Creek

In connection with our investments in residential loans and Securitized Whole Loans, we may engage asset managers to provide advisory, consultation, asset management and other services to help our third-party servicers formulate and implement strategic plans to manage, collect and dispose of loans in a manner that is reasonably expected to maximize the amount of proceeds from each loan. Beginning in November 2015, we engaged Red Creek Asset Management LLC (“Asset Manager”), an affiliate of the Manager and a direct subsidiary of Angelo, Gordon, as the asset manager for certain of our residential loans and Securitized Whole Loans. The Asset Manager acknowledges that we will at all times have and retain ownership of all loans and that the Asset Manager will not acquire (i) title to any loan, (ii) any security interest in any loan, or (iii) any other rights or interests of any kind or any nature whatsoever in or to any loan. We pay separate arm’s-length asset management fees, as assessed and confirmed periodically by a third-party valuation firm, for (i) non-performing loans and (ii) re-performing loans. For the years ended December 31, 2017, December 31, 2016, and December 31, 2015, the fees paid by us to the Asset Manager, totaled \$175,780, \$259,116, and \$33,139, respectively.

Arc Home

On December 9, 2015, we, alongside private funds under the management of Angelo, Gordon, through AG Arc, entered into the Amended and Restated Limited Liability Company Agreement of Arc Home, a Delaware limited liability company. Arc Home, through its subsidiary, originates conforming, Government, Jumbo and other non-conforming residential mortgage loans, retains the mortgage servicing rights associated with the loans it originates, and purchases additional mortgage servicing rights from third-party sellers.

Our investment in Arc Home, which is conducted through AG Arc, one of our indirect subsidiaries, is reflected on the “Investments in debt and equity of affiliates” line item on our consolidated balance sheets and had a fair value of \$17.9 million and \$12.9 million on December 31, 2017 and December 31, 2016, respectively. On March 8, 2016, an affiliate of the Manager (“the Affiliate”) became a member of AG Arc. The Affiliate acquired an ownership interest in AG Arc which resulted in our ownership interest being reduced on a pro-rata basis.

Arc Home may sell loans to us or to affiliates of our Manager. Arc Home may also enter into agreements with us, third parties, or affiliates of our Manager to sell Excess MSR on the mortgage loans that it either purchases from third parties or originates. In March 2017, we entered into an agreement with Arc Home to purchase rights to receive the excess servicing spread related to certain of its MSR, and as of December 31, 2017, these Excess MSR had fair value of approximately \$5.0 million.

In connection with our investments in Excess MSR purchased through Arc Home, we pay a sourcing fee to Arc Home based on the net equity invested by us for these investments. For the year ended December 31, 2017, the sourcing fees paid by us to Arc Home totaled \$10,762. We paid no sourcing fees to Arc Home for the years ended December 31, 2016 and December 31, 2015.

Mortgage Acquisition Trust I LLC

On August 29, 2017, we, alongside private funds under the management of Angelo, Gordon entered into the MATH LLC Agreement, which requires that MATH fund a capital commitment of \$75.0 million to MATT. Our share of MATH’s total capital commitment to MATT is \$33.4 million, of which we had funded \$4.2 million as of December 31, 2017. As of December 31, 2017, our remaining commitment was \$29.2 million.

Management agreement

On June 29, 2011 we entered into a management agreement with our Manager, which governs the relationship between us and our Manager and describes the services to be provided by our Manager and its compensation for those services. The terms of our management agreement, including the fees payable by us to Angelo, Gordon, were not negotiated at arm’s length, and its terms may not be as favorable to us as if they had been negotiated with an unaffiliated party. Our Manager, pursuant to the delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility of its day-to-day duties and obligations arising under our management agreement. For further detail on the Management Agreement, see the “Contractual obligations–Management agreement” section of this Item 7.

Other transactions with affiliates

In May 2015, we completed an arm’s-length securitization with other investors managed by an affiliate of the Manager (the “Related Parties”) by combining the assets of a prior private securitization, in which we held a 10.0% ownership interest, with the assets of another private securitization held entirely by the Related Parties. Our investment in this securitization is reflected on the “Non-Agency” line item on the consolidated balance sheets and had a fair value of \$3.1 million as of the date of the securitization. We completed another similar arm’s-length securitization in July 2015 with the Related Parties by combining the assets of a private securitization, in which we held a 7.5% ownership interest, with the assets of another private securitization held entirely by the Related Parties. Our investment in this securitization is reflected on the “Non-Agency” line item on the consolidated balance sheets and had a fair value of \$5.1 million as of the date of the securitization. The remaining interests in each securitization were owned by certain of the Related Parties. Each securitization was backed by collateral consisting of seasoned NPLs and RPLs. We obtained third-party pricing for each transaction.

In July 2015, we completed an arm's-length purchase at fair value. Certain entities managed by an affiliate of our Manager ("Related Entities") had previously formed a joint venture ("Joint Venture") with an unaffiliated third party. The Joint Venture owns certain multi-family properties for which the mortgages partly collateralize a securitization wherein we purchased certain bond tranches. To ensure an arm's-length transaction, the Manager delegated its decision making rights with respect to the securitization to a third-party servicer. In addition, the members of the Joint Venture agreed to cease sharing material non-public information with our investment team regarding the collateral. Our investment in these bond tranches was reflected on the "Investments in debt and equity of affiliates" line item on the consolidated balance sheets with a fair value of \$7.1 million as of the date of the purchase.

In June 2016, in accordance with our Affiliated Transactions Policy, we executed two trades whereby we acquired real estate securities from two separate affiliates of the Manager (the "June Selling Affiliates"). As of the date of the trades, the securities acquired from the June Selling Affiliates had a total fair value of \$6.9 million. In each case, the June Selling Affiliates sold the real estate securities through a BWIC (Bids Wanted in Competition). Prior to the submission of the BWIC by the June Selling Affiliates, we submitted our bid for the real estate securities to the June Selling Affiliates. The pre-submission of our bid allowed us to confirm third-party market pricing and best execution.

In February 2017, in accordance with our Affiliated Transactions Policy, we executed one trade whereby we acquired a real estate security from an affiliate of the Manager (the "February Selling Affiliate"). As of the date of the trade, the security acquired from the February Selling Affiliate had a total fair value of \$2.0 million. The February Selling Affiliate sold the real estate security through a BWIC. Prior to the submission of the BWIC by the February Selling Affiliate, we submitted our bid for the real estate security to the February Selling Affiliate. The pre-submission of our bid allowed us to confirm third-party market pricing and best execution.

In July 2017, in accordance with our Affiliated Transactions Policy, we acquired certain real estate securities from an affiliate of the Manager (the "July Selling Affiliate"). As of the date of the trade, the securities acquired from the July Selling Affiliate had a total fair value of \$0.2 million. As procuring market bids for the real estate securities was determined to be impracticable in the Manager's reasonable judgment, appropriate pricing was based on a valuation prepared by an independent third-party pricing vendor. The third-party pricing vendor allowed us to confirm third-party market pricing and best execution.

In October 2017, in accordance with our Affiliated Transactions Policy, we acquired certain real estate securities and loans from two separate affiliates of the Manager (the "October Selling Affiliates"). As of the date of the trade, the securities and loans acquired from the October Selling Affiliates had a total fair value of \$8.4 million. As procuring market bids for the real estate securities and loans was determined to be impracticable in the Manager's reasonable judgment, appropriate pricing was based on a valuation prepared by independent third-party pricing vendors. The third-party pricing vendors allowed us to confirm third-party market pricing and best execution.

Critical accounting policies

Our consolidated financial statements are prepared in accordance with GAAP, which requires the use of estimates that involve the exercise of judgment and the use of assumptions as to future uncertainties. Our most critical accounting policies involve decisions and assessments that could affect our reported assets and liabilities, as well as our reported revenues and expenses. We believe that all of the decisions and assessments upon which our consolidated financial statements are based are reasonable at the time made and based upon information available to us at that time. We rely upon independent pricing of our assets at each-quarter end to arrive at what we believe to be reasonable estimates of fair market value, whenever available. For more information on our fair value measurements, see Note 5 to the Notes to Consolidated Financial Statements. For a review of our significant accounting policies and the recent accounting pronouncements that may impact our results of operations, see Note 2 to the Notes to Consolidated Financial Statements.

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 than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates.

Other matters

We intend to conduct our business so as to maintain our exempt status under, and not to become regulated as an investment company for purposes of, the Investment Company Act. If we failed to maintain our exempt status under the Investment Company Act and became regulated as an investment company, our ability to, among other things, use leverage would be substantially reduced and, as a result, we would be unable to conduct our business as described in this report. Accordingly, we monitor our compliance with both the 55% Test and the 80% Test of the Investment Company Act in order to maintain our exempt status. As of December 31, 2017, we determined that we maintained compliance with both the 55% Test and the 80% Test requirements.

We calculate that at least 75% of our assets were real estate assets, cash and cash items and government securities for the year ended December 31, 2017. We also calculate that our revenue qualifies for the 75% gross income test and for the 95% gross income test rules for the year ended December 31, 2017. Overall, we believe that we met the REIT income and asset tests. We also believe that we met all other REIT requirements, including the ownership of our common stock and the distribution of our net income. Therefore, for the year ended December 31, 2017, we believe that we qualified as a REIT under the Code.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary components of our market risk relate to interest rates, liquidity, prepayment rates and credit risk. While we do not seek to avoid risk completely, we seek to assume risk that can be quantified from historical experience and to actively manage that risk, to earn sufficient returns to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Interest rate risk

Interest rate risk is highly sensitive to many factors, including governmental monetary, fiscal 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 both our investments and the financing under our repurchase agreements. We generally seek to manage this risk by monitoring the reset index and interest rate related to our target assets and our financings; by structuring our financing agreements to have a range of maturity terms, amortizations and interest rate adjustment periods; and using hedging instruments to adjust interest rate sensitivity of our target assets and borrowings.

Interest rate effects on net interest income

Our operating results depend in large part upon differences between the yields earned on our investments and our cost of borrowing and upon the effectiveness of our interest rate hedging activities. The majority of our repurchase agreements are short term in nature with an initial term of between 30 and 90 days. The financing rate on these agreements will generally be determined at the outset of each transaction by reference to prevailing short-term rates plus a spread. As a result, our borrowing costs will tend to increase during periods of rising short-term interest rates as we renew, or “roll,” maturing transactions at the higher prevailing rates. When combined with the fact that the income we earn on our fixed interest rate investments will remain substantially unchanged, this will result in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses. We have obtained term financing on certain borrowing arrangements. The financing on term facilities generally are fixed at the outset of each transaction by reference to a pre-determined interest rate plus a spread.

In an attempt to offset the increase in funding costs related to rising short term interest rates, our Manager enters into hedging transactions structured to provide us with positive cash flow in the event short term interest rates rise. Our Manager accomplishes this through the use of interest rate derivatives. Some hedging strategies involving the use of derivatives are highly complex, may produce volatile returns and may expose us to increased risks relating to counterparty defaults.

Interest rate effects on fair value

Another component of interest rate risk is the effect that changes in interest rates will have on the market value of the assets that we acquire.

Generally, in a rising interest rate environment, the fair value of our real estate securities and loan portfolios would be expected to decrease, all other factors being held constant. In particular, the portion of our real estate securities and loan portfolios with fixed-rate coupons would be expected to decrease in value more severely than that portion with a floating-rate coupon. This is because fixed-rate coupon assets tend to have significantly more duration, or price sensitivity to changes in interest rates, than floating-rate coupon assets. Fixed-rate assets currently comprise a majority of our portfolio.

The fair value of our investment portfolio could change at a different rate than the fair value of our liabilities when interest rates change. We measure the sensitivity of our portfolio to changes in interest rates by estimating the duration of our assets and liabilities. Duration is the approximate percentage change in fair value for a 100 basis point parallel shift in the yield curve. In general, our assets have higher duration than our liabilities. In order to reduce this exposure, we use hedging instruments to reduce the gap in duration between our assets and liabilities.

We calculate estimated effective duration (i.e., the price sensitivity to changes in risk-free interest rates) to measure the impact of changes in interest rates on portfolio value. We estimate duration based on third-party models. Different models and methodologies can produce different effective duration estimates for the same securities. We allocate the net duration by asset type based on the interest rate sensitivity.

The following chart details information about our duration gap as of December 31, 2017:

Duration*	Years
Agency RMBS	2.77
Hedges	(2.59)
Agency RMBS Gap Subtotal	0.18
Credit Investments	0.97
Duration Gap	1.15

*Duration related to repurchase agreements is netted within its respective Agency RMBS and Credit Investments line items

The following table quantifies the estimated changes in net interest income, GAAP equity, and the market value of our assets should interest rates go up or down by 25, 50, and 75 basis points, assuming (i) the yield curves of the rate shocks will be parallel to each other and the current yield curve and (ii) all other market risk factors remain constant. These estimates were compiled using a combination of third-party services and models, market data and internal models. All changes in income and equity are measured as percentage changes from the projected net interest income and GAAP equity from our base interest rate scenario. The base interest rate scenario assumes spot and forward interest rates, which existed as of December 31, 2017. Actual results could differ materially from these estimates.

Agency RMBS assumptions attempt to predict default and prepayment activity at projected interest rate levels. To the extent that these estimates or other assumptions do not hold true, actual results will likely differ materially from our projections and could be larger or smaller than the estimates in the table below. Moreover, if different models were employed in the analysis, materially different projections could result. In addition, while the table below reflects the estimated impact of interest rate increases and decreases on a static portfolio as of December 31, 2017, our Manager may from time to time sell any of our investments as a part of the overall management of our investment portfolio.

Change in Interest Rates (basis points) (1)(2)	Change in Market Value as a Percentage of GAAP Equity	Change in Market Value as a Percentage of Assets	Percentage Change in Projected Net Interest Income (3)
+75	-6.6%	-1.2%	-3.1%
+50	-4.2%	-0.8%	-2.0%
+25	-1.9%	-0.4%	-0.9%
-25	1.4%	0.3%	0.7%
-50	2.1%	0.4%	1.3%
-75	2.1%	0.4%	1.6%

- (1) Includes investments held through affiliated entities that are reported as "Investments in debt and equity of affiliates" on our consolidated balance sheet, but excludes AG Arc.
- (2) Does not include cash investments, which typically have overnight maturities and are not expected to change in value as interest rates change.
- (3) Interest income includes trades settled as of December 31, 2017.

The information set forth in the interest rate sensitivity table above and all related disclosures constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Actual results could differ significantly from those estimated in the foregoing interest rate sensitivity table.

Liquidity risk

Our primary liquidity risk arises from financing long-maturity assets with shorter-term borrowing primarily in the form of repurchase agreements.

Liquidity risk – repurchase agreements

We pledge real estate securities or mortgage loans and cash as collateral to secure our repurchase transactions. Should the fair value of our real estate securities or mortgage loans pledged as collateral decrease (as a result of rising interest rates, changes in prepayment speeds, widening of credit spreads or otherwise), we will likely be subject to margin calls for additional collateral from our financing counterparties. Should the fair value of our real estate securities or mortgage loans decrease materially and suddenly, margin calls will likely increase causing an adverse change to our liquidity position which could result in substantial losses. In addition, we cannot be assured that we will always be able to roll our repurchase transactions at their scheduled maturities which could cause material additional harm to our liquidity position and result in substantial losses. Further, should funding conditions tighten as they did in 2007 - 2009, our repurchase agreement counterparties may increase our margin requirements on new financings, including repurchase transactions that we roll at maturity with the same counterparty, which would require us to post additional collateral and would reduce our ability to use leverage and could potentially cause us to incur substantial losses.

Liquidity risk – derivatives

The terms of our interest rate swaps and futures require us to post collateral in the form of cash or Agency RMBS to our counterparties to satisfy two types of margin requirements: variation margin and initial margin.

We and our swap and futures counterparties are both required to post variation margin to each other depending upon the daily moves in prevailing benchmark interest rates. The amount of this variation margin is derived from the mark to market valuation of our swaps or futures. Hence, as our swaps or futures lose value in a falling interest rate environment, we are required to post additional variation margin to our counterparties on a daily basis; conversely, as our swaps or futures gain value in a rising interest rate environment, we are able to recall variation margin from our counterparties. By recalling variation margin from our swap or futures counterparties, we are able to partially mitigate the liquidity risk created by margin calls on our repurchase transactions during periods of rising interest rates.

Initial margin works differently. Collateral posted to meet initial margin requirements is intended to create a safety buffer to benefit our counterparties if we were to default on our payment obligations under the terms of the swap or futures and our counterparties were forced to unwind the swap or futures. For trades executed on a bilateral basis, the initial margin is set at the outset of each trade as a fixed percentage of the notional amount of the trade. This means that once we post initial margin at the outset of a bilateral trade, we will have no further posting obligations as it pertains to initial margin. However, the initial margin on our centrally cleared trades varies from day to day depending upon various factors, including the absolute level of interest rates and the implied volatility of interest rates. There is a distinctly positive correlation between initial margin, on the one hand, and the absolute level of interest rates and implied volatility of interest rates, on the other hand. As a result, in times of rising interest rates or increasing rate volatility, we anticipate that the initial margin required on our centrally-cleared trades will likewise increase, potentially by a substantial amount. These margin increases will have a negative impact on our liquidity position and will likely impair the intended liquidity risk mitigation effect of our swaps and futures discussed above.

Our TBA dollar roll contracts are also subject to margin requirements governed by the Mortgage-Backed Securities Division (“MBSD”) of the Fixed Income Clearing Corporation and by our prime brokerage agreements, which may establish margin levels in excess of the MBSD. Such provisions require that we establish an initial margin based on the notional value of the TBA contract, which is subject to increase if the estimated fair value of our TBA contract or the estimated fair value of our pledged collateral declines. The MBSD has the sole discretion to determine the value of our TBA contracts and of the pledged collateral securing such contracts. In the event of a margin call, we must generally provide additional collateral, either securities or cash, on the same business day.

Our Manager seeks to mitigate our liquidity risks by maintaining a prudent level of leverage, monitoring our liquidity position on a daily basis and maintaining a substantial cushion of cash and unpledged real estate securities and loans in our portfolio in order to meet future margin calls. In addition, our Manager seeks to further mitigate our liquidity risk by (i) diversifying our exposure across a broad number of financing counterparties, (ii) limiting our exposure to any single financing counterparty and (iii) monitoring the ongoing financial stability of our financing counterparties.

Prepayment risk

Premiums arise when we acquire real estate assets at a price in excess of the principal balance of the mortgages securing such assets (i.e., par value). Conversely, discounts arise when we acquire assets at a price below the principal balance of the mortgages securing such assets. Premiums paid on our assets are amortized against interest income and accretable purchase discounts on our assets are accreted to interest income. Purchase premiums on our assets, which are primarily carried on our Agency RMBS, are amortized against interest income over the life of each respective asset using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the yield or interest income earned on such assets. Generally, if prepayments on our Non-Agency RMBS or mortgage loans are less than anticipated, we expect that the income recognized on such assets would be reduced due to the slower accretion of purchase discounts, and impairments could result.

As further discussed in Note 2 of the Notes to Consolidated Financial Statements section below, differences between previously estimated cash flows and current actual and anticipated cash flows caused by changes to prepayment or other assumptions are adjusted retrospectively through a “catch up” adjustment for the impact of the cumulative change in the effective yield through the reporting date for securities accounted for under ASC 320-10 (generally, Agency RMBS) or adjusted prospectively through an adjustment of the yield over the remaining life of the investment for investments accounted for under ASC 325-40 (generally, Non-Agency RMBS, ABS, CMBS and interest-only securities) and mortgage loans accounted for under ASC 310-30.

In addition, our interest rate hedges are structured in part based upon assumed levels of future prepayments within our real estate securities or mortgage loan portfolio. If prepayments are slower or faster than assumed, the life of the real estate securities or mortgage loans will be longer or shorter than assumed, respectively, which could reduce the effectiveness of our Manager’s hedging strategies and may cause losses on such transactions.

Our Manager seeks to mitigate our prepayment risk by investing in real estate assets with a variety of prepayment characteristics as well as by attempting to maintain in our portfolio a mix of assets purchased at a premium with assets purchased at a discount.

Real estate value risk

Residential and commercial property values are subject to volatility and may be affected adversely by a number of factors outside of our control, 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 or commercial real estate); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values reduce the value of the collateral underlying our RMBS and CMBS portfolios as well as the potential sale proceeds available to repay our loans in the event of a default. In addition, substantial decreases in property values can increase the rate of strategic defaults by residential mortgage borrowers which can impact and create significant uncertainty in the recovery of principal and interest on our investments.

Credit risk

Although we expect to encounter only de minimis credit risk in our Agency RMBS portfolio, we are exposed to the risk of potential credit losses from an unanticipated increase in borrower defaults as well as general credit spread widening on any Non-Agency assets in our portfolio, including residential and commercial mortgage loans as well as Non-Agency RMBS, ABS and CMBS. We seek to manage this risk through our Manager’s pre-acquisition due diligence process and, if available, through the use of non-recourse financing, which limits our exposure to credit losses to the specific pool of collateral which is the subject of the non-recourse financing. Our Manager’s pre-acquisition due diligence process includes the evaluation of, among other things, relative valuation, supply and demand trends, the shape of various yield curves, prepayment rates, delinquency and default rates, recovery of various sectors and vintage of collateral.

Basis risk

Basis risk refers to the possible decline in our book value triggered by the risk of incurring losses on the fair value of our Agency RMBS as a result of widening market spreads between the yields on our Agency RMBS and the yields on comparable duration Treasury securities. The basis risk associated with fluctuations in fair value of our Agency RMBS may relate to factors impacting the mortgage and fixed income markets other than changes in benchmark interest rates, such as actual or anticipated monetary policy actions by the Federal Reserve, market liquidity, or changes in required rates of return on different assets. Consequently, while we use interest rate swaps and other hedges to protect against moves in interest rates, such instruments will generally not protect our net book value against basis risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All financial statement schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements and notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of AG Mortgage Investment Trust, Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of AG Mortgage Investment Trust, Inc. and its subsidiaries as of December 31, 2017 and December 31, 2016, and the related consolidated statements of operations, of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and December 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York
February 28, 2018

We have served as the Company's auditor since 2011.

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Balance Sheets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Assets		
Real estate securities, at fair value:		
Agency - \$2,126,135,420 and \$972,232,174 pledged as collateral, respectively	\$ 2,247,161,035	\$ 1,057,663,726
Non-Agency - \$976,071,673 and \$990,985,143 pledged as collateral, respectively	1,004,255,658	1,043,017,308
ABS - \$30,832,553 and \$21,231,956 pledged as collateral, respectively	40,957,553	21,231,956
CMBS - \$211,179,945 and \$201,464,058 pledged as collateral, respectively	220,168,505	211,652,660
Residential mortgage loans, at fair value - \$15,860,583 and \$31,031,107 pledged as collateral, respectively	18,889,693	38,195,576
Commercial loans, at fair value - \$32,800,000 pledged as collateral	57,520,646	60,068,800
Investments in debt and equity of affiliates	99,696,347	72,215,919
Excess mortgage servicing rights, at fair value	5,083,514	412,648
Cash and cash equivalents	15,199,655	52,469,891
Restricted cash	37,615,281	26,583,527
Interest receivable	12,607,386	8,570,383
Receivable on unsettled trades - \$0 and \$3,057,814 pledged as collateral, respectively	-	3,633,161
Receivable under reverse repurchase agreements	24,671,320	22,680,000
Derivative assets, at fair value	2,127,070	3,703,366
Other assets	2,491,201	5,600,341
Due from broker	850,514	945,304
Total Assets	<u>\$ 3,789,295,378</u>	<u>\$ 2,628,644,566</u>
Liabilities		
Repurchase agreements	\$ 3,004,407,018	\$ 1,900,509,806
Securitized debt	16,477,801	21,491,710
Loan participation payable	-	1,800,000
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	24,379,356	22,365,000
Payable on unsettled trades	2,418,710	-
Interest payable	5,225,940	2,570,854
Derivative liabilities, at fair value	450,208	2,907,255
Dividend payable	13,391,457	13,157,573
Due to affiliates	4,258,074	3,967,622
Accrued expenses	790,271	1,068,779
Taxes payable	1,545,448	1,717,883
Due to broker	1,691,888	1,211,694
Total Liabilities	<u>3,075,036,171</u>	<u>1,972,768,176</u>
Commitments and Contingencies (Note 12)		
Stockholders' Equity		
Preferred stock - \$0.01 par value; 50,000,000 shares authorized:		
8.25% Series A Cumulative Redeemable Preferred Stock, 2,070,000 shares issued and outstanding (\$51,750,000 aggregate liquidation preference)	49,920,772	49,920,772
8.00% Series B Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding (\$115,000,000 aggregate liquidation preference)	111,293,233	111,293,233
Common stock, par value \$0.01 per share; 450,000,000 shares of common stock authorized and 28,192,541 and 27,700,154 shares issued and outstanding at December 31, 2017 and December 31, 2016, respectively	281,927	277,002
Additional paid-in capital	585,530,292	576,276,322
Retained earnings/(deficit)	(32,767,017)	(81,890,939)
Total Stockholders' Equity	<u>714,259,207</u>	<u>655,876,390</u>
Total Liabilities & Stockholders' Equity	<u>\$ 3,789,295,378</u>	<u>\$ 2,628,644,566</u>

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

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Operations

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Net Interest Income			
Interest income	\$ 128,844,959	\$ 123,006,112	\$ 141,273,414
Interest expense	43,722,014	33,785,031	31,230,369
	<u>85,122,945</u>	<u>89,221,081</u>	<u>110,043,045</u>
Other Income			
Net realized gain/(loss)	(13,986,292)	(10,391,118)	(17,148,069)
Realized loss on periodic interest settlements of derivative instruments, net	(7,762,952)	(6,009,638)	(13,204,884)
Unrealized gain/(loss) on real estate securities and loans, net	45,528,834	2,672,426	(32,491,857)
Unrealized gain/(loss) on derivative and other instruments, net	19,813,356	8,613,084	(12,180,501)
Other income	55,447	373,902	66,250
	<u>43,648,393</u>	<u>(4,741,344)</u>	<u>(74,959,061)</u>
Expenses			
Management fee to affiliate	9,835,093	9,809,427	9,971,287
Other operating expenses	10,965,144	10,290,513	12,356,644
Servicing fees	234,264	404,129	671,246
Equity based compensation to affiliate	300,688	298,592	164,487
Excise tax	1,500,000	1,513,167	1,500,000
	<u>22,835,189</u>	<u>22,315,828</u>	<u>24,663,664</u>
Income/(loss) before equity in earnings/(loss) from affiliates	<u>105,936,149</u>	<u>62,163,909</u>	<u>10,420,320</u>
Equity in earnings/(loss) from affiliates	12,621,461	1,518,862	3,398,217
Net Income/(Loss)	<u>118,557,610</u>	<u>63,682,771</u>	<u>13,818,537</u>
Dividends on preferred stock	13,469,416	13,469,416	13,469,416
Net Income/(Loss) Available to Common Stockholders	<u>\$ 105,088,194</u>	<u>\$ 50,213,355</u>	<u>\$ 349,121</u>
Earnings/(Loss) Per Share of Common Stock			
Basic	\$ 3.77	\$ 1.80	\$ 0.01
Diluted	\$ 3.77	\$ 1.80	\$ 0.01
Weighted Average Number of Shares of Common Stock Outstanding			
Basic	27,866,299	27,952,185	28,398,718
Diluted	27,883,121	27,953,111	28,409,908

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

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

	Common Stock		8.25 % Series A Cumulative Redeemable	8.00 % Series B Cumulative Redeemable	Additional	Retained	
	Shares	Amount	Preferred Stock	Preferred Stock	Paid-in Capital	Earnings/(Deficit)	Total
Balance at January 1, 2015	28,386,015	\$ 283,861	\$ 49,920,772	\$ 111,293,233	\$ 586,051,751	\$ (14,874,474)	732,675,143
Offering costs	-	-	-	-	(83,651)	-	(83,651)
Repurchase of common stock	(126,715)	(1,267)	-	-	(1,670,212)	-	(1,671,479)
Grant of restricted stock and amortization of equity based compensation	26,910	269	-	-	284,107	-	284,376
Common dividends declared	-	-	-	-	-	(64,608,797)	(64,608,797)
Preferred Series A dividends declared	-	-	-	-	-	(4,269,416)	(4,269,416)
Preferred Series B dividends declared	-	-	-	-	-	(9,200,000)	(9,200,000)
Net Income/(Loss)	-	-	-	-	-	13,818,537	13,818,537
Balance at December 31, 2015	<u>28,286,210</u>	<u>\$ 282,863</u>	<u>\$ 49,920,772</u>	<u>\$ 111,293,233</u>	<u>\$ 584,581,995</u>	<u>\$ (79,134,150)</u>	<u>\$ 666,944,713</u>
Balance at January 1, 2016	28,286,210	\$ 282,863	\$ 49,920,772	\$ 111,293,233	\$ 584,581,995	\$ (79,134,150)	\$ 666,944,713
Repurchase of common stock	(614,695)	(6,147)	-	-	(8,723,881)	-	(8,730,028)
Grant of restricted stock and amortization of equity based compensation	28,639	286	-	-	418,208	-	418,494
Common dividends declared	-	-	-	-	-	(52,970,144)	(52,970,144)
Preferred Series A dividends declared	-	-	-	-	-	(4,269,416)	(4,269,416)
Preferred Series B dividends declared	-	-	-	-	-	(9,200,000)	(9,200,000)
Net Income/(Loss)	-	-	-	-	-	63,682,771	63,682,771
Balance at December 31, 2016	<u>27,700,154</u>	<u>\$ 277,002</u>	<u>\$ 49,920,772</u>	<u>\$ 111,293,233</u>	<u>\$ 576,276,322</u>	<u>\$ (81,890,939)</u>	<u>\$ 655,876,390</u>
Balance at January 1, 2017	27,700,154	\$ 277,002	\$ 49,920,772	\$ 111,293,233	\$ 576,276,322	\$ (81,890,939)	\$ 655,876,390
Net proceeds from issuance of common stock	460,932	4,610	-	-	8,713,545	-	8,718,155
Grant of restricted stock and amortization of equity based compensation	31,455	315	-	-	540,425	-	540,740
Common dividends declared	-	-	-	-	-	(55,964,272)	(55,964,272)
Preferred Series A dividends declared	-	-	-	-	-	(4,269,416)	(4,269,416)
Preferred Series B dividends declared	-	-	-	-	-	(9,200,000)	(9,200,000)
Net Income/(Loss)	-	-	-	-	-	118,557,610	118,557,610
Balance at December 31, 2017	<u>28,192,541</u>	<u>\$ 281,927</u>	<u>\$ 49,920,772</u>	<u>\$ 111,293,233</u>	<u>\$ 585,530,292</u>	<u>\$ (32,767,017)</u>	<u>\$ 714,259,207</u>

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

AG Mortgage Investment Trust, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash Flows from Operating Activities			
Net income/(loss)	\$ 118,557,610	\$ 63,682,771	\$ 13,818,537
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:			
Net amortization of premium	10,387,427	3,653,738	12,194,792
Net realized (gain)/loss	13,986,292	10,391,118	17,148,069
Unrealized (gain)/loss on real estate securities and loans, net	(45,528,834)	(2,672,426)	32,491,857
Unrealized (gain)/loss on derivative and other instruments, net	(19,813,356)	(8,613,084)	12,180,501
Equity based compensation to affiliate	300,688	298,592	164,487
Equity based compensation expense	240,052	119,902	119,889
Income from investments in debt and equity of affiliates in excess of distributions received	-	-	(2,553,535)
Change in operating assets/liabilities:			
Interest receivable	(3,996,747)	2,585,911	467,898
Other assets	309,058	589,399	1,373,987
Due from broker	(63,549)	303,318	1,935,070
Interest payable	5,258,285	(1,972,875)	(1,602,472)
Due to affiliates	290,452	(439,429)	(443,756)
Accrued expenses	(278,508)	(1,005,849)	(210,711)
Taxes payable	(172,435)	3,167	(28,800)
Net cash provided by (used in) operating activities	<u>79,476,435</u>	<u>66,924,253</u>	<u>87,055,813</u>
Cash Flows from Investing Activities			
Purchase of real estate securities	(2,225,724,389)	(563,567,934)	(714,412,238)
Purchase of commercial loans	(10,270,833)	(14,636,304)	-
Origination of commercial loans	-	(10,428,437)	-
Purchase of U.S. treasury securities	-	(358,417,649)	(863,414,732)
Investments in debt and equity of affiliates	(28,167,635)	(33,126,823)	(19,250,900)
Purchase of excess mortgage servicing rights	(3,399,299)	-	-
Proceeds from sale of real estate securities	566,047,320	364,353,994	762,005,404
Proceeds from sale of residential mortgage loans	18,536,038	35,606,480	-
Proceeds from sales of U.S. treasury securities	-	588,220,079	633,532,184
Distributions received in excess of income from investments in debt and equity of affiliates	757,458	774,453	-
Principal repayments on real estate securities	503,063,314	482,421,807	517,538,387
Principal repayments on residential mortgage loans	6,597,492	3,249,589	6,029,735
Principal repayments on commercial loans	13,478,194	40,000,000	-
Net proceeds from (payment made) on reverse repurchase agreements	(1,979,760)	(22,634,322)	(1,647)
Net proceeds from (payment made) on sales of securities borrowed under reverse repurchase agreements	2,086,050	24,356,107	(4,632,171)
Net settlement of interest rate swaps and other instruments	3,225,201	(8,322,061)	(11,728,953)
Net settlement of TBAs	1,668,672	2,771,406	1,909,844
Purchase of FHLBC Stock	-	-	(8,015,900)
Proceeds from redemption of FHLBC Stock	-	8,013,900	-
Cash flows provided by (used in) other investing activities	4,042,985	2,289,826	2,904,812
Restricted cash provided by (used in) investing activities	(17,285,764)	(277,453)	11,638,098
Net cash provided by (used in) investing activities	<u>(1,167,324,956)</u>	<u>540,646,658</u>	<u>314,101,923</u>
Cash Flows from Financing Activities			
Repurchase of common stock	-	(9,928,615)	(472,892)
Net proceeds from issuance of common stock	8,718,155	-	(83,651)
Borrowings under repurchase agreements	41,215,511,048	73,758,906,064	42,763,497,748
Borrowings under FHLBC advances	-	147,215,991	1,241,801,435
Repayments of repurchase agreements	(40,112,383,937)	(73,892,589,617)	(43,486,854,109)
Repayments of FHLBC advances	-	(544,109,991)	(844,907,435)
Proceeds from transfer of loan participation	-	1,564,266	-
Repayments of loan participation	(1,800,000)	-	-
Net collateral received from (paid to) derivative counterparty	5,059,354	4,280,618	(7,097,816)
Net collateral received from (paid to) repurchase counterparty	4,673,469	(164,901)	(3,287,556)
Net collateral received from (paid to) FHLBC	-	250,000	(250,000)
Dividends paid on common stock	(55,730,388)	(53,308,710)	(68,144,267)
Dividends paid on preferred stock	(13,469,416)	(13,469,416)	(13,469,416)
Net cash provided by (used in) financing activities	<u>1,050,578,285</u>	<u>(601,354,311)</u>	<u>(419,267,959)</u>
Net change in cash and cash equivalents	(37,270,236)	6,216,600	(18,110,223)
Cash and cash equivalents, Beginning of Year	52,469,891	46,253,291	64,363,514
Cash and cash equivalents, End of Year	<u>\$ 15,199,655</u>	<u>\$ 52,469,891</u>	<u>\$ 46,253,291</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest on repurchase agreements and FHLBC advances	\$ 40,106,419	\$ 32,477,040	\$ 29,153,643
Cash paid for income tax	\$ 1,737,835	\$ 1,587,078	\$ 1,572,401
Supplemental disclosure of non-cash financing and investing activities:			
Principal repayments on real estate securities not yet received	\$ 734,201	\$ 1,124,242	\$ -
Proceeds from mortgage loan sales not yet received	\$ -	\$ 3,633,161	\$ 23,267,693
Common stock dividends declared but not paid	\$ 13,391,457	\$ 13,157,573	\$ 13,496,139
Repayments of repurchase agreements not yet paid	\$ -	\$ 770,101	\$ -
Decrease of securitized debt	\$ 5,241,064	\$ 8,823,951	\$ 10,310,268
Unsettled repurchases of common stock	\$ -	\$ -	\$ 1,198,587
Transfer from residential mortgage loans to other assets	\$ 2,485,554	\$ 1,897,452	\$ 2,492,625

Transfer from investment in affiliates to CMBS	\$	-	\$	3,103,111	\$	-
Transfer from Linked Transactions to real estate securities	\$	-	\$	-	\$	139,778,263
Transfer from Linked Transactions to repurchase agreements	\$	-	\$	-	\$	113,363,873

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

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Organization

AG Mortgage Investment Trust, Inc. (the “Company”) was incorporated in the state of Maryland on March 1, 2011. The Company is focused on investing in, acquiring and managing a diversified portfolio of residential mortgage-backed securities, or RMBS, issued or guaranteed by a government-sponsored entity such as Fannie Mae or Freddie Mac (collectively, “GSEs”) or any agency of the U.S. Government such as Ginnie Mae (collectively, “Agency RMBS”) and other real estate-related securities and financial assets, including Non-Agency RMBS, ABS, CMBS and loans (as defined below).

Non-Agency RMBS represent fixed-and floating-rate RMBS issued by entities or organizations other than a U.S. government-sponsored entity or agency of the U.S. government, including investment grade (AAA through BBB) and non-investment grade classes (BB and below). The mortgage loan collateral for Non-Agency RMBS consists of residential mortgage loans that do not generally conform to underwriting guidelines issued by U.S. government agencies or U.S. government-sponsored entities.

Asset Backed Securities (“ABS”) are securitized investments similar to the aforementioned investments except the underlying assets are diverse, not only representing real estate related assets.

Commercial Mortgage Backed Securities (“CMBS”) represent investments of fixed- and floating-rate CMBS, including investment grade (AAA through BBB) and non-investment grade classes (BB and below) secured by, or evidence an ownership interest in, a single commercial mortgage loan or a pool of commercial mortgage loans.

Collectively, the Company refers to Agency RMBS, Non-Agency RMBS, ABS, and CMBS asset types as “real estate securities” or “securities.”

Commercial loans are secured by an interest in commercial real estate and represent a contractual right to receive money on demand or on fixed or determinable dates. Residential mortgage loans refer to performing, re-performing and non-performing loans secured by a first lien mortgage on residential mortgaged property located in any of the 50 states of the United States or in the District of Columbia. The Company refers to its residential and commercial mortgage loans as “mortgage loans” or “loans.”

The Company is externally managed by AG REIT Management, LLC, a Delaware limited liability company (the “Manager”), a wholly-owned subsidiary of Angelo, Gordon & Co., L.P. (“Angelo, Gordon”), a privately-held, SEC-registered investment adviser, pursuant to a management agreement. The Manager, pursuant to a delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility of its day-to-day duties and obligations arising under the management agreement.

The Company conducts its operations to qualify and be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”).

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

2. Summary of significant accounting policies

The accompanying consolidated financial statements and related notes have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Certain prior period amounts have been reclassified to conform to the current period’s presentation. In the opinion of management, all adjustments considered necessary for a fair presentation for the annual period of the Company’s financial position, results of operations and cash flows have been included and are of a normal and recurring nature.

Cash and cash equivalents

Cash is comprised of cash on deposit with financial institutions. The Company classifies highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. As of December 31, 2017 and December 31, 2016, the Company held no cash equivalents. The Company places its cash with high credit quality institutions to minimize credit risk exposure. Cash pledged to the Company as collateral is unrestricted in use and, accordingly, is included as a component of “Cash and cash equivalents” on the consolidated balance sheets. Any cash held by the Company as collateral is included in the “Due to broker” line item on the consolidated balance sheets and in cash flows from financing activities on the consolidated statement of cash flows. Any cash due to the Company in the form of principal payments is included in the “Due from broker” line item on the consolidated balance sheets and in cash flows from operating activities on the consolidated statement of cash flows.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Restricted cash

Restricted cash includes cash pledged as collateral for clearing and executing trades, derivatives and repurchase agreements and is not available to the Company for general corporate purposes. Restricted cash may be returned to the Company when the related collateral requirements are exceeded or at the maturity of the derivative or repurchase agreement. Restricted cash is carried at cost, which approximates fair value. In 2017, restricted cash does not include variation margin on centrally cleared derivatives. See Note 7 for more detail.

Offering costs

The Company incurred offering costs in connection with common stock offerings. The offering costs were paid out of the proceeds of the respective offerings. Offering costs in connection with common stock offerings have been accounted for as a reduction of additional paid-in capital.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Earnings/(Loss) per share

In accordance with the provisions of Accounting Standards Codification (“ASC”) 260, “Earnings per Share,” the Company calculates basic income/(loss) per share by dividing net income/(loss) available to common stockholders for the period by weighted-average shares of the Company’s common stock outstanding for that period. Diluted income per share takes into account the effect of dilutive instruments, such as stock options, warrants, unvested restricted stock and unvested restricted stock units but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding. In periods in which the Company records a loss, potentially dilutive securities are excluded from the diluted loss per share calculation, as their effect on loss per share is anti-dilutive.

Valuation of financial instruments

The fair value of the financial instruments that the Company records at fair value will be determined by the Manager, subject to oversight of the Company’s board of directors, and in accordance with ASC 820, “Fair Value Measurements and Disclosures.” When possible, the Company determines fair value using independent data sources. ASC 820 establishes a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable.

The three levels of the hierarchy under ASC 820 are described below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Company’s assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available.

Transfers between levels are assumed to occur at the beginning of the reporting period.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Accounting for real estate securities

Investments in real estate securities are recorded in accordance with ASC 320-10, “Investments – Debt and Equity Securities,” ASC 325-40, “Beneficial Interests in Securitized Financial Assets,” or ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality.” The Company has chosen to make a fair value election pursuant to ASC 825, “Financial Instruments” for its real estate securities portfolio. Real estate securities are recorded at fair market value on the consolidated balance sheets and the periodic change in fair market value is recorded in current period earnings on the consolidated statement of operations as a component of “Unrealized gain/(loss) on real estate securities and loans, net.” Real estate securities acquired through securitizations are shown in the line item “Purchase of real estate securities” on the consolidated statement of cash flows.

These investments meet the requirements to be classified as available for sale under ASC 320-10-25 which requires the securities to be carried at fair value on the consolidated balance sheets with changes in fair value recorded to other comprehensive income, a component of stockholders’ equity. Electing the fair value option allows the Company to record changes in fair value in the consolidated statement of operations, which, in management’s view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner.

When the Company purchases securities with evidence of credit deterioration since origination, it will analyze to determine if the guidance found in ASC 310-30 is applicable.

The Company accounts for its securities under ASC 310 and ASC 325 and evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of a real estate security is less than its amortized cost at the balance sheet date, the security is considered impaired, and the impairment is designated as either “temporary” or “other-than-temporary.”

When a real estate security is impaired, an OTTI is considered to have occurred if (i) the Company intends to sell the security (i.e., a decision has been made as of the reporting date) or (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or if it is more likely than not that the Company will be required to sell the real estate security before recovery of its amortized cost basis, the entire amount of the impairment loss, if any, is recognized in earnings as a realized loss and the cost basis of the security is adjusted to its fair value. Additionally for securities accounted for under ASC 325-40 an OTTI is deemed to have occurred when there is an adverse change in the expected cash flows to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a “market participant” would use and include observations of current information and events, and assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of potential credit losses. Cash flows are discounted at a rate equal to the current yield used to accrete interest income. Any resulting OTTI adjustments are reflected in the “Net realized gain/(loss)” line item on the consolidated statement of operations.

The determination as to whether an OTTI exists is subjective, given that such determination is based on information available at the time of assessment as well as the Company’s estimate of the future performance and cash flow projections for the individual security. As a result, the timing and amount of an OTTI constitutes an accounting estimate that may change materially over time.

Increases in interest income may be recognized on a security on which the Company previously recorded an OTTI charge if the performance of such security subsequently improves.

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Any remaining unrealized losses on securities at December 31, 2017 do not represent other than temporary impairment as the Company has the ability and intent to hold the securities to maturity or for a period of time sufficient for a forecasted market price recovery up to or above the amortized cost of the investment, and the Company is not required to sell the security for regulatory or other reasons. In addition, any unrealized losses on the Company's Agency RMBS accounted for under ASC 320 are not due to credit losses given their explicit guarantee of principal and interest by the GSEs, but rather are due to changes in interest rates and prepayment expectations. See Note 3 for a summary of OTTI charges recorded.

Sales of securities

Sales of securities are driven by the Manager's portfolio management process. The Manager seeks to mitigate risks including those associated with prepayments, defaults, severities, amongst others and will opportunistically rotate the portfolio into securities with more favorable attributes. Strategies may also be employed to manage net capital gains, which need to be distributed for tax purposes.

Realized gains or losses on sales of securities, loans and derivatives are included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The cost of positions sold is calculated using a first in, first out, or FIFO, basis. Realized gains and losses are recorded in earnings at the time of disposition.

Accounting for mortgage loans

Investments in mortgage loans are recorded in accordance with ASC 310-10. At purchase, the Company may aggregate its mortgage loans into pools based on common risk characteristics. Once a pool of loans is assembled, its composition is maintained. The Company has chosen to make a fair value election pursuant to ASC 825 for its mortgage loan portfolio. Loans are recorded at fair market value on the consolidated balance sheets and any periodic change in fair market value will be recorded in current period earnings on the consolidated statement of operations as a component of "Unrealized gain/(loss) on real estate securities and loans, net."

The Company amortizes or accretes any premium or discount over the life of the related loans utilizing the effective interest method. On at least a quarterly basis, the Company evaluates the collectability of both interest and principal of its loans, if circumstances warrant, to determine whether they are impaired. A loan or pool of loans is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan or pool of loans is impaired, the amount of the loss accrual is calculated and recorded accordingly. Income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan or pool of loans is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged.

When the Company purchases mortgage loans with evidence of credit deterioration since origination and it determines that it is probable it will not collect all contractual cash flows on those loans, it will apply the guidance found in ASC 310-30. Mortgage loans that are delinquent 60 or more days are considered non-performing.

The Company updates its estimate of the cash flows expected to be collected on at least a quarterly basis for loans accounted for under ASC 310-30. In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies including both the rate and timing of principal and interest receipts, and assumptions of prepayments, repurchases, defaults and liquidations. If based on the most current information and events it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Company will recognize these changes prospectively through an adjustment of the loan's yield over its remaining life. The Company will adjust the amount of accretable yield by reclassification from the nonaccretable difference. The adjustment is accounted for as a change in estimate in conformity with ASC 250, "Accounting Changes and Error Corrections" with the amount of periodic accretion adjusted over the remaining life of the loan. Decreases in cash flows expected to be collected from previously projected cash flows, which includes all cash flows originally expected to be collected by the investor plus any additional cash flows expected to be collected arising from changes in estimate after acquisition, are recognized as impairment. Increases in interest income may be recognized on a loan on which the Company previously recorded an OTTI charge if the performance of such loan subsequently improves.

AG Mortgage Investment Trust Inc. and Subsidiaries
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Investments in debt and equity of affiliates

The Company's unconsolidated ownership interests in affiliates are accounted for using the equity method. A majority of the Company's investments held through affiliated entities are comprised of real estate securities and loans, including loans held through Mortgage Acquisition Holding I LLC ("MATH") as discussed below. These underlying entities have chosen to make a fair value election on their financial instruments pursuant to ASC 825; as such, the Company will treat these investments consistently with this election. As of December 31, 2017 and December 31, 2016, these investments had a fair market value of \$88.3 million and \$69.0 million, respectively.

On December 9, 2015, the Company, alongside private funds under the management of Angelo, Gordon, through AG Arc LLC, one of the Company's indirect subsidiaries ("AG Arc"), formed Arc Home LLC ("Arc Home"). The Company has chosen to make a fair value election with respect to its investment in AG Arc pursuant to ASC 825. As of December 31, 2017 and December 31, 2016, the Company's interest in AG Arc had a fair market value of \$17.9 million and \$12.9 million, respectively. See Note 10 for additional detail.

On August 29, 2017, the Company, alongside private funds under the management of Angelo, Gordon, formed "MATH" to conduct a residential mortgage investment strategy. MATH in turn sponsored the formation of an entity called Mortgage Acquisition Trust I LLC ("MATT") to purchase predominantly "Non-QMs," which are residential mortgage loans that are not deemed "qualified mortgage," or "QM," loans under the rules of the CFPB. Non-QMs are not eligible for delivery to Fannie Mae, Freddie Mac, or Ginnie Mae. MATT is expected to make an election to be treated as a real estate investment trust beginning with the 2018 tax year. In furtherance of this business, MATH's sponsoring funds have agreed to provide up to \$75.0 million of capital to MATH, of which the Company agreed to provide \$33.4 million for use in this mortgage investment business. The Company invests in MATT through MATH, and these indirect subsidiaries have chosen to make a fair value election on their respective financial instruments pursuant to ASC 825. As such, the Company will treat this investment consistently with this election. As of December 31, 2017, the Company had funded \$4.2 million of its total capital commitment and the Company's outstanding commitment was \$29.2 million.

The Company's investments in debt and equity of affiliates are recorded at fair market value on the consolidated balance sheets in the "Investments in debt and equity of affiliates" line item and periodic changes in fair market value are recorded in current period earnings on the consolidated statement of operations as a component of "Equity in earnings/(loss) from affiliates." Capital contributions, distributions and profits and losses of such entities are allocated in accordance with the terms of the applicable agreements.

Excess mortgage servicing rights

The Company has acquired the right to receive the excess servicing spread related to excess mortgage servicing rights ("Excess MSRs"). The Company has chosen to make a fair value election pursuant to ASC 825 for Excess MSRs. Excess MSRs are recorded at fair market value on the consolidated balance sheets and any periodic change in fair market value is recorded in current period earnings on the consolidated statement of operations as a component of "Unrealized gain/(loss) on derivative and other instruments, net."

Investment consolidation and transfers of financial assets

For each investment made, the Company evaluates the underlying entity that issued the securities acquired or to which the Company makes a loan to determine the appropriate accounting. A similar analysis will be performed for each entity with which the Company enters into an agreement for management, servicing or related services. In performing the analysis, the Company refers to guidance in ASC 810-10, "Consolidation." In situations where the Company is the transferor of financial assets, the Company refers to the guidance in ASC 860-10 "Transfers and Servicing."

In variable interest entities ("VIEs"), an entity is subject to consolidation under ASC 810-10 if the equity investors either do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity's activities or are not exposed to the entity's losses or entitled to its residual returns. VIEs within the scope of ASC 810-10 are required to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This determination can sometimes involve complex and subjective analyses. Further, ASC 810-10 also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE. In accordance with ASC 810-10, all transferees, including variable interest entities, must be evaluated for consolidation. See Note 3 for more detail.

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In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis.” This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. The company adopted ASU 2015-02 on January 1, 2016 using the modified retrospective approach, which did not require the restatement of prior periods to conform to the post-adoption presentation. The Company concluded the adoption of this guidance did not have a material impact on its financial statements.

The Company has entered into a resecuritization transaction which resulted in the Company consolidating the VIE that was created to facilitate the transaction and to which the underlying assets in connection with the resecuritization were transferred. In determining the accounting treatment to be applied to this resecuritization transaction, the Company evaluated whether the entity used to facilitate this transaction was a VIE and, if so, whether it should be consolidated. Based on its evaluation, the Company concluded that the VIE should be consolidated. If the Company had determined that consolidation was not required, it would have then assessed whether the transfer of the underlying assets would qualify as a sale or should be accounted for as secured financings under GAAP. See Note 3 below for more detail.

The Company may periodically enter into transactions in which it transfers assets to a third party. Upon a transfer of financial assets, the Company will sometimes retain or acquire senior or subordinated interests in the related assets. Pursuant to ASC 860-10, a determination must 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. The financial components approach under ASC 860-10 limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. It defines the term “participating interest” to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale.

Under ASC 860-10, after a transfer of financial assets that meets the criteria for treatment as a sale—legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint and transferred control—an entity recognizes the financial and servicing assets it acquired or retained and the liabilities it has incurred, derecognizes financial assets it has sold and derecognizes liabilities when extinguished. The transferor would then determine the gain or loss on sale of financial assets by allocating the carrying value of the underlying mortgage between securities or loans sold and the interests retained based on their fair values. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the securities or loans sold. When a transfer of financial assets does not qualify for sale accounting, ASC 860-10 requires the transfer to be accounted for as a secured borrowing with a pledge of collateral.

On February 12, 2016, the Company originated a \$12.0 million commercial loan and at closing, transferred a 15% or \$1.8 million interest in the loan (the “Participation Interest”) to an unaffiliated third party. The Company, as transferor, evaluated the transfer under ASC 860-10, and concluded the transferred participation interest should be accounted for as a secured borrowing. The Company has recorded the \$12.0 million commercial loan on its consolidated balance sheets as an asset in the “Commercial loans, at fair value” line item. The Company has recorded a \$1.8 million liability in the “Loan participation payable, at fair value” line item representing the transfer of the participation interest. The Company has chosen to make a fair value election on the consolidated interest pursuant to ASC 825. The holder of the participation interest has no recourse to the general credit of the Company. The commercial loan was paid off in full in February 2017. The principal and interest due on the Participation Interest was paid from these proceeds. See Note 4 for more detail.

From time to time, the Company may securitize mortgage loans it holds if such financing is available. These transactions will be recorded in accordance with ASC 860-10 and will be accounted for as either a “sale” and the loans will be removed from the consolidated balance sheets or as a “financing” and will be classified as “real estate securities” on the consolidated balance sheets, depending upon the structure of the securitization transaction. ASC 860-10 is a standard that may require the Company to exercise significant judgment in determining whether a transaction should be recorded as a “sale” or a “financing.”

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Interest income recognition

Interest income on the Company's real estate securities portfolio is accrued based on the actual coupon rate and the outstanding principal balance of such securities. The Company has elected to record interest in accordance with ASC 835-30-35-2 using the effective interest method for all securities accounted for under the fair value option (ASC 825). As such, premiums and discounts are amortized or accreted into interest income over the lives of the securities in accordance with ASC 310-20, "Nonrefundable Fees and Other Costs," ASC 320-10 or ASC 325-40 as applicable. Total interest income is recorded in the "Interest income" line item on the consolidated statement of operations.

On at least a quarterly basis for securities accounted for under ASC 320-10 and ASC 310-20 (generally Agency RMBS, exclusive of interest-only securities), prepayments of the underlying collateral must be estimated, which directly affect the speed at which the Company amortizes premiums on its securities. If actual and anticipated cash flows differ from previous estimates, the Company recognizes a "catch-up" adjustment in the current period to the amortization of premiums for the impact of the cumulative change in the effective yield through the reporting date.

Similarly, the Company also reassesses the cash flows on at least a quarterly basis for securities accounted for under ASC 325-40 (generally Non-Agency RMBS, ABS, CMBS and interest-only securities). In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies. These include the rate and timing of principal and interest receipts (including assumptions of prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. In addition, interest payment shortfalls due to delinquencies on the underlying mortgage loans have to be estimated. Differences between previously estimated cash flows and current actual and anticipated cash flows are recognized prospectively through an adjustment of the yield over the remaining life of the security based on the current amortized cost of the investment as adjusted for credit impairment, if any.

Interest income on the Company's loan portfolio is accrued based on the actual coupon rate and the outstanding principal balance of such loans. The Company has elected to record interest in accordance with ASC 835-30-35-2 using the effective interest method for all loans accounted for under the fair value option (ASC 825). Any amortization will be reflected as an adjustment to interest income in the consolidated statement of operations.

For security and loan investments purchased with evidence of deterioration of credit quality for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, the Company will apply the provisions of ASC 310-30. For purposes of income recognition, the Company may aggregate loans that have common risk characteristics into pools and uses a composite interest rate and expectation of cash flows expected to be collected for the pool. ASC 310-30 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. ASC 310-30 limits the yield that may be accreted (accretable yield) to the excess of the investor's estimate of undiscounted expected principal, interest and other cash flows (cash flows expected at acquisition to be collected) over the investor's initial investment in the loan. ASC 310-30 requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual or valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment.

The Company's accrual of interest, discount accretion and premium amortization for U.S. federal and other tax purposes differs from the financial accounting treatment of these items as described above.

Repurchase agreements and FHLBC Advances

The Company finances the acquisition of certain assets within its portfolio through the use of repurchase agreements. Prior to March 31, 2016, the Company also financed its Agency RMBS portfolio with advances from the Federal Home Loan Bank of Cincinnati ("FHLBC Advances") (see the following paragraph regarding the current status of the FHLBC Advances). Repurchase agreements are, and while the Company had them, FHLBC Advances were treated as collateralized financing transactions and carried at primarily their contractual amounts, including accrued interest, as specified in the respective agreements. The carrying amount of the Company's repurchase agreements approximates fair value.

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In July 2015, the Company's wholly-owned captive insurance subsidiary, MITT Insurance Company LLC ("MITT Insurance"), was granted membership in the Federal Home Loan Bank ("FHLB") system, specifically in the FHLB of Cincinnati ("FHLBC"). However, in January 2016, the Federal Housing Finance Agency, the FHFA, issued RIN 2590-AA39, Members of Federal Home Loan Banks ("the Final Rule"), which expressly excludes captive insurance companies, such as MITT Insurance ("Excluded Captives"), from being eligible for membership in the FHLBC. The Final Rule prevents the FHLBC from making any new advances or extending any existing advances to Excluded Captives, subject to a defined grace period. Upon the termination of membership, the FHLB must liquidate all outstanding advances to Excluded Captives and settle all other business transactions in accordance with the Final Rule. In addition, all FHLB stock held by the terminated Excluded Captive will be repurchased or redeemed at the FHLB's discretion. Therefore, MITT Insurance must completely wind down all business relationships with the FHLBC, including the repayment of all outstanding advances, prior to or simultaneously with the termination of MITT Insurance's membership with the FHLBC. As a result of the Final Rule, MITT Insurance exited all FHLBC Advances and as of December 31, 2017, the Company had no outstanding advances with the FHLBC. See the "Other investments" section below for a discussion on FHLBC stock.

The Company pledges certain securities or loans as collateral under repurchase agreements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. The amounts available to be borrowed are dependent upon the fair value of the securities or loans pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. In response to declines in fair value of pledged assets, lenders may require the Company to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as margin calls. As of December 31, 2017 and December 31, 2016, the Company has met all margin call requirements.

Accounting for derivative financial instruments

The Company enters into derivative contracts as a means of mitigating interest rate risk rather than to enhance returns. The Company accounts for derivative financial instruments in accordance with ASC 815-10, "Derivatives and Hedging." ASC 815-10 requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and to measure those instruments at fair value. Additionally, if or when hedge accounting is elected, the fair value adjustments will affect either other comprehensive income in stockholders' equity until the hedged item is recognized in earnings or net income depending on whether the derivative instrument is designated and qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. As of December 31, 2017 and December 31, 2016, the Company did not have any interest rate derivatives designated as hedges. All derivatives have been recorded at fair value in accordance with ASC 820-10, with corresponding changes in value recognized in the consolidated statement of operations. The Company records derivative asset and liability positions on a gross basis with respect to its counterparties. The Company records the daily receipt or payment of variation margin associated with the Company's centrally cleared derivative instruments on a net basis. See Note 7 for a discussion of this accounting treatment. During the period in which the Company unwinds a derivative, it records a realized gain/(loss) in the "Net realized gain/(loss)" line item in the consolidated statement of operations.

To-be-announced securities

A to-be-announced security ("TBA") is a forward contract for the purchase or sale of Agency RMBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency RMBS delivered into or received from the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. The Company may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting short or long position (referred to as a pair off), net settling the paired off positions for cash, simultaneously purchasing or selling a similar TBA contract for a later settlement date. This transaction is commonly referred to as a dollar roll. The Agency RMBS purchased or sold for a forward settlement date are typically priced at a discount to Agency RMBS for settlement in the current month. This difference, or discount, is referred to as the price drop. The price drop is the economic equivalent of net interest carry income on the underlying Agency RMBS over the roll period (interest income less implied financing cost) and is commonly referred to as dollar roll income/(loss). Consequently, forward purchases of Agency RMBS and dollar roll transactions represent a form of off-balance sheet financing. Dollar roll income is recognized in the consolidated statement of operations in the line item "Unrealized gain/(loss) on derivative and other instruments, net."

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The Company presents the purchase or sale of TBAs net of the corresponding payable or receivable, respectively, until the settlement date of the transaction. Contracts for the purchase or sale of Agency RMBS are accounted for as derivatives if they do not qualify for the “regular way” security trade scope exception found in ASC 815-10. To be eligible for this scope exception, the contract must meet the following conditions: (1) there is no other way to purchase or sell that security, (2) delivery of that security and settlement will occur within the shortest period possible for that type of security, and (3) it is probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery of a security when it is issued. Unrealized gains and losses associated with TBA contracts not meeting the regular-way exception and not designated as hedging instruments are recognized in the consolidated statement of operations in the line item “Unrealized gain/(loss) on derivative and other instruments, net.”

U.S. Treasury securities

The Company may purchase long or sell short U.S. Treasury securities to help mitigate the potential impact of changes in interest rates. The Company may finance its purchase of U.S. Treasury securities with overnight repurchase agreements. The Company may borrow securities to cover short sales of U.S. Treasury securities through overnight reverse repurchase agreements, which are accounted for as borrowing transactions, and the Company recognizes an obligation to return the borrowed securities at fair value on its consolidated balance sheets based on the value of the underlying borrowed securities as of the reporting date. Interest income and expense associated with purchases and short sales of U.S. Treasury securities are recognized in “Interest income” and “Interest expense,” respectively, on the consolidated statement of operations. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities are recognized in “Net realized gain/(loss)” and “Unrealized gain/(loss) on derivative and other instruments, net,” respectively, on the consolidated statement of operations. As of December 31, 2017 and December 31, 2016, the Company had no positions in U.S. Treasury securities.

Short positions in U.S. Treasury securities through reverse repurchase agreements

The Company may sell short U.S. Treasury securities to help mitigate the potential impact of changes in interest rates. The Company may borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements, which are accounted for as borrowing transactions, and the Company recognizes an obligation to return the borrowed securities at fair value on its consolidated balance sheets based on the value of the underlying borrowed securities as of the reporting date. The Company establishes haircuts to ensure the market value of the underlying assets remain sufficient to protect the Company in the event of a default by a counterparty. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities are recognized in “Net realized gain/(loss)” and “Unrealized gain/(loss) on derivative and other instruments, net,” respectively, on the consolidated statement of operations.

Manager compensation

The management agreement provides for payment to the Manager of a management fee. The management fee is accrued and expensed during the period for which it is calculated and earned. For a more detailed discussion on the fees payable under the management agreement, see Note 10.

Income taxes

The Company conducts its operations to qualify and be taxed as a REIT. Accordingly, the Company will generally not be subject to federal or state corporate income tax to the extent that the Company makes qualifying distributions to its stockholders, and provided that it satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which the Company fails to qualify as a REIT.

The dividends paid deduction of a REIT for qualifying dividends to its stockholders is computed using the Company’s taxable income/(loss) as opposed to net income/(loss) reported on the Company’s GAAP financial statements. Taxable income/(loss), generally, will differ from net income/(loss) reported on the financial statements because the determination of taxable income/(loss) is based on tax principles and not financial accounting principles.

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The Company elected to treat certain domestic subsidiaries as taxable REIT subsidiaries (“TRSs”) and may elect to treat other 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 declare dividends to the Company which will be included in the Company’s taxable income/(loss) and necessitate a distribution to stockholders. Conversely, if the Company retains earnings at the domestic TRS level, no distribution is required and the Company can increase book equity of the consolidated entity. A domestic TRS is subject to U.S. federal, state and local corporate income taxes.

The Company elected to treat one of its foreign subsidiaries as a TRS and, accordingly, taxable income generated by this foreign TRS may not be subject to local income taxation, but generally will be included in the Company’s income on a current basis as Subpart F income, whether or not distributed.

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 believes that it will operate in a manner that will allow it to qualify for taxation as a REIT. As a result of the Company’s expected REIT qualification, it does not generally expect to pay federal or state corporate income tax. Many of the REIT requirements, however, are highly technical and complex. If the Company were to fail to meet the REIT requirements, it would be subject to federal income taxes and applicable state and local taxes.

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 evaluates uncertain income tax positions, if any, in accordance with ASC 740, “Income Taxes.” The Company classifies interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes. See Note 9 for further details.

Stock-based compensation

The Company applies the provisions of ASC 718, “Compensation—Stock Compensation” with regard to its equity incentive plans. ASC 718 covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee stock purchase plans. ASC 718 requires that compensation cost relating to stock-based payment transactions be recognized in financial statements. Compensation cost is measured based on the fair value of the equity or liability instruments issued.

Compensation cost related to restricted common shares issued to the Company’s directors is measured at its estimated fair value at the grant date, and is amortized and expensed over the vesting period on a straight-line basis. Compensation cost related to restricted common shares and restricted stock units issued to the Manager is initially measured at estimated fair value at the grant date, and is remeasured on subsequent dates to the extent the awards are unvested. Restricted stock units granted to the Manager do not entitle the participant the rights of a shareholder of the Company’s common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The restricted stock units are not considered to be participating shares. Restricted stock units are measured at fair value reduced by the present value of the dividends expected to be paid on the underlying shares during the requisite service period, discounted at an assumed risk free rate. The Company has elected to use the straight-line method to amortize compensation expense for restricted stock units.

Recent accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (Topic 606) (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of the new revenue recognition standard by one year. The new standard is effective for the first interim period within annual reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company has concluded the guidance will not have a material impact on its consolidated financial statements.

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In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The amendments in this ASU affect all entities that hold financial assets or owe financial liabilities, and address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The classification and measurement guidance of investments in debt securities and loans are not affected by the amendments in this ASU. ASU 2016-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is not permitted for public business entities, except for a provision related to financial statements of fiscal years or interim periods that have not yet been issued, to recognize in other comprehensive income, the change in fair value of a liability resulting from a change in the instrument-specific credit risk measured using the fair value option. Entities should apply the amendments in this ASU by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The Company has concluded the guidance will not have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses,” (“ASU 2016-13”). ASU 2016-13 introduces a new model related to the accounting for credit losses on instruments, specifically, financial assets subject to credit losses and measured at amortized cost, and certain off-balance sheet credit exposures. ASU 2016-13 amends the current guidance, requiring an OTTI charge only when fair value is below the amortized cost of an asset. The length of time the fair value of an available-for-sale debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists. As such, it is no longer an other-than-temporary model. In addition, credit losses on available-for-sale debt securities will now be limited to the difference between the security’s amortized cost basis and its fair value. The new debt security model will also require the use of an allowance to record estimated credit losses. The new guidance also expands the disclosure requirements regarding an entity’s assumptions, and models. In addition, public entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year). ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating its method of adoption and the impact this ASU will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments,” (“ASU 2016-15”). ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing existing diversity of how certain cash receipts and cash payments are presented. These specific issues include debt prepayment and debt extinguishment costs, settlement of zero-coupon debt, proceeds from the settlement of insurance claims, and beneficial interests in securitization transactions, among others. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has concluded the adoption of this standard will reclassify certain items on its consolidated statement of cash flows between the “Cash flows from Operating Activities” and the “Cash Flows from Investing Activities” line items as it pertains to the settlement of zero-coupon debt, as well as other instruments. This ASU will not affect the consolidated statement of operations or consolidated balance sheets, and the Company will adopt the ASU using a retrospective approach.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has concluded the adoption of this standard will require the Company to reconcile changes in cash, cash equivalents, and restricted cash on the consolidated statement of cash flows. This will result in reclassifications between the “Cash flows from Investing Activities” and the “Cash Flows from Financing Activities” line items. This ASU will not affect the consolidated statement of operations or consolidated balance sheets, and the Company will adopt the ASU using a retrospective approach.

In March 2017, the FASB issued ASU 2017-08, “Premium Amortization of Purchased Callable Debt Securities” (“ASU 2017-08”). The amendments in this update require purchase premiums for investments in debt securities that are noncontingently callable by the issuer (at a fixed price and preset date) to be amortized to the earliest call date. Previously, purchase premiums for such investments were permitted to be amortized to the instrument’s maturity date. ASU 2017-08 is effective for public business entities for fiscal years beginning after December 15, 2018 and interim periods within those years. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

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In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." This ASU provides clarity and reduces both diversity in practice and cost and complexity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has concluded the guidance will not have a material impact on its consolidated financial statements.

3. Real Estate Securities

The following tables detail the Company's real estate securities portfolio as of December 31, 2017 and December 31, 2016. The Company's Agency RMBS are mortgage pass-through certificates or collateralized mortgage obligations ("CMOs") representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The Company's Non-Agency RMBS, ABS and CMBS portfolios are primarily not issued or guaranteed by Fannie Mae, Freddie Mac or any agency of the U.S. Government and are therefore subject to credit risk. The principal and interest payments on Agency RMBS securities have an explicit guarantee by either an agency of the U.S. government or a U.S. government-sponsored entity.

The following table details the Company's real estate securities portfolio as of December 31, 2017:

		Premium /	Amortized	Gross Unrealized (1)			Weighted Average	
	Current Face	(Discount)	Cost	Gains	Losses	Fair Value	Coupon (2)	Yield
Agency RMBS:								
30 Year Fixed Rate	\$ 1,848,172,215	\$ 81,133,356	\$ 1,929,305,571	\$ 5,124,870	\$ (5,397,445)	\$ 1,929,032,996	3.79%	3.13%
Fixed Rate CMO	52,263,914	406,502	52,670,416	280,340	-	52,950,756	3.00%	2.79%
ARM	176,560,807	(834,745)	175,726,062	683,254	(21,920)	176,387,396	2.35%	2.83%
Interest Only	644,238,995	(554,353,362)	89,885,633	1,608,431	(2,704,177)	88,789,887	3.27%	6.84%
Total Agency:	2,721,235,931	(473,648,249)	2,247,587,682	7,696,895	(8,123,542)	2,247,161,035	3.56%	3.25%
Credit Investments:								
Non-Agency RMBS	1,165,533,510	(228,542,116)	936,991,394	66,812,751	(2,210,053)	1,001,594,092	4.45%	6.10%
Non-Agency RMBS Interest Only	371,297,100	(367,976,760)	3,320,340	129,480	(788,254)	2,661,566	0.30%	10.49%
Total Non-Agency:	1,536,830,610	(596,518,876)	940,311,734	66,942,231	(2,998,307)	1,004,255,658	3.38%	6.12%
ABS	40,655,000	(438,491)	40,216,509	741,044	-	40,957,553	7.61%	8.27%
CMBS	221,305,103	(51,818,496)	169,486,607	1,059,546	(1,079,582)	169,466,571	5.58%	6.23%
CMBS Interest Only	2,021,260,566	(1,974,312,498)	46,948,068	3,778,264	(24,398)	50,701,934	0.40%	6.63%
Total CMBS:	2,242,565,669	(2,026,130,994)	216,434,675	4,837,810	(1,103,980)	220,168,505	0.80%	6.32%
Total	\$ 6,541,287,210	\$ (3,096,736,610)	\$ 3,444,550,600	\$ 80,217,980	\$ (12,225,829)	\$ 3,512,542,751	2.60%	4.32%

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its real estate securities portfolio. Unrealized gains and losses are recognized in current period earnings in the "Unrealized gain/(loss) on real estate securities and loans, net" line item in the consolidated statement of operations. The gross unrealized stated above represents inception to date unrealized gains/(losses).

(2) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

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The following table details the Company's real estate securities portfolio as of December 31, 2016:

				Gross Unrealized (1)			Weighted Average	
	Current Face	Premium / (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon (2)	Yield
Agency RMBS:								
30 Year Fixed Rate	\$ 713,234,586	\$ 28,338,222	\$ 741,572,808	\$ 3,672,057	\$ (5,517,144)	\$ 739,727,721	3.64%	2.99%
Fixed Rate CMO	62,570,005	531,431	63,101,436	595,962	-	63,697,398	3.00%	2.80%
ARM	208,592,111	(1,633,175)	206,958,936	4,385,116	-	211,344,052	2.35%	2.84%
Interest Only	416,902,327	(375,843,483)	41,058,844	3,033,926	(1,198,215)	42,894,555	2.70%	8.26%
Total Agency:	1,401,299,029	(348,607,005)	1,052,692,024	11,687,061	(6,715,359)	1,057,663,726	3.14%	3.17%
Credit Investments:								
Non-Agency RMBS	1,255,224,713	(235,346,323)	1,019,878,390	28,705,591	(9,328,119)	1,039,255,862	4.31%	6.03%
Non-Agency RMBS Interest Only	449,759,113	(446,027,313)	3,731,800	33,512	(3,866)	3,761,446	0.25%	12.47%
Total Non-Agency:	1,704,983,826	(681,373,636)	1,023,610,190	28,739,103	(9,331,985)	1,043,017,308	3.18%	6.05%
ABS	22,025,000	(357,022)	21,667,978	100,247	(536,269)	21,231,956	5.43%	6.32%
CMBS	217,935,976	(56,549,776)	161,386,200	959,842	(2,830,108)	159,515,934	5.15%	6.16%
CMBS Interest Only	1,967,685,636	(1,916,198,928)	51,486,708	1,001,503	(351,485)	52,136,726	0.41%	6.48%
Total CMBS:	2,185,621,612	(1,972,748,704)	212,872,908	1,961,345	(3,181,593)	211,652,660	0.76%	6.24%
Total	\$ 5,313,929,467	\$ (3,003,086,367)	\$ 2,310,843,100	\$ 42,487,756	\$ (19,765,206)	\$ 2,333,565,650	2.18%	4.76%

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its real estate securities portfolio. Unrealized gains and losses are recognized in current period earnings in the "Unrealized gain/(loss) on real estate securities and loans, net" line item in the consolidated statement of operations. The gross unrealized stated above represents inception to date unrealized gains/(losses).

(2) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

The following table presents the gross unrealized losses and fair value of the Company's real estate securities by length of time that such securities have been in a continuous unrealized loss position on December 31, 2017 and December 31, 2016.

As of	Less than 12 months		Greater than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2017	\$ 1,116,925,170	\$ (8,011,731)	\$ 188,434,092	\$ (4,214,098)
December 31, 2016	756,302,518	(12,017,743)	203,287,535	(7,747,463)

As described in Note 2, the Company evaluates securities for OTTI on at least a quarterly basis. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of a real estate security is less than its amortized cost at the balance sheet date, the security is considered impaired, and the impairment is designated as either "temporary" or "other-than-temporary."

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For the year ended December 31, 2017, the Company recognized an OTTI charge of \$7.6 million on its securities, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. Of this amount, \$2.3 million was recognized on certain securities in an unrealized loss position which the Company demonstrated intent to sell, and the charge represents a write-down to fair value as of the reporting date. The Company recorded \$5.3 million of OTTI due to an adverse change in cash flows on certain securities, where the fair values of the securities were less than their carrying amounts. Of the \$7.6 million of OTTI recorded, \$2.6 million related to securities where OTTI was not recognized in a prior year.

For the year ended December 31, 2016, the Company recognized an OTTI charge of \$17.2 million on its securities, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. Of this amount, \$3.3 million was recognized on certain securities in an unrealized loss position which the Company demonstrated intent to sell, and the charge represents a write-down to fair value as of the reporting date. The Company recorded \$13.9 million of OTTI due to an adverse change in cash flows on certain securities, where the fair values of the securities were less than their carrying amounts. Of the \$13.9 million of OTTI recorded, \$8.2 million related to securities where OTTI was not recognized in a prior year.

For the year ended December 31, 2015, the Company recognized an OTTI charge of \$8.1 million on its securities, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded \$8.1 million of OTTI due to an adverse change in cash flows on certain securities, where the fair values of the securities were less than their carrying amounts. Of the \$8.1 million of OTTI recorded, \$3.6 million related to securities where OTTI was not recognized in a prior year.

The decline in value of the remaining real estate securities is solely due to market conditions and not the credit quality of the assets. The investments in any remaining unrealized loss positions are not considered other than temporarily impaired because the Company currently has the ability and intent to hold the investments to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments and the Company is not required to sell the investments for regulatory or other reasons.

The following table details weighted average life broken out by Agency RMBS, Agency Interest-Only (“IO”) and Credit Securities as of December 31, 2017:

Weighted Average Life (3)	Agency RMBS (1)			Agency IO			Credit Investments (2)		
	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon (4)
Less than or equal to 1 year	\$ -	\$ -	-	\$ -	\$ -	-	\$ 117,531,313	\$ 117,804,751	2.15%
Greater than one year and less than or equal to five years	229,338,153	228,396,478	2.50%	28,836,904	29,519,508	2.36%	477,066,079	460,333,652	1.07%
Greater than five years and less than or equal to ten years	1,865,474,374	1,865,706,312	3.79%	59,952,983	60,366,125	4.36%	482,183,493	452,403,504	2.87%
Greater than ten years	63,558,621	63,599,259	3.50%	-	-	-	188,600,831	166,421,011	5.31%
Total	\$ 2,158,371,148	\$ 2,157,702,049	3.64%	\$ 88,789,887	\$ 89,885,633	3.27%	\$ 1,265,381,716	\$ 1,196,962,918	1.89%

(1) For purposes of this table, Agency RMBS represent securities backed by Fixed Rate 30 Year mortgages, ARMs and Fixed Rate CMOs.

(2) For purposes of this table, Credit Investments represent Non-Agency RMBS, ABS, CMBS and Interest Only credit securities.

(3) Actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(4) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

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The following table details weighted average life broken out by Agency RMBS, Agency IO and Credit Securities as of December 31, 2016:

Weighted Average Life (3)	Agency RMBS (1)			Agency IO			Credit Investments (2)		
	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon (4)
Less than or equal to 1 year	\$ -	\$ -	-	\$ -	\$ -	-	\$ 169,483,329	\$ 170,533,908	2.09%
Greater than one year and less than or equal to five years	124,913,463	123,021,262	2.73%	28,514,942	27,995,835	2.23%	430,525,739	430,108,024	0.94%
Greater than five years and less than or equal to ten years	808,271,767	806,474,038	3.44%	14,379,613	13,063,009	5.14%	425,043,315	418,094,774	2.30%
Greater than ten years	81,583,941	82,137,880	3.10%	-	-	-	250,849,541	239,414,370	5.88%
Total	\$ 1,014,769,171	\$ 1,011,633,180	3.32%	\$ 42,894,555	\$ 41,058,844	2.70%	\$ 1,275,901,924	\$ 1,258,151,076	1.82%

(1) For purposes of this table, Agency RMBS represent securities backed by Fixed Rate 20 Year and Fixed Rate 30 Year mortgages, ARMs and Fixed Rate CMOs.

(2) For purposes of this table, Credit Investments represent Non-Agency RMBS, ABS, CMBS and Interest Only credit securities.

(3) Actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(4) Equity residual investments and principal only securities with a zero coupon rate are excluded from this calculation.

For the year ended December 31, 2017, the Company sold 71 securities for total proceeds of \$566.0 million, recording realized gains of \$3.6 million and realized losses of \$3.4 million. For the year ended December 31, 2016, the Company sold 26 securities for total proceeds of \$364.4 million, recording realized gains of \$11.0 million and realized losses of \$4.1 million. For the year ended December 31, 2015, the Company sold 70 securities for total proceeds of \$762.0 million, recording realized gains of \$12.7 million and realized losses of \$4.9 million.

See Notes 4 and 7 for amounts realized on sales of loans and the settlement of certain derivatives, respectively.

A Special Purpose Entity ("SPE") is an entity designed to fulfill a specific limited need of the company that organized it. SPEs are often used to facilitate transactions that involve securitizing financial assets or rescuritizing previously securitized financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity or refinancing the underlying securitized financial assets on improved terms. Securitization involves transferring assets to a SPE to convert all or a portion of those assets into cash before they would have been realized in the normal course of business through the SPE's issuance of debt or equity instruments. Investors in an SPE usually have recourse only to the assets in the SPE and depending on the overall structure of the transaction, may benefit from various forms of credit enhancement, such as over-collateralization in the form of excess assets in the SPE, priority with respect to receipt of cash flows relative to holders of other debt or equity instruments issued by the SPE, or a line of credit or other form of liquidity agreement that is designed with the objective of ensuring that investors receive principal and/or interest cash flow on the investment in accordance with the terms of their investment agreement. See Note 2 for more detail.

The Company previously entered into a rescuritization transaction that resulted in the Company consolidating the VIE created with the SPE which was used to facilitate the transaction. The Company concluded that the entity created to facilitate this transaction was a VIE. The Company also determined that the VIE created to facilitate the rescuritization transaction should be consolidated by the Company and treated as a secured borrowing, based on the Company's involvement in the VIE, including the design and purpose of the SPE, and whether the Company's involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of the VIE.

The following table details certain information on the Company's consolidated VIE as of December 31, 2017:

	Weighted Average				
	Current Face	Fair Value	Coupon	Yield	Life (Years) (1)
Consolidated tranche (2)	\$16,354,718	\$16,477,801	3.11%	3.92%	2.95
Retained tranche	8,617,903	6,100,571	4.28%	15.48%	9.04
Total rescuritized asset	\$24,972,621	\$22,578,372	3.51%	7.04%	5.05

(1) Actual maturities of investments and loans are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(2) As of December 31, 2017, the fair market value of the consolidated tranche is included in the Company's consolidated balance sheets as "Non-Agency RMBS". As of December 31, 2017, the Company has recorded secured financing of \$16.5 million on the consolidated balance sheets in the "Securitized debt, at fair value" line item. The Company recorded the proceeds from the issuance of the secured financing in the "Cash Flows from Financing Activities" section of the consolidated statement of cash flows at the time of securitization.

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The following table details certain information on the Company's consolidated VIE as of December 31, 2016:

	Current Face	Fair Value	Weighted Average		
			Coupon	Yield	Life (Years) (1)
Consolidated tranche (2)	\$21,595,782	\$21,491,710	2.36%	3.87%	3.27
Retained tranche	9,855,821	5,916,595	4.90%	17.13%	10.76
Total securitized asset	\$31,451,603	\$27,408,305	3.15%	6.73%	5.62

(1) Actual maturities of investments and loans are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(2) As of December 31, 2016, the fair market value of the consolidated tranche is included in the Company's consolidated balance sheets as "Non-Agency RMBS". As of December 31, 2016, the Company has recorded secured financing of \$21.5 million on the consolidated balance sheets in the "Securitized debt, at fair value" line item. The Company recorded the proceeds from the issuance of the secured financing in the "Cash Flows from Financing Activities" section of the consolidated statement of cash flows at the time of securitization.

The holders of the consolidated tranche have no recourse to the general credit of the Company. The Company has no obligation to provide any other explicit or implicit support to any VIE.

4. Loans

Residential mortgage loans

The table below details certain information regarding the Company's residential mortgage loan portfolio as of December 31, 2017:

	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield	Life (Years) (2)
Residential mortgage loans	\$ 25,675,566	\$ (7,792,057)	\$ 17,883,509	\$ 1,006,184	\$ -	\$ 18,889,693	3.10%	12.24%	5.67

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its loan portfolio. Unrealized gains and losses are recognized in current period earnings in the "Unrealized gain/(loss) on real estate securities and loans, net" line item. The gross unrealized stated above represents inception to date unrealized gains (losses).

(2) Actual maturities of residential mortgage loans are generally shorter than stated contractual maturities. Maturities are affected by the lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The table below details certain information regarding the Company's residential mortgage loan portfolio as of December 31, 2016:

	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average		
				Gains	Losses		Coupon	Yield	Life (Years) (2)
Residential mortgage loans	\$ 53,827,336	\$ (16,491,472)	\$ 37,335,864	\$ 1,262,223	\$ (402,511)	\$ 38,195,576	5.60%	8.74%	6.71

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its loan portfolio. Unrealized gains and losses are recognized in current period earnings in the "Unrealized gain/(loss) on real estate securities and loans, net" line item. The gross unrealized stated above represents inception to date unrealized gains (losses).

(2) Actual maturities of residential mortgage loans are generally shorter than stated contractual maturities. Maturities are affected by the lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The table below summarizes certain aggregate pool level information pertaining to the Company's residential mortgage loans:

	December 31, 2017		December 31, 2016	
	Fair Value	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance
Re-Performing	\$11,384,032	\$ 15,350,657	\$26,665,750	\$ 35,645,382
Non-Performing	7,505,661	10,324,909	11,529,826	18,181,954
	\$18,889,693	\$ 25,675,566	\$38,195,576	\$ 53,827,336

As described in Note 2, the Company evaluates loans for OTTI on at least a quarterly basis. The determination of whether a loan is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of a loan is less than its amortized cost at the balance sheet date, the loan is considered impaired, and the impairment is designated as either "temporary" or "other-than-temporary."

For the year ended December 31, 2017, the Company recognized \$0.4 million of OTTI on certain loan pools, which is included in the "Net realized gain/(loss)" line item on the consolidated statement of operations. The Company recorded the \$0.4 million of OTTI due to an adverse change in cash flows, where the fair values of the loan pools were less than their carrying amounts. The \$0.4 million related to a non-performing loan pool with an unpaid principal balance of \$8.5 million and an average fair market value of \$8.0 million for the year ended December 31, 2017. The Company recognized \$0.5 million of interest income on the non-performing loan pool where OTTI was taken during the year ended December 31, 2017.

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For the year ended December 31, 2016, the Company recognized \$2.2 million of OTTI on certain loan pools, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded the \$2.2 million of OTTI due to an adverse change in cash flows, where the fair values of the loan pools were less than their carrying amounts. Of the \$2.2 million, \$1.1 million related to a re-performing loan pool with an unpaid principal balance of \$16.1 million, and an average fair market value of \$16.7 million for the year ended December 31, 2016, where OTTI was not recognized in a prior year. The Company recognized \$0.8 million and \$1.4 million of interest income on certain non-performing and re-performing loan pools, respectively, where OTTI was taken during the year ended December 31, 2016.

For the year ended December 31, 2015, the Company recognized \$0.6 million of OTTI on certain loan pools, which is included in the “Net realized gain/(loss)” line item on the consolidated statement of operations. The Company recorded the \$0.6 million of OTTI due to an adverse change in cash flows, where the fair values of the loan pools were less than their carrying amounts. The \$0.6 million related to non-performing and re-performing loan pools with unpaid principal balances of \$18.7 and \$23.7 million, respectively, and average fair market values of \$12.5 and \$31.4 million, respectively, where OTTI was not previously recognized. The Company recognized \$0.4 million and \$0.5 million of interest income on certain non-performing and re-performing loan pools, respectively, during the time within the year ended December 31, 2015 that OTTI was taken.

As of December 31, 2017 and December 31, 2016 the Company had residential mortgage loans that were in the process of foreclosure with a fair value of \$9.1 million and \$11.0 million, respectively.

The Company’s mortgage loan portfolio consisted of mortgage loans on residential real estate located throughout the U.S. The following is a summary of certain concentrations of credit risk within the Company’s mortgage loan portfolio:

Concentration of Credit Risk	December 31, 2017	December 31, 2016
Percentage of fair value of mortgage loans with unpaid principal balance to current property value in excess of 100%	86%	98%
Percentage of fair value of mortgage loans secured by properties in the following states:		
Representing 5% or more of fair value:		
New York	37%	25%
California	7%	9%
Maryland	7%	6%
New Jersey	6%	4%
Florida	1%	5%

The Company records interest income on a level-yield basis. The accretable discount is determined by the excess of the Company’s estimate of undiscounted principal, interest, and other cash flows expected to be collected over its initial investment in the mortgage loan. The following is a summary of the changes in the accretable portion of discounts for the years ended December 31, 2017, December 31, 2016 and December 31, 2015, respectively:

	December 31, 2017	December 31, 2016	December 31, 2015
Beginning Balance	\$ 18,281,517	\$ 24,216,638	\$ 38,008,263
Accretion	(2,502,337)	(4,083,991)	(5,801,933)
Reclassifications from/(to) non-accretable difference	6,275,259	4,778,714	4,403,604
Disposals	(12,736,381)	(6,629,844)	(12,393,296)
Ending Balance	\$ 9,318,058	\$ 18,281,517	\$ 24,216,638

As of December 31, 2017, the Company’s residential mortgage loan portfolio was comprised of 125 conventional loans with original loan balances between \$9,000 and \$1.1 million.

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As of December 31, 2016, the Company's residential mortgage loan portfolio was comprised of 277 conventional loans with original loan balances between \$9,000 and \$1.1 million.

For the year ended December 31, 2017, the Company sold 100 loans for total proceeds of \$18.5 million, recording realized gains of \$3.4 million. For the year ended December 31, 2016, the Company sold 62 loans for total proceeds of \$35.6 million, with an additional \$3.6 million on 22 unsettled loan sales as of year-end, recording realized gains of \$3.5 million. For the year ended December 31, 2015, the Company sold 135 loans for total proceeds of \$23.3 million, recording realized gains of \$1.9 million.

Commercial loans

The following table presents detail on the Company's commercial loan portfolio on December 31, 2017:

Loan (7)	Current Face	Premium (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average			Initial Stated Maturity Date	Extended Maturity Date (8)	Location
				Gains	Losses		Coupon (5)	Yield	Weighted Average Life (Years) (6)			
Loan B (2)	\$ 32,800,000	\$ -	\$ 32,800,000	\$ -	\$ -	\$ 32,800,000	6.14%	6.52%	1.53	July 1, 2016	July 1, 2019	TX
Loan E (3)	14,521,806	(1,027,510)	13,494,296	809,684	-	14,303,980	9.83%	12.70%	3.01	April 9, 2017	April 9, 2021	Various
Loan F (4)	10,416,666	(76,512)	10,340,154	76,512	-	10,416,666	12.43%	13.98%	0.70	September 9, 2018	September 9, 2019	MN
	\$ 57,738,472	\$ (1,104,022)	\$ 56,634,450	\$ 886,196	\$ -	\$ 57,520,646	8.20%	9.41%	1.76			

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its loan portfolio. Unrealized gains and losses are recognized in current period earnings in the "Unrealized gain/(loss) on real estate securities and loans, net" line item. The gross unrealized columns above represent inception to date unrealized gains (losses).

(2) Loan B is comprised of a first mortgage and mezzanine loan of \$31.8 million and \$1.0 million, respectively. As of December 31, 2017, Loan B has been extended to the extended maturity date shown above.

(3) Loan E is a mezzanine loan. As of December 31, 2017, Loan E has been extended to April 9, 2018.

(4) Loan F is a mezzanine loan of up to \$14.6 million, of which \$10.4 million has been advanced.

(5) Each commercial loan investment has a variable coupon rate.

(6) Actual maturities of commercial mortgage loans may be shorter than stated contractual maturities. Maturities are affected by prepayments of principal.

(7) The Company has the contractual right to receive a balloon payment.

(8) Represents the maturity date of the last possible extension option.

The following table presents detail on the Company's commercial loan portfolio on December 31, 2016:

Loan (2) (4) (9)	Current Face	Premium (Discount)	Amortized Cost	Gross Unrealized (1)		Fair Value	Weighted Average			Initial Stated Maturity Date	Extended Maturity Date (10)	Location
				Gains	Losses		Coupon (7)	Yield	Weighted Average Life (Years) (8)			
Loan B (3)	\$ 32,800,000	\$ (1,294)	\$ 32,798,706	\$ 1,294	\$ -	\$ 32,800,000	5.40%	5.65%	0.52	July 1, 2016	July 1, 2019	TX
Loan D (5) (11)	12,000,000	(211,692)	11,788,308	296,278	(84,586)	12,000,000	10.62%	14.33%	0.62	February 11, 2017	August 11, 2017	NY
Loan E (6)	16,000,000	(1,291,648)	14,708,352	560,448	-	15,268,800	9.05%	12.76%	4.33	April 9, 2017	April 9, 2021	Various
	\$ 60,800,000	\$ (1,504,634)	\$ 59,295,366	\$ 858,020	\$ (84,586)	\$ 60,068,800	7.39%	9.19%	1.54			

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its loan portfolio. Unrealized gains and losses are recognized in current period earnings in the "Unrealized gain/(loss) on real estate securities and loans, net" line item. The gross unrealized columns above represent inception to date unrealized gains (losses).

(2) Loan A paid off in Q2 2016, with the Company receiving \$30.0 million of principal proceeds.

(3) Loan B is comprised of a first mortgage and mezzanine loan of \$31.8 million and \$1.0 million, respectively.

(4) Loan C paid off in Q3 2016, with the Company receiving \$10.0 million of principal proceeds.

(5) Loan D is a first mortgage loan. See below for further information. As of the stated maturity date, Loan D has been extended for an additional 6 months.

(6) Loan E is a mezzanine loan.

(7) Each commercial loan investment has a variable coupon rate.

(8) Actual maturities of commercial mortgage loans may be shorter than stated contractual maturities. Maturities are affected by prepayments of principal.

(9) The Company has the contractual right to receive a balloon payment.

(10) Represents the maturity date of the last possible extension option.

(11) Loan D paid off in Q1 2017.

In February 2016, the Company originated a \$12.0 million commercial loan and, at closing, transferred a 15.0%, or \$1.8 million, participation interest in the loan (the "Participation Interest") to an unaffiliated third party. The Participation Interest did not meet the sales criteria established under ASC 860; therefore, the entire commercial loan has been recorded as an asset in the "Commercial loans, at fair value" line item on the Company's consolidated balance sheets, referred to in the above table as "Loan D." The weighted average coupon and yield on the commercial loan was 10.62% and 14.33%, respectively, at December 31, 2016. A \$1.8 million liability was recorded in the "Loan participation payable, at fair value" line item on the Company's consolidated balance sheets representing the transfer of the Participation Interest. The Company recorded the origination of the commercial loan in the "Cash Flows from Investing Activities" section and the proceeds from the transfer in the "Cash Flows from Financing Activities" section of the consolidated statement of cash flows. The weighted average coupon and yield on the Participation Interest was 10.62% and 21.70%, respectively, at December 31, 2016. In February 2017, the Company received \$12.0 million of proceeds from the pay-off of Loan D. The principal and interest due on the Participation Interest was paid from these proceeds.

During the years ended December 31, 2017, December 31, 2016, and December 31, 2015, the Company recorded \$0.4 million, \$0.4 million, and \$0.4 million of discount accretion, respectively, on its commercial loans.

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5. Fair value measurements

As described in Note 2, the fair value of financial instruments that are recorded at fair value will be determined by the Manager, subject to oversight of the Company's board of directors, and in accordance with ASC 820, "Fair Value Measurements and Disclosures." When possible, the Company determines fair value using independent data sources. ASC 820 establishes a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable.

Values for the Company's securities, Excess MSRs, securitized debt, derivatives, and U.S. Treasury Securities are based upon prices obtained from third-party pricing services, which are indicative of market activity. The fair value of the Company's obligation to return securities borrowed under reverse repurchase agreements is based upon the value of the underlying borrowed U.S. Treasury securities as of the reporting date. The evaluation methodology of the Company's third-party pricing services incorporates commonly used market pricing methods, including a spread measurement to various indices such as the one-year constant maturity treasury and LIBOR, which are observable inputs. The evaluation also considers the underlying characteristics of each investment, which are also observable inputs, including: coupon; maturity date; loan age; reset date; collateral type; periodic and life cap; geography; and prepayment speeds. The Company collects and considers current market intelligence on all major markets, including benchmark security evaluations and bid-lists from various sources, when available. As part of the Company's risk management process, the Company reviews and analyzes all prices obtained by comparing prices to recently completed transactions involving the same or similar investments on or near the reporting date. If, in the opinion of the Manager, one or more prices reported to the Company are not reliable or unavailable, the Manager reviews the fair value based on characteristics of the investment it receives from the issuer and available market information.

In valuing its derivatives, the Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both the Company and its counterparties. All of the Company's derivatives are either subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd Frank Act"). For swaps cleared under the Dodd Frank Act, a Central Counterparty Clearing House ("CCP") now stands between the Company and the over-the-counter derivative counterparties. In order to access clearing, the Company has entered into clearing agreements with Futures Commissions Merchants ("FCMs").

Beginning in the first quarter of 2017, as a result of a CME amendment to its rule book governing central clearing activities, the daily exchange of variation margin associated with a CME centrally cleared derivative instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, the Company accounts for the daily receipt or payment of variation margin associated with its centrally cleared interest rate swaps and futures as a direct reduction to the carrying value of the interest rate swap and future derivative asset or liability, respectively. Beginning in 2017, the carrying amount of centrally cleared interest rate swaps and futures reflected in the Company's consolidated balance sheets is equal to the unsettled fair value of such instruments. See Note 7 for more information.

The fair value of the Company's mortgage loans and loan participation considers data such as loan origination information, additional updated borrower information, loan servicing data, as available, forward interest rates, general economic conditions, home price index forecasts and valuations of the underlying properties. The variables considered most significant to the determination of the fair value of the Company's mortgage loans include market-implied discount rates, projections of default rates, delinquency rates, prepayment rates and loss severity (considering mortgage insurance). Projections of default and prepayment rates are impacted by other variables such as reperformance rates, and timeline to liquidation. The Company uses loan level data and macro-economic inputs to generate loss adjusted cash flows and other information in determining the fair value of its mortgage loans. Because of the inherent uncertainty of such valuation, the fair values established for mortgage loans held by the Company may differ from the fair values that would have been established if a ready market existed for these mortgage loans. Accordingly, mortgage loans are classified as Level 3 in the fair value hierarchy.

The Manager may also engage specialized third-party valuation service providers to assess and corroborate the valuation of a selection of investments in the Company's loan portfolio on a periodic basis. These specialized third-party valuation service providers conduct independent valuation analyses based on a review of source documents, available market data, and comparable investments. The analyses provided by valuation service providers are reviewed and considered by the Manager.

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TBA instruments are similar in form to the Company's Agency RMBS portfolio, and the Company therefore estimates fair value based on similar methods.

The Company entered into a securitization transaction that resulted in the Company consolidating a VIE created with the SPE which was used to facilitate the transaction. The Company categorizes the fair value measurement of the consolidated tranche as Level 3.

In December 2015, the Company, alongside private funds under the management of Angelo, Gordon, through AG Arc, formed Arc Home. The Company invests in Arc Home through AG Arc. In June 2016, Arc Home closed on the acquisition of a Fannie Mae, Freddie Mac, FHA, VA and Ginnie Mae seller/servicer of residential mortgages. Through this subsidiary, Arc Home originates conforming, Government, Jumbo and other non-conforming residential mortgage loans, retains the mortgage servicing rights associated with the loans it originates, and purchases additional mortgage servicing rights from third-party sellers. As a result of this acquisition, the Company transferred its investment in AG Arc from Level 1 into Level 3.

In February 2016, the Company originated a \$12.0 million commercial loan and transferred a 15% participation interest in the loan to an unaffiliated third party. The Company categorizes the fair value measurement of the commercial loan and consolidated participation interest as Level 3. The commercial loan was paid off in full in February 2017.

The following table presents the Company's financial instruments measured at fair value as of December 31, 2017:

	Fair Value at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				
30 Year Fixed Rate	\$ -	\$ 1,929,032,996	\$ -	\$ 1,929,032,996
Fixed Rate CMO	-	52,950,756	-	52,950,756
ARM	-	176,387,396	-	176,387,396
Interest Only	-	88,789,887	-	88,789,887
Credit Investments:				
Non-Agency RMBS	-	156,170,350	845,423,742	1,001,594,092
Non-Agency RMBS Interest Only	-	-	2,661,566	2,661,566
ABS	-	-	40,957,553	40,957,553
CMBS	-	8,216,506	161,250,065	169,466,571
CMBS Interest Only	-	-	50,701,934	50,701,934
Residential mortgage loans	-	-	18,889,693	18,889,693
Commercial loans	-	-	57,520,646	57,520,646
Excess mortgage servicing rights	-	-	5,083,514	5,083,514
Derivative assets	110,063	2,017,007	-	2,127,070
AG Arc	-	-	17,911,091	17,911,091
Total Assets Carried at Fair Value	\$ 110,063	\$ 2,413,564,898	\$ 1,200,399,804	\$ 3,614,074,765
Liabilities:				
Securitized debt	\$ -	\$ -	\$ (16,477,801)	\$ (16,477,801)
Securities borrowed under reverse repurchase agreements	-	(24,379,356)	-	(24,379,356)
Derivative liabilities	-	(450,208)	-	(450,208)
Total Liabilities Carried at Fair Value	\$ -	\$ (24,829,564)	\$ (16,477,801)	\$ (41,307,365)

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The following table presents the Company's financial instruments measured at fair value as of December 31, 2016:

	Fair Value at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				
30 Year Fixed Rate	\$ -	\$ 739,727,721	\$ -	\$ 739,727,721
Fixed Rate CMO	-	63,697,398	-	63,697,398
ARM	-	211,344,052	-	211,344,052
Interest Only	-	42,894,555	-	42,894,555
Credit Investments:				
Non-Agency RMBS	-	321,495,328	717,760,534	1,039,255,862
Non-Agency RMBS Interest Only	-	-	3,761,446	3,761,446
ABS	-	-	21,231,956	21,231,956
CMBS	-	28,726,319	130,789,615	159,515,934
CMBS Interest Only	-	-	52,136,726	52,136,726
Residential mortgage loans	-	-	38,195,576	38,195,576
Commercial loans	-	-	60,068,800	60,068,800
Excess mortgage servicing rights	-	-	412,648	412,648
Derivative assets	-	3,703,366	-	3,703,366
AG Arc	-	-	12,894,819	12,894,819
Total Assets Carried at Fair Value	<u>\$ -</u>	<u>\$ 1,411,588,739</u>	<u>\$ 1,037,252,120</u>	<u>\$ 2,448,840,859</u>
Liabilities:				
Securitized debt	\$ -	\$ -	\$ (21,491,710)	\$ (21,491,710)
Loan participation payable	-	-	(1,800,000)	(1,800,000)
Securities borrowed under reverse repurchase agreements	(22,365,000)	-	-	(22,365,000)
Derivative liabilities	(636,211)	(2,271,044)	-	(2,907,255)
Total Liabilities Carried at Fair Value	<u>\$ (23,001,211)</u>	<u>\$ (2,271,044)</u>	<u>\$ (23,291,710)</u>	<u>\$ (48,563,965)</u>

During the year ended December 31, 2017, the Company transferred its entire obligation to return securities borrowed under reverse repurchase agreements into the Level 2 category from the Level 1 category under the fair value hierarchy of ASC 820 as per the above table. The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the year ended December 31, 2016. Changes to the valuation methodologies used with respect to the Company's financial instruments are reviewed by management to ensure any such changes result in appropriate exit price valuations. The Company will refine its valuation methodologies as markets and products develop and pricing methodologies evolve. As a result of a refined valuation methodology, management concluded that its obligation to return securities borrowed under reverse repurchase agreements should be reclassified from Level 1 to Level 2.

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

	Year Ended December 31, 2017										
	Non-Agency RMBS	Non-Agency RMBS IO	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Commercial Loans	Excess Mortgage Servicing Rights	AG Arc	Securitized debt	Loan Participation payable
Beginning balance	\$ 717,760,534	\$ 3,761,446	\$ 21,231,956	\$ 130,789,615	\$ 52,136,726	\$ 38,195,576	\$ 60,068,800	\$ 412,648	\$ 12,894,819	\$ (21,491,710)	\$ (1,800,000)
Transfers (1):											
Transfers into level 3	210,432,805	-	-	8,460,348	-	-	-	-	-	-	-
Transfers out of level 3	(71,347,747)	-	-	-	-	-	-	-	-	-	-
Purchases/Transfers (2)	445,849,048	-	55,443,272	64,059,158	434,837	-	10,270,833	4,852,616	-	-	-
Capital contributions	-	-	-	-	-	-	-	-	4,459,000	-	-
Proceeds from sales/redemptions	(269,380,568)	-	(11,143,185)	(4,533,594)	-	(15,015,709)	-	-	-	-	-
Proceeds from settlement	(232,485,685)	-	(26,272,003)	(39,563,051)	-	(4,264,765)	(13,534,402)	(397,597)	-	5,241,064	1,954,927
Total net gains/(losses) (3)											
Included in net income	44,595,355	(1,099,880)	1,697,513	2,037,589	(1,869,629)	(25,409)	715,415	215,847	557,272	(227,155)	(154,927)
Ending Balance	\$ 845,423,742	\$ 2,661,566	\$ 40,957,553	\$ 161,250,065	\$ 50,701,934	\$ 18,889,693	\$ 57,520,646	\$ 5,083,514	\$ 17,911,091	\$ (16,477,801)	\$ -
Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of December 31, 2017 (4)	\$ 42,735,977	\$ (832,685)	\$ 1,227,614	\$ 2,310,572	\$ (1,869,629)	\$ (2,877,929)	\$ 659,206	\$ 215,847	\$ 557,272	\$ (227,155)	\$ -

- (1) Transfers are assumed to occur at the beginning of the period.
(2) Transfers represent proceeds from transfer of loan participation.
(3) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized gain/(loss) on real estate securities and loans, net	\$45,357,861
Unrealized gain/(loss) on derivative and other instruments, net	(382,082)
Net realized gain/(loss)	908,940
Equity in earnings/(loss) from affiliates	557,272
Total	\$46,441,991

- (4) Unrealized gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized gain/(loss) on real estate securities and loans, net	\$41,568,973
Unrealized gain/(loss) on derivative and other instruments, net	(227,155)
Equity in earnings/(loss) from affiliates	557,272
Total	\$41,899,090

	Year Ended December 31, 2016										
	Non-Agency RMBS	Non-Agency RMBS IO	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Commercial Loans	Excess Mortgage Servicing Rights	AG Arc	Securitized debt	Loan Participation payable
Beginning balance	\$ 451,677,960	\$ 5,553,734	\$ 54,761,837	\$ 91,024,418	\$ 14,077,716	\$ 57,080,227	\$ 72,800,000	\$ 425,311	\$ -	\$ -	\$ -
Transfers (1):											
Transfers into level 3	390,846,770	-	-	-	-	-	-	-	(316,580)	(30,046,861)	-
Transfers out of level 3	-	-	-	-	-	-	-	-	-	-	-
Purchases/Transfers (2)	153,402,929	283,169	23,698,803	52,491,481	37,757,876	-	25,088,437	-	-	-	(1,564,266)
Capital contributions	-	-	-	-	-	-	-	-	13,570,173	-	-
Reclassification of security type (3)	-	-	-	-	3,103,111	-	-	-	-	-	-
Proceeds from sales/redemptions	(103,457,555)	-	(8,130,670)	(2,100,960)	-	(15,997,159)	-	-	-	-	-
Proceeds from settlement	(184,959,975)	-	(49,960,590)	(9,836,954)	-	(3,224,378)	(40,000,000)	(150,057)	-	8,823,951	-
Total net gains/(losses) (4)											
Included in net income	10,250,405	(2,075,457)	862,576	(788,370)	(2,801,977)	336,886	2,180,363	137,394	(358,774)	(268,800)	(235,734)
Ending Balance	\$ 717,760,534	\$ 3,761,446	\$ 21,231,956	\$ 130,789,615	\$ 52,136,726	\$ 38,195,576	\$ 60,068,800	\$ 412,648	\$ 12,894,819	\$ (21,491,710)	\$ (1,800,000)
Change in unrealized appreciation/(depreciation) for level 3 assets still held as of December 31, 2016 (4)	\$ 9,137,439	\$ (451,820)	\$ 1,057,410	\$ (356,917)	\$ (2,801,977)	\$ (1,246,739)	\$ 2,180,363	\$ 137,394	\$ (358,774)	\$ (268,800)	\$ (235,734)

- (1) Transfers are assumed to occur at the beginning of the period.
(2) Transfers represent proceeds from transfer of loan participation.
(3) Represents a reclassification from investments in debt and equity of affiliates.
(4) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized gain/(loss) on real estate securities and loans, net	\$8,641,212
Unrealized gain/(loss) on derivative and other instruments, net	(504,534)
Net realized gain/(loss)	(539,392)
Equity in earnings/(loss) from affiliates	(358,774)
Total	\$7,238,512

- (5) Unrealized gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized gain/(loss) on real estate securities and loans, net	\$7,655,153
Unrealized gain/(loss) on derivative and other instruments, net	(504,534)
Equity in earnings/(loss) from affiliates	(358,774)
Total	\$6,791,845

Refer to the tables above for details on transfers between the Level 3 and Level 2 categories under ASC 820. Transfers into the Level 3 category of the fair value hierarchy occur due to instruments exhibiting indications of reduced levels of market transparency. Transfers out of the Level 3 category of the fair value hierarchy occur due to instruments exhibiting indications of increased levels of market transparency. Indications of increases or decreases in levels of market transparency include a change in observable transactions or executable quotes involving these instruments or similar instruments. Changes in these indications could impact price transparency, and thereby cause a change in level designations in future periods.

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The following tables present a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of assets and liabilities for which the Company has utilized Level 3 inputs to determine fair value as of December 31, 2017 and December 31, 2016:

Asset Class	Fair Value at December 31, 2017	Valuation Technique	Unobservable Input	Range (Weighted Average)
Non-Agency RMBS	\$ 783,880,884	Discounted Cash Flow	Yield	0.94% - 31.75% (4.49%)
			Projected Collateral Prepayments	0.00% - 35.00% (10.50%)
			Projected Collateral Losses	0.00% - 50.00% (3.25%)
			Projected Collateral Severities	0.00% - 100.00% (34.77%)
			Offered Quotes	74.75 - 74.75 (74.75)
Non-Agency RMBS Interest Only	\$ 2,661,566	Discounted Cash Flow	Recent Transaction	N/A
			Yield	7.00% - 25.00% (22.34%)
			Projected Collateral Prepayments	10.50% - 18.00% (16.89%)
			Projected Collateral Losses	1.50% - 2.00% (1.57%)
			Projected Collateral Severities	10.00% - 40.00% (14.43%)
ABS	\$ 40,957,553	Discounted Cash Flow	Yield	4.62% - 9.83% (7.56%)
			Projected Collateral Prepayments	20.00% - 40.00% (22.62%)
			Projected Collateral Losses	0.00% - 2.00% (1.74%)
			Projected Collateral Severities	0.00% - 50.00% (43.45%)
			Yield	-1.45% - 8.35% (6.24%)
CMBS	\$ 157,684,840	Discounted Cash Flow	Projected Collateral Prepayments	0.00% - 0.00% (0.00%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Offered Quotes	6.20 - 7.60 (7.12)
			Yield	2.93% - 5.90% (4.43%)
CMBS Interest Only	\$ 50,701,934	Discounted Cash Flow	Projected Collateral Prepayments	100.00% - 100.00% (100.00%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Yield	6.25% - 9.00% (7.81%)
			Projected Collateral Prepayments	2.98% - 5.05% (3.93%)
Residential Mortgage Loans	\$ 18,889,693	Discounted Cash Flow	Projected Collateral Losses	3.88% - 6.91% (4.27%)
			Projected Collateral Severities	20.21% - 37.25% (22.00%)
			Yield	6.52% - 6.52% (6.52%)
			Credit Spread	4.75 bps - 4.75 bps (4.75 bps)
			Recovery Percentage*	100.00% - 100.00% (100.00%)
Commercial Loans	\$ 32,800,000	Discounted Cash Flow	Offered Quotes	98.50 - 100.00 (99.13)
			Yield	9.12% - 11.74% (10.29%)
			Projected Collateral Prepayments	7.59% - 11.85% (9.67%)
			Yield	0.04 - 0.52 (0.48)
			Offered Quotes	
Excess Mortgage Servicing Rights	\$ 4,800,708	Discounted Cash Flow	Book Value Multiple	1.0x
			Yield	
			Projected Collateral Prepayments	
			Offered Quotes	
			Consensus Pricing	
AG Arc	\$ 17,911,091	Comparable Multiple	Yield	
			Projected Collateral Prepayments	
			Projected Collateral Losses	
			Projected Collateral Severities	
			Offered Quotes	
Liability Class	Fair Value at December 31, 2017	Valuation Technique	Unobservable Input	Range (Weighted Average)
Securitized debt	\$ (16,477,801)	Discounted Cash Flow	Yield	3.23% - 3.23% (3.23%)
			Projected Collateral Prepayments	14.00% - 14.00% (14.00%)
			Projected Collateral Losses	7.00% - 7.00% (7.00%)
			Projected Collateral Severities	40.00% - 40.00% (40.00%)
			Offered Quotes	

* Represents the proportion of the principal expected to be collected relative to the loan balances as of December 31, 2017.

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Asset Class	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
Non-Agency RMBS	\$ 694,948,644	Discounted Cash Flow	Yield	1.70% - 18.56% (5.11%)
			Projected Collateral Prepayments	0.00% - 35.00% (9.85%)
			Projected Collateral Losses	0.00% - 38.00% (5.11%)
			Projected Collateral Severities	0.00% - 100.00% (37.24%)
			Offered Quotes	21.50 - 100.07 (78.89)
Non-Agency RMBS Interest Only	\$ 3,761,446	Discounted Cash Flow	Yield	17.50% - 17.50% (17.50%)
			Projected Collateral Prepayments	18.00% - 18.00% (18.00%)
			Projected Collateral Losses	0.50% - 0.50% (0.50%)
			Projected Collateral Severities	10.00% - 10.00% (10.00%)
			Offered Quotes	4.16% - 6.47% (4.98%)
ABS	\$ 21,231,956	Discounted Cash Flow	Yield	1.50% - 40.00% (22.31%)
			Projected Collateral Prepayments	0.00% - 2.00% (0.88%)
			Projected Collateral Losses	0.00% - 50.00% (9.81%)
			Projected Collateral Severities	3.32% - 9.16% (6.13%)
			Offered Quotes	0.00% - 0.00% (0.00%)
CMBS	121,056,008	Discounted Cash Flow	Yield	0.00% - 0.00% (0.00%)
			Projected Collateral Prepayments	0.00% - 0.00% (0.00%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Offered Quotes	5.03 - 99.81 (68.64)
CMBS Interest Only	\$ 52,136,726	Discounted Cash Flow	Yield	2.51% - 9.49% (5.85%)
			Projected Collateral Prepayments	100.00% - 100.00% (100.00%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Offered Quotes	6.50% - 8.00% (7.42%)
Residential Mortgage Loans	\$ 38,195,576	Discounted Cash Flow	Yield	2.62% - 6.78% (5.35%)
			Projected Collateral Prepayments	2.98% - 4.41% (4.01%)
			Projected Collateral Losses	16.07% - 46.27% (31.40%)
			Projected Collateral Severities	5.65% - 21.70% (7.98%)
			Offered Quotes	4.75 bps - 10 bps (6.16 bps)
Commercial Loans	\$ 44,800,000	Discounted Cash Flow	Yield	4.75 bps - 10 bps (6.16 bps)
			Credit Spread	100.00% - 100.00% (100.00%)
			Recovery Percentage*	100.00% - 100.00% (100.00%)
			Offered Quotes	95.43 - 95.43 (95.43)
			Offered Quotes	0.09 - 0.62 (0.55)
Excess Mortgage Servicing Rights	\$ 412,648	Discounted Cash Flow	Offered Quotes	0.09 - 0.62 (0.55)
AG Arc	\$ 12,894,819	Comparable Multiple	Book Value Multiple	1.0x

Liability Class	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
Securitized debt	\$ (21,491,710)	Discounted Cash Flow	Yield	3.36% - 3.36% (3.36%)
			Projected Collateral Prepayments	14.00% - 14.00% (14.00%)
			Projected Collateral Losses	7.00% - 7.00% (7.00%)
			Projected Collateral Severities	40.00% - 40.00% (40.00%)
			Offered Quotes	21.70% - 21.70% (21.70%)
Loan participation payable	\$ (1,800,000)	Discounted Cash Flow	Yield	21.70% - 21.70% (21.70%)
			Credit Spread	10 bps - 10 bps (10 bps)
			Recovery Percentage*	100.00% - 100.00% (100.00%)
			Offered Quotes	100.00% - 100.00% (100.00%)
			Offered Quotes	100.00% - 100.00% (100.00%)

* Represents the proportion of the principal expected to be collected relative to the loan balances as of December 31, 2016.

As further described above, values for the Company's securities portfolio are based upon prices obtained from third-party pricing services. Broker quotations may also be used. The significant unobservable inputs used in the fair value measurement of the Company's securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Also as described above, valuation of the Company's loan portfolio is determined by the Manager using third-party pricing services where available, specialized third-party valuation service providers, or model-based pricing. The evaluation considers the underlying characteristics of each loan, which are observable inputs, including: coupon, maturity date, loan age, reset date, collateral type, periodic and life cap, geography, and prepayment speeds. These valuations also require significant judgments, which include assumptions regarding capitalization rates, re-performance rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. Changes in the market environment and other events that may occur over the life of our investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently estimated. If applicable, analyses provided by valuation service providers are reviewed and considered by the Manager.

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6. Repurchase agreements

The Company pledges certain real estate securities and loans as collateral under repurchase agreements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Repurchase agreements involve the sale and a simultaneous agreement to repurchase the transferred assets or similar assets at a future date. The amount borrowed generally is equal to the fair value of the assets pledged less an agreed-upon discount, referred to as a “haircut.” The Company calculates haircuts disclosed in the tables below by dividing allocated capital on each borrowing by the current fair market value of each investment. Repurchase agreements entered into by the Company are accounted for as financings and require the repurchase of the transferred assets at the end of each agreement’s term, typically 30 to 90 days. The carrying amount of the Company’s repurchase agreements approximates fair value due to their short-term maturities or floating rate coupons. If the Company maintains the beneficial interest in the specific assets pledged during the term of the borrowing, it receives the related principal and interest payments. If the Company does not maintain the beneficial interest in the specific assets pledged during the term of the borrowing, it will have the related principal and interest payments remitted to it by the lender. Interest rates on these borrowings are fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the borrowing at which time the Company may enter into a new borrowing arrangement at prevailing market rates with the same counterparty or repay that counterparty and negotiate financing with a different counterparty. If the fair value of pledged assets declines due to changes in market conditions or the publishing of monthly security paydown factors, lenders typically would require the Company to post additional securities as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, referred to as margin calls. The fair value of financial instruments pledged as collateral on the Company’s repurchase agreements disclosed in the tables below represent the Company’s fair value of such instruments which may differ from the fair value assigned to the collateral by its counterparties. The Company maintains a level of liquidity in the form of cash and unpledged Agency RMBS and Agency Interest-Only securities in order to meet these obligations. Under the terms of the Company’s master repurchase agreements, the counterparties may, in certain cases, sell or re-hypothecate the pledged collateral.

The following table presents certain financial information regarding the Company’s repurchase agreements secured by real estate securities as of December 31, 2017:

Repurchase Agreements Maturing Within:	Repurchase Agreements			Financial Instruments Pledged		
	Balance	Weighted Average Rate	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
Overnight	\$ 128,779,000	1.80%	3.2%	\$ 133,012,426	\$ 133,030,219	\$ 375,987
30 days or less	2,105,103,000	1.94%	9.6%	2,361,573,884	2,302,744,090	8,406,811
31-60 days	611,763,000	1.76%	7.6%	677,310,405	670,307,102	2,131,225
61-90 days	32,445,000	3.04%	25.9%	43,850,631	42,711,854	300,842
91-180 days	1,131,000	3.21%	22.7%	1,462,574	1,478,767	1,296
Greater than 180 days	93,059,628	3.00%	20.4%	119,489,680	118,698,392	46,682
Total / Weighted Average	\$ 2,972,280,628	1.94%	9.4%	\$ 3,336,699,600	\$ 3,268,970,424	\$ 11,262,843

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The following table presents certain financial information regarding the Company's repurchase agreements secured by real estate securities as of December 31, 2016:

Repurchase Agreements Maturing Within:	Repurchase Agreements			Financial Instruments Pledged		
	Balance	Weighted Average Rate	Weighted Average Haircut	Fair Value Pledged	Amortized Cost	Accrued Interest
Overnight	\$ 70,899,000	0.66%	3.5%	\$ 73,485,225	\$ 73,170,802	\$ 191,554
30 days or less	961,185,000	1.79%	14.7%	1,164,241,469	1,152,472,020	3,851,520
31-60 days	465,776,000	1.23%	8.6%	514,624,485	512,633,509	1,607,435
61-90 days	129,119,000	1.69%	13.2%	151,989,415	151,567,289	399,702
91-180 days	16,897,000	2.81%	21.6%	21,554,174	21,892,108	17,056
Greater than 180 days	209,293,104	1.93%	4.7%	252,940,437	244,734,715	948,975
Total / Weighted Average	\$ 1,853,169,104	1.63%	11.5%	\$ 2,178,835,205	\$ 2,156,470,443	\$ 7,016,242

The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in residential mortgage loans as of December 31, 2017:

Repurchase Agreements Maturing Within:	Repurchase Agreements			Financial Instruments Pledged	
	Balance	Weighted Average Rate and Funding Cost (1)	Weighted Average Haircut	Fair Value Pledged	Amortized Cost
Greater than 180 days	\$ 10,330,390	4.07%	34.8%	\$ 15,860,583	\$ 14,870,542
					\$ 10,316

(1) As of December 31, 2017, the weighted average rate equaled the weighted average funding cost on the Company's repurchase agreements secured by residential mortgage loans as a result of the full recognition of deferred fee amounts.

The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in residential mortgage loans as of December 31, 2016:

Repurchase Agreements Maturing Within:	Repurchase Agreements			Financial Instruments Pledged		
	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Haircut	Fair Value Pledged	Amortized Cost
Greater than 180 days	\$ 25,544,702	3.27%	3.79%	30.3%	\$ 34,088,921	\$ 32,849,686
						\$ 45,068

The following table presents certain financial information regarding the Company's repurchase agreements secured by interests in commercial loans as of December 31, 2017:

Repurchase Agreements Maturing Within:	Repurchase Agreements			Financial Instruments Pledged	
	Balance	Weighted Average Rate and Funding Cost (1)	Weighted Average Haircut	Fair Value Pledged	Amortized Cost
Greater than 180 days	\$ 21,796,000	3.70%	33.5%	\$ 32,800,000	\$ 32,800,000
					\$ 203,633

(1) As of December 31, 2017, the weighted average rate equaled the weighted average funding cost on the Company's repurchase agreements secured by commercial loans as a result of the full recognition of deferred fee amounts.

The following table presents certain financial information regarding the Company's repurchase agreements secured by commercial loans as of December 31, 2016:

Repurchase Agreements Maturing Within:	Repurchase Agreements			Financial Instruments Pledged		
	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Haircut	Fair Value Pledged	Amortized Cost
Greater than 180 days	\$ 21,796,000	2.91%	3.13%	33.5%	\$ 32,800,000	\$ 32,798,706
						\$ 125,314

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Although repurchase agreements are committed borrowings until maturity, the lender retains the right to mark the underlying collateral to fair value. A reduction in the value of pledged assets resulting from changes in market conditions or factor changes would require the Company to provide additional collateral or cash to fund margin calls. See Note 7 for details on collateral posted/received against certain derivatives. The following table presents information with respect to the Company's posting of collateral under repurchase agreements on December 31, 2017 and December 31, 2016, broken out by investment type:

	December 31, 2017	December 31, 2016
Fair Value of investments pledged as collateral under repurchase agreements:		
Agency RMBS	\$ 2,118,615,429	\$ 965,154,048
Non-Agency RMBS	976,071,673	990,985,143
ABS	30,832,553	21,231,956
CMBS	211,179,945	201,464,058
Residential Mortgage Loans	15,860,583	31,031,107
Commercial Loans	32,800,000	32,800,000
Cash pledged (i.e., restricted cash) as collateral under repurchase agreements	12,155,251	17,149,022
Fair Value of unsettled trades pledged as collateral under repurchase agreements:	-	3,057,814
Total collateral pledged under Repurchase agreements	\$ 3,397,515,434	\$ 2,262,873,148

The following table presents information with respect to the Company's total borrowings under repurchase agreements on December 31, 2017 and December 31, 2016, broken out by investment type:

	December 31, 2017	December 31, 2016
Repurchase agreements secured by:		
Agency RMBS	\$ 2,005,133,000	\$ 907,041,000
Non-Agency RMBS	784,896,628	776,459,104
ABS	22,761,000	15,283,000
CMBS	159,490,000	154,386,000
Residential Mortgage Loans	10,330,390	25,544,702
Commercial Loans	21,796,000	21,796,000
Gross Liability for Repurchase agreements	\$ 3,004,407,018	\$ 1,900,509,806

The following table presents both gross information and net information about repurchase agreements eligible for offset in the consolidated balance sheets as of December 31, 2017:

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments Posted	Cash Collateral Posted	
Repurchase Agreements	\$ 3,004,407,018	\$ -	\$ 3,004,407,018	\$ 3,004,407,018	\$ -	\$ -

The following table presents both gross information and net information about repurchase agreements eligible for offset in the consolidated balance sheets as of December 31, 2016:

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments Posted	Cash Collateral Posted	
Repurchase Agreements	\$ 1,900,509,806	\$ -	\$ 1,900,509,806	\$ 1,900,509,806	\$ -	\$ -

The Company seeks to obtain financing from several different counterparties in order to reduce the financing risk related to any single counterparty. The Company has entered into master repurchase agreements ("MRAs") or loan agreements with such financing counterparties. As of December 31, 2017 and December 31, 2016 the Company had 39 and 37 financing counterparties, respectively, under which it had outstanding debt with 27 and 23 counterparties, respectively.

The following table presents information at December 31, 2017 with respect to each counterparty that provides the Company with financing for which the Company had greater than 5% of its stockholders' equity at risk, excluding stockholders' equity at risk under financing through affiliated entities.

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Counterparty	Stockholders' Equity at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity
RBC (Barbados) Trading Bank Corporation	\$ 45,239,399	26	6%
Barclays Capital Inc	39,358,150	13	6%

The following table presents information at December 31, 2016 with respect to each counterparty that provides the Company with financing for which the Company had greater than 5% of its stockholders' equity at risk, excluding stockholders' equity at risk under financing through affiliated entities.

Counterparty	Stockholders' Equity at Risk	Weighted Average Maturity (days)	Percentage of Stockholders' Equity
Wells Fargo Bank, N.A.	\$ 50,917,158	357	8%
JP Morgan Securities, LLC	34,885,263	160	5%

On April 13, 2015, the Company, AG MIT, LLC ("AG MIT") and AG MIT CMO, LLC ("AG MIT CMO"), each a subsidiary of the Company, entered into Amendment Number 2 to the Master Repurchase and Securities Contract (the "Second Renewal") with Wells Fargo Bank, National Association ("Wells Fargo"). The Company elected not to renew the Second Renewal as of December 31, 2017, and the securities that were financed under this facility have since been financed with different counterparties. As of December 31, 2016, the Company had \$93.4 million of debt outstanding under this facility.

On February 14, 2018, AG MIT WFB1 2014 LLC ("AG MIT WFB1"), a subsidiary of the Company, entered into Amendment Number Five Six of the Master Repurchase Agreement and Securities Contract (as amended, the "WFB1 Repurchase Agreement") with Wells Fargo to finance the ownership and acquisition of certain beneficial interests in trusts owning participation interests in one or more pools of residential mortgage loans. Each transaction under the WFB1 Repurchase Agreement has its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The WFB1 Repurchase Agreement provides for a funding period ending May 23, 2018 and a facility termination date of February 22, 2019. The maximum aggregate borrowing capacity available under the WFB1 Repurchase Agreement is \$50.0 million. The WFB1 Repurchase Agreement contains representations, warranties, covenants, including financial covenants, events of default and indemnities that are customary for agreements of this type. In the event the debt outstanding under the WFB1 Repurchase Agreement falls below \$7.0 million, a cash trap trigger event will occur in which all income payments received by Wells Fargo will be applied against the outstanding balance until the WFB1 Repurchase Agreement is paid off. As of December 31, 2017, the Company had \$10.3 million of debt outstanding under the WFB1 Repurchase Agreement. As of December 31, 2016, the Company had \$25.5 million of debt outstanding under Amendment Number Four of the WFB1 Repurchase Agreement.

On September 17, 2014, AG MIT CREL, LLC ("AG MIT CREL"), a subsidiary of the Company, entered into a Master Repurchase Agreement and Securities Contract (the "CREL Repurchase Agreement") with Wells Fargo to finance AG MIT CREL's acquisition of certain beneficial interests in one or more commercial mortgage loans. Each transaction under the CREL Repurchase Agreement will have its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The CREL Repurchase Agreement provided for a funding period ending September 17, 2016 and an initial facility termination date of September 17, 2016 (the "Initial Termination Date"), subject to the satisfaction of certain terms of the extensions described below. AG MIT CREL had three (3) one-year options to extend the term of the CREL Repurchase Agreement.

On August 4, 2015, the Company, AG MIT CREL and AG MIT entered into an Omnibus Amendment No. 1 to Master Repurchase and Securities Contract, Guarantee Agreement and Fee and Pricing Letter (the "First Amendment") with Wells Fargo. The First Amendment amended certain terms in the CREL Repurchase Agreement, the Guarantee, dated as of September 17, 2014, delivered by the Company and AG MIT to Wells Fargo and the Fee and Pricing Letter, dated as of September 17, 2014, between AG MIT CREL and Wells Fargo. The First Amendment lowered the maximum aggregate borrowing capacity available under the CREL Repurchase Agreement from \$150 million to approximately \$42.8 million. The First Amendment also provided that the CREL Repurchase Agreement become full recourse to the Company and AG MIT, LLC. By amending the recourse of the CREL Repurchase Agreement to the Company and AG MIT, the Company was able to remove certain financial covenants on AG MIT CREL that limited the amount that AG MIT CREL could borrow under the CREL Repurchase Agreement. The First Amendment also eliminated the fee for the portion of the repurchase facility that was unused. The CREL Repurchase Agreement contains representations, warranties, covenants, including financial covenants, events of default and indemnities that are customary for agreements of this type. As of December 31, 2017 and December 31, 2016, the Company had \$21.8 million of debt outstanding under this facility.

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In September 2016, the Company exercised its first option to extend the term of the CREL Repurchase Agreement. In June 2017, the Company, AG MIT CREL and AG MIT entered into an Omnibus Amendment No. 2 to Master Repurchase and Securities Contract, Guarantee Agreement and Fee and Pricing Letter (the “Second Amendment”) with Wells Fargo. The Second Amendment amended the CREL Repurchase Agreement to extend the facility termination date to July 1, 2019 and removed the second and third extension options.

The Company’s MRAs generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each MRA, typical supplemental terms include requirements of minimum equity, leverage ratios, performance triggers or other financial ratios.

7. Derivatives

The Company’s derivatives may include interest rate swaps (“swaps”), TBAs, swaption contracts and Eurodollar Futures and U.S. Treasury Futures, (collectively, “Futures”). Derivatives have not been designated as hedging instruments. The Company may also utilize other instruments to manage interest rate risk, including long and short positions in U.S. Treasury securities.

The Company may exchange cash “variation margin” with the counterparties to its derivative instruments at least on a daily basis based upon daily changes in fair value as measured by the Chicago Mercantile Exchange (“CME”), the central clearinghouse through which those derivatives are cleared. In addition, the CME requires market participants to deposit and maintain an “initial margin” amount which is determined by the CME and is generally intended to be set at a level sufficient to protect the CME from the maximum estimated single-day price movement in that market participant’s contracts.

Receivables recognized for the right to reclaim cash initial margin posted in respect of derivative instruments are included in the “Restricted cash” line item in the consolidated balance sheets. Prior to the first quarter of 2017, the daily exchange of variation margin associated with centrally cleared derivative instruments was considered a pledge of collateral. For these prior periods, receivables recognized for the right to reclaim cash variation margin posted in respect of derivative instruments are included in the “Restricted cash” line item in the consolidated balance sheets. Any cash held by the Company as collateral was included in the “Due to broker” line item on the consolidated balance sheets and in cash flows from financing activities on the consolidated statement of cash flows.

Beginning in the first quarter of 2017, as a result of a CME amendment to their rule book which governs their central clearing activities, the daily exchange of variation margin associated with a centrally cleared derivative instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, the Company accounts for the daily receipt or payment of variation margin associated with its centrally cleared derivative instruments as a direct reduction to the carrying value of the derivative asset or liability, respectively. Beginning in 2017, the carrying amount of centrally cleared derivative instruments reflected in the Company’s consolidated balance sheets approximates the unsettled fair value of such instruments; because variation margin is exchanged on a one-day lag, the unsettled fair value of such instruments represents the change in fair value that occurred on the last day of the reporting period. Non-exchange traded derivatives were not affected by these legal interpretations and continue to be reported at fair value including accrued interest.

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The following table presents the fair value of the Company's derivative and other instruments and their balance sheet location at December 31, 2017 and December 31, 2016.

Derivatives and Other Instruments	Designation	Balance Sheet Location	December 31, 2017	December 31, 2016
Interest rate swaps	Non-Hedge	Derivative liabilities, at fair value	\$ (450,208)	\$ (1,847,219)
Interest rate swaps	Non-Hedge	Derivative assets, at fair value	1,428,240	3,703,366
Swaptions	Non-Hedge	Derivative assets, at fair value	362,202	-
TBAs	Non-Hedge	Derivative liabilities, at fair value	-	(423,825)
TBAs	Non-Hedge	Derivative assets, at fair value	226,565	-
Short positions on U.S. Treasury Futures	Non-Hedge	Derivative liabilities, at fair value	-	(636,211)
Short positions on U.S. Treasury Futures	Non-Hedge	Derivative assets, at fair value	110,063	-
Short positions on U.S. Treasuries	Non-Hedge	Obligation to return securities borrowed under reverse repurchase agreements, at fair value (1)	(24,379,356)	(22,365,000)

(1) The Company's obligation to return securities borrowed under reverse repurchase agreements relates to securities borrowed to cover short sales of U.S. Treasury securities. The change in fair value of the borrowed securities is recorded in the "Unrealized gain/(loss) on derivatives and other instruments, net" line item in the Company's consolidated statement of operations.

The following table summarizes information related to derivatives and other instruments:

Non-hedge derivatives and other instruments held long/(short):	December 31, 2017	December 31, 2016
Notional amount of Pay Fix/Receive Float Interest Rate Swap Agreements	\$ 2,227,000,000	\$ 644,000,000
Notional amount of Swaptions	270,000,000	-
Net notional amount of TBAs	100,000,000	(25,000,000)
Notional amount of short positions on U.S. Treasury Futures (1)	(52,500,000)	(141,500,000)
Notional amount of short positions on U.S. Treasuries	(24,668,000)	(24,000,000)

(1) Each U.S. Treasury Future contract embodies \$100,000 of notional value.

The following table summarizes gains/(losses) related to derivatives and other instruments:

Non-hedge derivatives and other instruments gain/(loss):	Statement of Operations Location	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Interest rate swaps	Unrealized gain/(loss) on derivative and other instruments, net	\$ 20,546,615	\$ 5,009,458	\$ (8,018,902)
Interest rate swaps	Net realized gain/(loss)	(9,959,257)	(10,938,839)	(11,728,954)
Swaptions, at fair value	Unrealized gain/(loss) on derivative and other instruments, net	(596,298)	-	-
Long positions on Eurodollar Futures	Net realized gain/(loss)	-	(1,045,697)	-
Short positions on Eurodollar Futures	Net realized gain/(loss)	1,371,787	2,104,465	-
Long positions on U.S. Treasury Futures	Net realized gain/(loss)	-	(582,876)	-
Short positions on U.S. Treasury Futures	Unrealized gain/(loss) on derivative and other instruments, net	748,047	(639,030)	-
Short positions on U.S. Treasury Futures	Net realized gain/(loss)	(4,050,496)	2,140,886	-
TBAs (1)	Unrealized gain/(loss) on derivative and other instruments, net	650,389	(282,225)	(1,622,070)
TBAs	Net realized gain/(loss)	1,668,672	2,771,406	1,909,844
Long positions on U.S. Treasuries	Unrealized gain/(loss) on derivative and other instruments, net	-	2,588,711	(2,588,711)
Long positions on U.S. Treasuries	Net realized gain/(loss)	-	3,241,250	(5,284,258)
Short positions on U.S. Treasuries	Unrealized gain/(loss) on derivative and other instruments, net	(1,630,918)	1,724,922	-
Short positions on U.S. Treasuries	Net realized gain/(loss)	1,741,548	280,625	(3,013,867)

(1) For the year ended December 31, 2017, gains and losses from purchases and sales of TBAs consisted of \$3.1 million, of net TBA dollar roll net interest income, and net losses of \$0.8 million, due to price changes. For the year ended December 31, 2016, gains and losses from purchases and sales of TBAs consisted of \$0.3 million, of net TBA dollar roll net interest income, and net gains of \$2.2 million, due to price changes. For the year ended December 31, 2015, gains and losses from purchases and sales of TBAs consisted of \$2.2 million, of net TBA dollar roll net interest income, and net losses of \$1.9 million, due to price changes.

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The following table presents both gross information and net information about derivative and other instruments eligible for offset in the consolidated balance sheets as of December 31, 2017:

Description	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets (Liabilities) Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments (Posted)/Received	Cash Collateral (Posted)/Received	Net Amount
Receivable Under Reverse Repurchase Agreements	\$ 24,671,320	\$ -	\$ 24,671,320	\$ 24,379,356	\$ -	\$ 291,964
Derivative Assets (1)						
Interest Rate Swaps	\$ 4,543,743	\$ -	\$ 4,543,743	\$ -	\$ 1,666,444	\$ 2,877,299
Interest Rate Swaptions	362,202	-	362,202	-	-	362,202
TBAs	226,565	-	226,565	-	-	226,565
U.S. Treasury Futures - Short	110,063	-	110,063	-	-	110,063
Total Derivative Assets	\$ 5,242,573	\$ -	\$ 5,242,573	\$ -	\$ 1,666,444	\$ 3,576,129
Derivative Liabilities (2)						
Interest Rate Swaps	\$ (5,645)	\$ -	\$ (5,645)	\$ -	\$ (5,645)	\$ -
Total Derivative Liabilities	\$ (5,645)	\$ -	\$ (5,645)	\$ -	\$ (5,645)	\$ -

(1) Included in Derivative Assets on the consolidated balance sheet is \$5,242,573 less accrued interest of \$(3,115,503) for a total of \$2,127,070.

(2) Included in Derivative Liabilities on the consolidated balance sheet is \$(5,645) plus accrued interest of \$(444,563) for a total of \$450,208.

The following table presents both gross information and net information about derivative instruments eligible for offset in the consolidated balance sheets as of December 31, 2016:

Description	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets (Liabilities) Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments (Posted)/Received	Cash Collateral (Posted)/Received	Net Amount
Receivable Under Reverse Repurchase Agreements	\$ 22,680,000	\$ -	\$ 22,680,000	\$ 22,365,000	\$ -	\$ 315,000
Derivative Assets (2)						
Interest Rate Swaps	\$ 4,559,134	\$ -	\$ 4,559,134	\$ -	\$ 879,575	\$ 3,679,559
Total Derivative Assets	\$ 4,559,134	\$ -	\$ 4,559,134	\$ -	\$ 879,575	\$ 3,679,559
Derivative Liabilities (3)						
Interest Rate Swaps	\$ (1,705,865)	\$ -	\$ (1,705,865)	\$ -	\$ (1,705,865)	\$ -
U.S. Treasury Futures - Short	(636,211)	-	(636,211)	-	(636,211)	-
TBAs	(423,824)	-	(423,824)	(423,824)	-	-
Total Derivative Liabilities	\$ (2,765,900)	\$ -	\$ (2,765,900)	\$ (423,824)	\$ (2,342,076)	\$ -

(1) Included in Derivative Assets on the consolidated balance sheet is \$4,559,134 less accrued interest of \$(855,768) for a total of \$3,703,366.

(2) Included in Derivative Liabilities on the consolidated balance sheet is \$(2,765,900) plus accrued interest of \$(141,355) for a total of \$(2,907,255).

The Company must post cash or securities as collateral on its derivative instruments when their fair value declines. This typically occurs when prevailing market rates change adversely, with the severity of the change also dependent on the term of the derivatives involved. The posting of collateral is generally bilateral, meaning that if the fair value of the Company's derivatives increases, its counterparty will post collateral to it. As of December 31, 2017, the Company pledged real estate securities with a fair value of \$7.5 million and cash of \$25.4 million as collateral against certain derivatives. Of the \$25.4 million of cash pledged as collateral against certain derivatives, \$18.9 million represents amounts related to variation margin. The Company's counterparties posted cash of \$1.7 million as collateral for certain derivatives. On December 31, 2016, the Company pledged real estate securities with a fair value of \$7.1 million and cash of \$9.4 million as collateral against certain derivatives. The Company's counterparties posted cash of \$0.9 million to it as collateral for certain derivatives.

Interest rate swaps

To help mitigate exposure to increases in short-term interest rates, the Company uses currently-paying and may use forward-starting, one- or three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements. This arrangement hedges our exposure to higher short-term interest rates because the variable-rate payments received on the swap agreements largely offset additional interest accruing on the related borrowings due to the higher interest rate, leaving the fixed-rate payments to be paid on the swap agreements as the Company's effective borrowing rate, subject to certain adjustments including changes in spreads between variable rates on the swap agreements and actual borrowing rates.

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As of December 31, 2017, the Company's interest rate swap positions consist of pay-fixed interest rate swaps. The following table presents information about the Company's interest rate swaps as of December 31, 2017:

Maturity	Notional Amount	Weighted Average Pay-Fixed Rate	Weighted Average Receive-Variable Rate	Weighted Average Years to Maturity
2019	\$ 170,000,000	1.36%	1.43%	1.88
2020	835,000,000	1.77%	1.52%	2.54
2022	653,000,000	1.90%	1.51%	4.59
2024	230,000,000	2.06%	1.47%	6.50
2026	75,000,000	2.12%	1.44%	8.89
2027	264,000,000	2.35%	1.50%	9.69
Total/Wtd Avg	\$ 2,227,000,000	1.89%	1.50%	4.56

As of December 31, 2016, the Company's interest rate swap positions consist of pay-fixed interest rate swaps. The following table presents information about the Company's interest rate swaps as of December 31, 2016:

Maturity	Notional Amount	Weighted Average Pay-Fixed Rate	Weighted Average Receive-Variable Rate	Weighted Average Years to Maturity
2017	\$ 36,000,000	0.88%	0.89%	0.84
2019	170,000,000	1.36%	0.91%	2.88
2020	115,000,000	1.59%	0.90%	3.20
2021	60,000,000	1.86%	0.96%	4.94
2022	53,000,000	1.69%	0.94%	5.69
2023	85,000,000	2.30%	0.94%	6.43
2025	30,000,000	2.48%	0.94%	8.43
2026	95,000,000	2.17%	0.92%	9.90
Total/Wtd Avg	\$ 644,000,000	1.74%	0.92%	5.01

TBAs

As discussed in Note 2, the Company has entered into TBAs.

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The following table presents information about the Company's TBAs for the years ended December 31, 2017, December 31, 2016, and December 31, 2015:

For the Year Ended December 31, 2017								
	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Net Notional Amount	Net Fair Value as of Year End	Net Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability
TBAs - Long	\$ 50,000,000	\$ 2,231,000,000	\$ (2,181,000,000)	\$ 100,000,000	\$ 102,710,940	\$ (102,484,375)	\$ 226,565	\$ -
TBAs - Short	\$ (75,000,000)	\$ 75,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
For the Year Ended December 31, 2016								
	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Net Notional Amount	Net Fair Value as of Year End	Net Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability
TBAs - Long	\$ 75,000,000	\$ 429,000,000	\$ (454,000,000)	\$ 50,000,000	\$ 51,250,000	\$ (51,427,734)	\$ -	\$ (177,734)
TBAs - Short	\$ -	\$ 705,000,000	\$ (780,000,000)	\$ (75,000,000)	\$ (74,589,840)	\$ 74,343,750	\$ -	\$ (246,090)
For the Year Ended December 31, 2015								
	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Net Notional Amount	Net Fair Value as of Year End	Net Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability
TBAs - Long	\$ 225,000,000	\$ 1,092,000,000	\$ (1,242,000,000)	\$ 75,000,000	\$ 77,361,330	\$ (77,502,930)	\$ -	\$ (141,600)
TBAs - Short	\$ -	\$ 254,000,000	\$ (254,000,000)	\$ -	\$ -	\$ -	\$ -	\$ -

8. Earnings per share

Basic earnings per share ("EPS") is calculated by dividing net income/(loss) available to common stockholders for the period by the weighted- average shares of the Company's common stock outstanding for that period that participate in the Company's common dividends. Diluted EPS takes into account the effect of dilutive instruments, such as stock options, warrants and unvested restricted stock and unvested restricted stock units but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding.

As of December 31, 2017, December 31, 2016, and December 31, 2015 the Company's outstanding warrants and unvested restricted stock units were as follows:

	December 31, 2017	December 31, 2016	December 31, 2015
Outstanding warrants	1,007,500	1,007,500	1,007,500
Unvested restricted stock units previously granted to the Manager	60,000	20,003	40,006

Each warrant entitles the holder to purchase half a share of the Company's common stock at a fixed price upon exercise of the warrant. For the years ended December 31, 2017, December 31, 2016 and December 31, 2015, the Company excluded the effects of such from the computation of diluted earnings per share because their effect would be anti-dilutive.

Restricted stock units granted to the manager do not entitle the participant the rights of a shareholder of the Company's common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The restricted stock units are not considered to be participating shares. The dilutive effects of the restricted stock units are only included in diluted weighted average common shares outstanding.

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The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Numerator:			
Net income/(loss) available to common stockholders for basic and diluted earnings per share	\$ 105,088,194	\$ 50,213,355	\$ 349,121
Denominator:			
Basic weighted average common shares outstanding	27,866,299	27,952,185	28,398,718
Dilutive effect of restricted stock units	16,822	926	11,190
Dilutive weighted average common shares outstanding	27,883,121	27,953,111	28,409,908
Basic Earnings/(Loss) Per Share of Common Stock:	\$ 3.77	\$ 1.80	\$ 0.01
Diluted Earnings/(Loss) Per Share of Common Stock:	\$ 3.77	\$ 1.80	\$ 0.01

The following tables detail our common stock dividends during the years ended December 31, 2017, 2016 and 2015:

2017

Declaration Date	Record Date	Payment Date	Dividend Per Share
3/10/2017	3/21/2017	4/28/2017	\$ 0.475
6/8/2017	6/19/2017	7/31/2017	0.475
9/11/2017	9/29/2017	10/31/2017	0.575*
12/15/2017	12/29/2017	1/31/2018	0.475

*The combined dividend of \$0.575 includes a dividend of \$0.475 per common share and a special cash dividend of \$0.10 per common share.

2016

Declaration Date	Record Date	Payment Date	Dividend Per Share
3/10/2016	3/21/2016	4/29/2016	\$ 0.475
6/9/2016	6/20/2016	7/29/2016	0.475
9/12/2016	9/23/2016	10/31/2016	0.475
12/6/2016	12/19/2016	1/31/2017	0.475

2015

Declaration Date	Record Date	Payment Date	Dividend Per Share
3/12/2015	3/23/2015	4/30/2015	\$ 0.60
6/11/2015	6/22/2015	7/31/2015	0.60
9/10/2015	9/21/2015	10/30/2015	0.60
12/10/2015	12/21/2015	1/29/2016	0.475

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Notes to Consolidated Financial Statements

The following tables detail our preferred stock dividends during the years ended December 31, 2017, 2016 and 2015:

2017					
Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share	
8.25% Series A	2/16/2017	2/28/2017	3/17/2017	\$	0.51563
8.25% Series A	5/15/2017	5/31/2017	6/19/2017		0.51563
8.25% Series A	8/16/2017	8/31/2017	9/18/2017		0.51563
8.25% Series A	11/16/2017	11/30/2017	12/18/2017		0.51563
Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share	
8.00% Series B	2/16/2017	2/28/2017	3/17/2017	\$	0.50
8.00% Series B	5/15/2017	5/31/2017	6/19/2017		0.50
8.00% Series B	8/16/2017	8/31/2017	9/18/2017		0.50
8.00% Series B	11/16/2017	11/30/2017	12/18/2017		0.50
2016					
Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share	
8.25% Series A	2/12/2016	2/29/2016	3/17/2016	\$	0.51563
8.25% Series A	5/13/2016	5/31/2016	6/17/2016		0.51563
8.25% Series A	8/15/2016	8/31/2016	9/19/2016		0.51563
8.25% Series A	11/16/2016	11/30/2016	12/19/2016		0.51563
Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share	
8.00% Series B	2/12/2016	2/29/2016	3/17/2016	\$	0.50
8.00% Series B	5/13/2016	5/31/2016	6/17/2016		0.50
8.00% Series B	8/15/2016	8/31/2016	9/19/2016		0.50
8.00% Series B	11/16/2016	11/30/2016	12/19/2016		0.50
2015					
Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share	
8.25% Series A	2/12/2015	2/27/2015	3/17/2015	\$	0.51563
8.25% Series A	5/14/2015	5/29/2015	6/17/2015		0.51563
8.25% Series A	8/14/2015	8/31/2015	9/17/2015		0.51563
8.25% Series A	11/13/2015	11/30/2015	12/17/2015		0.51563
Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share	
8.00% Series B	2/12/2015	2/27/2015	3/17/2015	\$	0.50
8.00% Series B	5/14/2015	5/29/2015	6/17/2015		0.50
8.00% Series B	8/14/2015	8/31/2015	9/17/2015		0.50
8.00% Series B	11/13/2015	11/30/2015	12/17/2015		0.50

9. Income taxes

As a REIT, the Company is not subject to federal income tax to the extent that it makes qualifying distributions to its stockholders, and provided it satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. Most states follow U.S. federal income tax treatment of REITs.

For the years ended December 31, 2017, and December 31, 2016, the Company elected to satisfy the REIT distribution requirements in part with a dividend paid in 2018 and 2017, respectively. In conjunction with these payments after year-end, the Company accrued an excise tax of \$1.5 and \$1.7 million for each of the years ended December 31, 2017 and December 31, 2016, which are included in the "Taxes payable" line item on the consolidated balance sheets. Excise tax represents a four percent tax on the required amount of the Company's ordinary income and net capital gains not distributed during the year. The expense is calculated in accordance with applicable tax regulations.

The Company files tax returns in several U.S. jurisdictions. There are no ongoing U.S. federal, state or local tax examinations.

The Company elected to treat certain domestic subsidiaries as TRSs and may elect to treat other 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.

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The Company elected to treat one of its foreign subsidiaries as a TRS and, accordingly, taxable income generated by this TRS may not be subject to local income taxation, but generally will be included in the Company's income on a current basis as Subpart F income, whether or not distributed.

Cash distributions declared by the Company that do not exceed its current or accumulated earnings and profits will be considered ordinary income to stockholders for income tax purposes unless all or a portion of a distribution is designated by the Company as a capital gain dividend. Distributions in excess of the Company's current and accumulated earnings and profits will be characterized as return of capital or capital gains. For the years ended December 31, 2017, December 31, 2016 and December 31, 2015 all income distributed was in the form of common and preferred dividends and was characterized as ordinary income.

Based on its analysis of any potential uncertain income tax positions, the Company concluded it did not have any uncertain tax positions that meet the recognition or measurement criteria of ASC 740 as of December 31, 2017, 2016 or 2015. The Company's federal income tax returns for the last three tax years are open to examination by the Internal Revenue Service. In the event that the Company incurs income tax related interest and penalties, its policy is to classify them as a component of provision for income taxes.

10. Related party transactions

The Company has entered into a management agreement with the Manager, which provided for an initial term and will be deemed renewed automatically each year for an additional one-year period, subject to certain termination rights. As of December 31, 2017 and December 31, 2016, no event of termination had occurred. The Company is externally managed and advised by the Manager. Pursuant to the terms of the management agreement, which became effective July 6, 2011 (upon the consummation of the Company's initial public offering (the "IPO")), the Manager provides the Company with its management team, including its officers, along with appropriate support personnel. Each of the Company's officers is an employee of Angelo, Gordon. The Company does not have any employees. The Manager, pursuant to a delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility of its day-to-day duties and obligations arising under the Company's management agreement.

Management fee

The Manager is entitled to a management fee equal to 1.50% per annum, calculated and paid quarterly, of the Company's Stockholders' Equity. For purposes of calculating the management fee, "Stockholders' Equity" means the sum of the net proceeds from any issuances of equity securities (including preferred securities) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance, and excluding any future equity issuance to the Manager), plus the Company's retained earnings at the end of such quarter (without taking into account any non-cash equity compensation expense or other non-cash items described below incurred in current or prior periods), less any amount that the Company pays for repurchases of its common stock, excluding any unrealized gains, losses or other non-cash items that have impacted stockholders' equity as reported in the Company's financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and excluding one-time events pursuant to changes in GAAP, and certain other non-cash charges after discussions between the Manager and the Company's independent directors and after approval by a majority of the Company's independent directors. Stockholders' Equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on the Company's financial statements.

For the years ended December 31, 2017, December 31, 2016 and December 31, 2015, the Company incurred management fees of \$9.8 million, \$9.8 million and \$10.0 million, respectively.

Termination fee

The termination fee, payable upon the occurrence of (i) the Company's termination of the management agreement without cause or (ii) the Manager's termination of the management agreement upon a breach of any material term of the management agreement, will be equal to three times the average annual management fee during the 24-month period prior to such termination, calculated as of the end of the most recently completed fiscal quarter. As of December 31, 2017, December 31, 2016, and December 31, 2015, no event of termination of the management agreement had occurred.

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Expense reimbursement

The Company is required to reimburse the Manager or its affiliates for operating expenses which are incurred by the Manager or its affiliates on behalf of the Company, including expenses relating to legal, accounting, due diligence and other services. The Company's reimbursement obligation is not subject to any dollar limitation; however, the reimbursement is subject to an annual budget process which combines guidelines from the Management Agreement with oversight by the Company's board of directors.

The Company reimburses the Manager or its affiliates for the Company's allocable share of the compensation, including, without limitation, annual base salary, bonus, any related withholding taxes and employee benefits paid to (i) the Company's chief financial officer based on the percentage of time spent on Company affairs, (ii) the Company's general counsel based on the percentage of time spent on the Company's affairs, and (iii) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment personnel of the Manager and its affiliates 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, they devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business.

Of the \$11.0 million, \$10.3 million and \$12.4 million of Other operating expenses for years ended December 31, 2017, December 31, 2016, and December 31, 2015, the Company has accrued \$6.3 million, \$6.0 million, and \$7.1 million, respectively, representing a reimbursement of expenses.

Restricted stock grants

Pursuant to the Company's Manager Equity Incentive Plan and the Equity Incentive Plan adopted on July 6, 2011, the Company can award up to 277,500 shares of its common stock in the form of restricted stock, stock options, restricted stock units or other types of awards to the directors, officers, advisors, consultants and other personnel of the Company and to the Manager. As of December 31, 2017, 62,138 shares of common stock were available to be awarded under the equity incentive plans. Awards under the equity incentive plans are forfeitable until they become vested. An award will become vested only if the vesting conditions set forth in the applicable award agreement (as determined by the compensation committee) are satisfied. The vesting conditions may include performance of services for a specified period, achievement of performance goals, or a combination of both. The compensation committee also has the authority to provide for accelerated vesting of an award upon the occurrence of certain events in its discretion.

As of December 31, 2017, the Company has granted an aggregate of 55,112 shares of restricted common stock to its independent directors and 160,250 shares of restricted common stock to its Manager under its equity incentive plans. As of December 31, 2017, 55,112 and 100,250 shares of restricted common stock granted to the Company's independent directors and Manager, respectively, have vested.

On July 1, 2014, the Company granted 60,000 restricted stock units to the Manager that represent the right to receive an equivalent number of shares of the Company's common stock to be issued if and when such units vest. Annual vesting of approximately 20,000 units occurred on each of July 1, 2015, July 1, 2016, and July 1, 2017.

On July 1, 2017, the Company granted 60,000 restricted stock units to the Manager that represent the right to receive an equivalent number of shares of the Company's common stock to be issued if and when the units vest. Annual vesting of approximately 20,000 units will occur on each of July 1, 2018, July 1, 2019, and July 1, 2020. The units do not entitle the participant the rights of a holder of the Company's common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The vesting of such units is subject to the continuation of the management agreement. If the management agreement terminates, all unvested units then held by the Manager or the Manager's transferee shall be immediately cancelled and forfeited without consideration.

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Director compensation

For the year ended December 31, 2017, the Company paid a \$120,000 annual base director's fee to each independent director. Base director's fees are paid 50% in cash and 50% in restricted common stock. The number of shares of restricted common stock to be issued each quarter to each independent director is determined based on the average of the high and low prices of the Company's common stock on the New York Stock Exchange on the last trading day of each fiscal quarter. To the extent that any fractional shares would otherwise be issuable and payable to each independent director, a cash payment is made to each independent director in lieu of any fractional shares. All directors' fees are paid pro rata (and restricted stock grants determined) on a quarterly basis in arrears, and shares issued are fully vested and non-forfeitable. These shares may not be sold or transferred by such director during the time of his service as an independent member of the Company's board.

The following table presents information with respect to the Company's restricted stock and restricted stock units for the years ended December 31, 2017, December 31, 2016 and December 31, 2015:

	Year Ended December 31, 2017		Year Ended December 31, 2016		Year Ended December 31, 2015	
	Shares of Restricted Stock and Restricted Stock Units	Weighted Average Grant Date Fair Value	Shares of Restricted Stock and Restricted Stock Units	Weighted Average Grant Date Fair Value	Shares of Restricted Stock and Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	57,981	\$ 20.66	69,348	\$ 19.72	82,426	\$ 19.37
Granted (1)	71,452	18.50	8,636	13.88	6,916	17.34
Cancelled/forfeited	-	-	-	-	-	-
Unrestricted	(20,003)	18.53	(20,003)	14.48	(19,994)	17.45
Outstanding at end of year	109,430	\$ 19.64	57,981	\$ 20.66	69,348	\$ 19.72
Unvested at end of year	60,000	\$ 18.53	20,003	\$ 18.86	40,006	\$ 18.86

(1) The grant date fair value of restricted stock awards was established as the average of the high and low prices of the Company's common stock at the grant date. The grant date fair value of restricted stock units is based on the closing market price of the Company's common stock at the grant date.

During the years ended December 31, 2017, December 31, 2016, and December 31, 2015, 31,455, 28,639, and 26,910 shares of total restricted stock and restricted stock units vested, respectively.

On December 31, 2017, the Company had unrecognized compensation expense of \$0.8 million related to restricted stock units. The total fair value of restricted shares and units vested for the years ended December 31, 2017, December 31, 2016 and December 31, 2015 was approximately \$0.6 million, \$0.4 million, and \$0.5 million, respectively, based on the closing price of the stock on the vesting date. The unrecognized compensation expense on December 31, 2017 is expected to be recognized over a weighted average period of 18 months.

The Company capitalized equity based compensation expense of \$0.5 million, \$0.4 million, and \$0.3 million during the years ended December 31, 2017, December 31, 2016 and December 31, 2015, respectively, associated with the amortization of restricted stock and restricted stock units.

Investments in debt and equity of affiliates

The Company invests in credit sensitive residential and commercial real estate assets through affiliated entities which hold an ownership interest in the assets. The Company is one investor, amongst other investors managed by affiliates of Angelo, Gordon, in such entities and has applied the equity method of accounting for such investments. As of December 31, 2017 and December 31, 2016, the Company's share of these investments had a fair market value of \$88.3 million and \$69.0 million, respectively.

The Company's investment in AG Arc is reflected on the "Investments in debt and equity of affiliates" line item on its consolidated balance sheets at a fair value of \$17.9 million and \$12.9 million on December 31, 2017 and December 31, 2016, respectively. On March 8, 2016, an affiliate of the Manager ("the Affiliate") became a member of AG Arc. The Affiliate acquired an ownership interest in AG Arc which resulted in the Company's ownership interest being reduced on a pro-rata basis.

In June 2016, Arc Home closed on the acquisition of a Fannie Mae, Freddie Mac, Federal Housing Administration ("FHA"), Veteran's Administration ("VA") and Ginnie Mae seller/servicer of mortgages with licenses to conduct business in 47 states, including Washington D.C. Through this subsidiary, Arc Home originates conforming, Government, Jumbo and other non-conforming residential mortgage loans, retains the mortgage servicing rights associated with the loans it originates, and purchases additional mortgage servicing rights from third-party sellers. Arc Home is led by an external management team.

Arc Home may sell loans to the Company, to third parties, or to affiliates of the Manager. Arc Home may also enter into agreements with third parties or affiliates of the Manager to sell rights to receive the excess servicing spread related to MSRs that it either purchases from third parties or originates. The Company has entered into agreements with Arc Home to purchase rights to receive the excess servicing spread related to certain of its MSRs and as of December 31, 2017, these Excess MSRs had fair value of approximately \$5.0 million.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements

On August 29, 2017, the Company, alongside private funds under the management of Angelo, Gordon entered into the MATH LLC Agreement, which requires that MATH fund a capital commitment of \$75.0 million to MATT. The Company's share of MATH's total capital commitment to MATT is \$33.4 million, of which the Company had funded \$4.2 million as of December 31, 2017. As of December 31, 2017, the Company's remaining commitment was \$29.2 million.

Transactions with affiliates

In May 2015, the Company completed an arm's-length securitization with other investors managed by an affiliate of the Manager (the "Related Parties") by combining the assets of a prior private securitization, in which the Company held a 10.0% ownership interest, with the assets of another private securitization held entirely by the Related Parties. The Company's investment in this securitization is reflected on the "Non-Agency" line item on the consolidated balance sheets and had a fair value of \$3.1 million as of the date of the securitization. The Company completed another similar arm's-length securitization in July 2015 with the Related Parties by combining the assets of a private securitization, in which the Company held a 7.5% ownership interest, with the assets of another private securitization held entirely by the Related Parties. The Company's investment in this securitization is reflected on the "Non-Agency" line item on the consolidated balance sheets and had a fair value of a fair value of \$5.1 million as of the date of the securitization. The remaining interests in each securitization were owned by certain of the Related Parties. Each securitization was backed by collateral consisting of seasoned NPLs and RPLs. The Company obtained third-party pricing for each transaction.

In July 2015, the Company completed an arm's-length purchase at fair value. Certain entities managed by an affiliate of the Company's Manager ("Related Entities") had previously formed a joint venture ("Joint Venture") with an unaffiliated third party. The Joint Venture owns certain multi-family properties for which the mortgages partly collateralize a securitization wherein the Company purchased certain bond tranches. To ensure an arm's-length transaction, an affiliate of the Manager delegated its decision making rights with respect to the securitization to a third party-servicer. In addition, the members of the Joint Venture agreed to cease sharing material non-public information with the Company's investment team regarding the collateral. The investment by the Company in these bond tranches was reflected on the "Investments in debt and equity of affiliates" line item on the consolidated balance sheets with a fair value of \$7.1 million as of the date of the purchase.

In connection with the Company's investments in residential mortgage loans and residential mortgage loans in securitized form that it purchases from an affiliate (or affiliates) of the Manager ("Securitized Whole Loans"), the Company may engage asset managers to provide advisory, consultation, asset management and other services to help our third-party servicers formulate and implement strategic plans to manage, collect and dispose of loans in a manner that is reasonably expected to maximize the amount of proceeds from each loan. Beginning in November 2015, the Company engaged Red Creek Asset Management LLC ("Asset Manager"), a related party of the Manager and direct subsidiary of Angelo, Gordon, as the asset manager for certain of its residential loans and Securitized Whole Loans. The Asset Manager acknowledges that the Company will at all times have and retain ownership of all loans and that the Asset Manager will not acquire (i) title to any loan, (ii) any security interest in any loan, or (iii) any other rights or interests of any kind or any nature whatsoever in or to any loan. The Company pays separate arm's-length asset management fees as assessed and confirmed periodically by a third-party valuation firm for (i) non-performing loans and (ii) re-performing loans. For the years ended December 31, 2017, December 31, 2016, and December 31, 2015, the fees paid by the Company to the Asset Manager, totaled \$175,780, \$259,116, and \$33,139, respectively.

In connection with the Company's investments in Excess MSRs purchased through Arc Home, the Company pays a sourcing fee to Arc Home based on the net equity invested by the Company in these investments. the sourcing fees paid by the Company to Arc Home totaled \$10,762. The Company paid no sourcing fees to Arc Home for the years ended December 31, 2016 and December 31, 2015.

In June 2016, in accordance with the Company's Affiliated Transactions Policy, the Company executed two trades whereby the Company acquired real estate securities from two separate affiliates of the Manager (the "June Selling Affiliates"). As of the date of the trades, the securities acquired from the June Selling Affiliates had a total fair value of \$6.9 million. In each case, the June Selling Affiliates sold the real estate securities through a BWIC (Bids Wanted in Competition). Prior to the submission of the BWIC by the June Selling Affiliates, the Company submitted its bid for the real estate securities to the June Selling Affiliates. The Company's pre-submission of its bid allowed the Company to confirm third-party market pricing and best execution.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements

In February 2017, in accordance with the Company's Affiliated Transactions Policy, the Company executed one trade whereby the Company acquired a real estate security from an affiliate of the Manager (the "February Selling Affiliate"). As of the date of the trade, the security acquired from the February Selling Affiliate had a total fair value of \$2.0 million. The February Selling Affiliate sold the real estate security through a BWIC. Prior to the submission of the BWIC by the February Selling Affiliate, the Company submitted its bid for the real estate security to the February Selling Affiliate. The Company's pre-submission of its bid allowed the Company to confirm third-party market pricing and best execution.

In July 2017, in accordance with the Company's Affiliated Transactions Policy, the Company acquired certain real estate securities from an affiliate of the Manager (the "July Selling Affiliate"). As of the date of the trade, the securities acquired from the July Selling Affiliate had a total fair value of \$0.2 million. As procuring market bids for the real estate securities was determined to be impracticable in the Manager's reasonable judgment, appropriate pricing was based on a valuation prepared by an independent third-party pricing vendor. The third-party pricing vendor allowed the Company to confirm third-party market pricing and best execution.

In October 2017, in accordance with the Company's Affiliated Transactions Policy, the Company acquired certain real estate securities and loans from two affiliates of the Manager (the "October Selling Affiliates"). As of the date of the trade, the securities and loans acquired from the October Selling Affiliates had a total fair value of \$8.4 million. As procuring market bids for the real estate securities and loans were determined to be impracticable in the Manager's reasonable judgment, appropriate pricing was based on a valuation prepared by independent third-party pricing vendors. The third-party pricing vendors allowed the Company to confirm third-party market pricing and best execution.

11. Equity

On May 6, 2015, the Company filed a shelf registration statement, registering up to \$750.0 million of its securities, including capital stock. On December 31, 2017, \$650.0 million of the Company's securities, including capital stock, was available for issuance under the registration statement.

Concurrently with the IPO in 2011, the Company offered a private placement of 3,205,000 units at \$20.00 per share to a limited number of investors qualifying as "accredited investors" under Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Each unit consisted of one share of common stock ("private placement share") and a warrant ("private placement warrant") to purchase 0.5 of a share of common stock. Each private placement warrant had an exercise price of \$20.50 per share (as adjusted for reorganizations, reclassifications, consolidations, mergers, sales, transfers or other dispositions) and is set to expire on July 6, 2018. No warrants were exercised for the years ended December 31, 2017 and December 31, 2016.

The Company's Series A and Series B Preferred Stock have no stated maturity and are not subject to any sinking fund or mandatory redemption. Under certain circumstances upon a change of control, the Company's Series A and Series B Preferred Stock are convertible to shares of the Company's common stock. Holders of the Company's Series A and Series B Preferred Stock have no voting rights, except under limited conditions, and holders are entitled to receive cumulative cash dividends at a rate of 8.25% and 8.00% per annum on the Series A and Series B Preferred Stock, respectively, of the \$25.00 per share liquidation preference before holders of the common stock are entitled to receive any dividends. Shares of the Company's Series A and Series B Preferred Stock are currently redeemable at \$25.00 per share plus accumulated and unpaid dividends (whether or not declared) exclusively at the Company's option. Dividends are payable quarterly in arrears on the 17th day of each March, June, September and December. As of December 31, 2017, the Company had declared all required quarterly dividends on the Company's Series A and Series B Preferred Stock.

On November 3, 2015, the Company's board of directors authorized a stock repurchase program ("Repurchase Program") to repurchase up to \$25.0 million of its outstanding common stock. Such authorization does not have an expiration date. As part of the Repurchase Program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. Open market repurchases will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. Subject to applicable securities laws, the timing, manner, price and amount of any repurchases of common stock under the Repurchase Program may be determined by the Company in its discretion, using available cash resources. Shares of common stock repurchased by the Company under the Repurchase Program, if any, will be cancelled and, until reissued by the Company, will be deemed to be authorized but unissued shares of its common stock as required by Maryland law. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice and the authorization does not obligate the Company to acquire any particular amount of common stock. The cost of the acquisition by the Company of shares of its own stock in excess of the aggregate par value of the shares first reduces additional paid-in capital, to the extent available, with any residual cost applied against retained earnings. No shares were repurchased under the Repurchase Program during the year ended December 31, 2017 and approximately \$14.6 million of common stock remained authorized for future share repurchases under the Repurchase Program.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements

The following table presents a summary of the Company's common stock repurchases under the Repurchase Program for the year ended December 31, 2016:

Month Purchased (1)	Total Number of Shares Repurchased	Weighted Average Price per Share Paid (2)	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased Under the Program (3)
March 2016	119,606	\$ 12.86	246,321	\$ 21,790,786
May 2016	276,522	13.75	522,843	17,988,891
June 2016	36,725	14.38	559,568	17,460,743
August 2016	165,842	15.74	725,410	14,850,605
September 2016	16,000	15.76	741,410	14,598,493
Total	614,695	\$ 14.20	741,410	\$ 14,598,493

(1) Based on trade date. The Program was announced on November 4, 2015. The Program does not have an expiration date.

(2) Includes brokerage commissions and clearing fees.

(3) The maximum dollar amount authorized was \$25.0 million.

The following table presents a summary of the Company's common stock repurchases under the Repurchase Program for the year ended December 31, 2015:

Month Purchased (1)	Total Number of Shares Repurchased	Weighted Average Price per Share Paid (2)	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased Under the Program (3)
December 2015	126,715	\$ 13.19	126,715	\$ 23,328,521
Total	126,715	\$ 13.19	126,715	\$ 23,328,521

(1) Based on trade date. The Program was announced on November 4, 2015. The Program does not have an expiration date.

(2) Includes brokerage commissions and clearing fees

(3) The maximum dollar amount authorized was \$25.0 million.

On May 5, 2017, the Company entered into an equity distribution agreement with each of Credit Suisse Securities (USA) LLC and JMP Securities LLC (collectively, the "Sales Agents"), which the Company refers to as the "Equity Distribution Agreements," pursuant to which the Company may sell up to \$100.0 million aggregate offering price of shares of its common stock from time to time through the Sales Agents, as defined in Rule 415 under the Securities Act of 1933. As of December 31, 2017, the Company sold 460,932 shares of common stock under the Equity Distribution Agreements for net proceeds of approximately \$8.7 million.

12. Commitments and Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business.

On December 9, 2015, the Company, alongside private funds under the management of Angelo, Gordon, through AG Arc, entered into Arc Home's LLC Agreement and agreed to fund an initial capital commitment of \$30.0 million. On April 25, 2017, the Company, alongside private funds under the management of Angelo, Gordon, agreed to fund an additional capital commitment to Arc Home in the amount of \$10.0 million. As of December 31, 2017, the Company's share of Arc Home's total capital commitment was \$17.8 million. The Company had funded all of its capital commitment to Arc Home as of December 31, 2017.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements

On February 28, 2017, the Company, alongside another private fund under the management of Angelo, Gordon, purchased a mezzanine loan and agreed to fund a commitment of \$21.9 million. The Company's share of the commitment is \$14.6 million of which the Company had funded \$10.4 million as of December 31, 2017. As of December 31, 2017, the Company's remaining commitment was \$4.2 million.

On August 29, 2017, the Company, alongside private funds under the management of Angelo, Gordon entered into the MATH LLC Agreement, which requires that MATH fund a capital commitment of \$75.0 million to MATT. The Company's share of MATH's total capital commitment to MATT is \$33.4 million, of which the Company had funded \$4.2 million as of December 31, 2017. As of December 31, 2017, the Company's remaining commitment was \$29.2 million.

In the normal course of business, the Company enters into agreements where payment may become due if certain events occur. Management believes that the probability of making such payments is remote.

13. Investments in unconsolidated equity method affiliates

The following table details the summarized balance sheets for the Company's unconsolidated ownership interests in affiliates accounted for using the equity method as of December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Assets		
Real estate securities and loans, at fair value:	\$ 479,433,571	\$ 484,492,172
Mortgage servicing rights, at fair value	57,851,266	26,398,714
Other assets	74,453,564	114,987,583
Total Assets	\$ 611,738,401	\$ 625,878,469
Liabilities		
Repurchase agreements	\$ 154,269,485	\$ 252,386,305
Other liabilities	39,831,756	18,549,365
Total Liabilities	194,101,241	270,935,670
Total Members' Equity		
Members' equity	415,395,857	354,942,799
Noncontrolling preferred interests	2,241,303	-
Total Member's equity	417,637,160	354,942,799
Total Liabilities & Members' Equity	\$ 611,738,401	\$ 625,878,469
The Company's Investments in debt and equity of affiliates (1)	\$ 99,696,347	\$ 72,215,919

(1) The Company's Investments in debt and equity of affiliates reflect different ownership percentages in multiple equity method investees.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements

The following table details the summarized statements of operations for the Company's unconsolidated ownership interests in affiliates accounted for using the equity method as of December 31, 2017, December 31, 2016 and December 31, 2015:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Net Interest Income			
Interest income	\$ 53,213,306	\$ 47,206,287	\$ 56,760,416
Interest expense	10,904,787	8,672,969	9,923,520
	<u>42,308,519</u>	<u>38,533,318</u>	<u>46,836,896</u>
Other Income			
Net realized gain/(loss)	13,423,119	(22,482,696)	(26,330,913)
Unrealized gain (loss) on real estate securities and loans, net	28,738,483	(9,528,011)	12,654,247
Other income	13,751,949	4,454,605	5,815,331
	<u>55,913,551</u>	<u>(27,556,102)</u>	<u>(7,861,335)</u>
Expenses			
Other operating expenses	23,279,012	19,708,725	16,300,734
Net Income/(Loss)	<u>74,943,058</u>	<u>(8,731,509)</u>	<u>22,674,827</u>
Net Income/(Loss) Attributable to Noncontrolling Preferred Interests	(244,598)	-	-
Net Income/(Loss) Attributable to Controlling Interest of Unconsolidated Equity Method Investments	<u>\$ 74,698,460</u>	<u>\$ (8,731,509)</u>	<u>\$ 22,674,827</u>
The Company's Equity in earnings/(loss) from affiliates (1)	<u>\$ 12,621,461</u>	<u>\$ 1,518,862</u>	<u>\$ 3,398,217</u>

(1) The Company's equity in earnings/(loss) from affiliates reflect different ownership percentages in multiple equity method investees.

Refer to Note 2 for more detail on the Company's investments in unconsolidated equity method affiliates.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements

14. Quarterly results (Unaudited)

Summarized quarterly results of operations were as follows:

	Three Months Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Statement of Operations Data:				
Net Interest Income				
Interest income	\$ 27,959,892	\$ 31,220,535	\$ 33,592,587	\$ 36,071,945
Interest expense	8,161,412	10,201,393	11,959,225	13,399,984
	<u>19,798,480</u>	<u>21,019,142</u>	<u>21,633,362</u>	<u>22,671,961</u>
Other Income				
Net realized gain/(loss)	(2,428,087)	(10,121,477)	22,286	(1,459,014)
Realized loss on periodic interest settlements of derivative instruments, net	(1,609,977)	(1,857,542)	(2,147,452)	(2,147,981)
Unrealized gain/(loss) on real estate securities and loans, net	12,750,564	25,546,552	14,892,809	(7,661,091)
Unrealized gain/(loss) on derivative and other instruments, net	(125,872)	1,927,169	2,422,713	15,589,346
Other income	28,037	3,845	2,325	21,240
	<u>8,614,665</u>	<u>15,498,547</u>	<u>15,192,681</u>	<u>4,342,500</u>
Expenses				
Management fee to affiliate	2,475,816	2,443,780	2,454,083	2,461,414
Other operating expenses	2,793,234	2,851,353	2,602,473	2,718,084
Servicing fees	76,001	86,001	22,991	49,271
Equity based compensation to affiliate	77,478	87,540	60,859	74,811
Excise tax	375,000	375,000	375,000	375,000
	<u>5,797,529</u>	<u>5,843,674</u>	<u>5,515,406</u>	<u>5,678,580</u>
Income/(loss) before equity in earnings/(loss) from affiliates	22,615,616	30,674,015	31,310,637	21,335,881
Equity in earnings/(loss) from affiliates	2,502,046	2,497,116	4,700,800	2,921,499
Net Income/(Loss)	<u>25,117,662</u>	<u>33,171,131</u>	<u>36,011,437</u>	<u>24,257,380</u>
Dividends on preferred stock	3,367,354	3,367,354	3,367,354	3,367,354
Net Income/(Loss) Available to Common Stockholders	<u>\$ 21,750,308</u>	<u>\$ 29,803,777</u>	<u>\$ 32,644,083</u>	<u>\$ 20,890,026</u>
Earnings/(Loss) Per Share of Common Stock				
Basic	\$ 0.79	\$ 1.08	\$ 1.17	\$ 0.74
Diluted	\$ 0.78	\$ 1.07	\$ 1.17	\$ 0.74

	Three Months Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Statement of Operations Data:				
Net Interest Income				
Interest income	\$ 30,697,158	\$ 30,200,296	\$ 30,573,134	\$ 31,535,524
Interest expense	8,560,299	8,396,997	8,525,365	8,302,370
	<u>22,136,859</u>	<u>21,803,299</u>	<u>22,047,769</u>	<u>23,233,154</u>
Other Income				
Net realized gain/(loss)	(12,986,658)	(5,317,085)	9,578,488	(1,665,863)
Realized loss on periodic interest settlements of derivative instruments, net	(2,377,775)	(1,607,539)	(1,034,251)	(990,073)
Unrealized gain/(loss) on real estate securities and loans, net	8,840,770	10,958,117	13,461,216	(30,587,677)
Unrealized gain/(loss) on derivative and other instruments, net	(11,956,002)	202,572	6,961,061	13,405,453
Other income	25,391	1,995	341,345	5,171
	<u>(18,454,274)</u>	<u>4,238,060</u>	<u>29,307,859</u>	<u>(19,832,989)</u>
Expenses				
Management fee to affiliate	2,450,143	2,420,782	2,451,387	2,487,115
Other operating expenses	3,046,812	2,664,252	2,870,662	1,708,787
Servicing fees	130,370	106,974	121,806	44,979
Equity based compensation to affiliate	54,971	87,183	75,774	80,664
Excise tax	375,000	375,000	238,167	525,000
	<u>6,057,296</u>	<u>5,654,191</u>	<u>5,757,796</u>	<u>4,846,545</u>
Income/(loss) before equity in earnings/(loss) from affiliates	(2,374,711)	20,387,168	45,597,832	(1,446,380)
Equity in earnings/(loss) from affiliates	(69,716)	689,973	534,133	364,472
Net Income/(Loss)	<u>(2,444,427)</u>	<u>21,077,141</u>	<u>46,131,965</u>	<u>(1,081,908)</u>
Dividends on preferred stock	3,367,354	3,367,354	3,367,354	3,367,354
Net Income/(Loss) Available to Common Stockholders	<u>\$ (5,811,781)</u>	<u>\$ 17,709,787</u>	<u>\$ 42,764,611</u>	<u>\$ (4,449,262)</u>
Earnings/(Loss) Per Share of Common Stock				
Basic	\$ (0.21)	\$ 0.63	\$ 1.54	\$ (0.16)
Diluted	\$ (0.21)	\$ 0.63	\$ 1.54	\$ (0.16)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of December 31, 2017, an evaluation was performed, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer, with the participation of management, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2017 in ensuring that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and (2) accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017 based on *Internal Control—Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the Company's internal control over financial reporting is effective as of December 31, 2017.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

(c) Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement to be filed not later than April 30, 2018 with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement to be filed not later than April 30, 2018 with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement to be filed not later than April 30, 2018 with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement to be filed not later than April 30, 2018 with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement to be filed not later than April 30, 2018 with the SEC pursuant to Regulation 14A under the Exchange Act.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. Financial Statements.
2. Schedules to Financial Statements – None.

All financial statement schedules have been omitted because they are either inapplicable or the information required is provided in our Financial Statements and Notes thereto, included in Part II, Item 8, of this report.

3. Exhibits:

Exhibit No.	Description
<u>*3.1</u>	<u>Articles of Amendment and Restatement of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of Amendment No. 2 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on April 18, 2011 (“Pre-Effective Amendment No. 2”).</u>
<u>*3.2</u>	<u>Articles of Amendment to Articles of Amendment and Restatement of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the Securities and Exchange Commission on May 5, 2017.</u>
<u>*3.3</u>	<u>Amended and Restated Bylaws of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.2 of Pre-Effective Amendment No. 2.</u>
<u>*3.4</u>	<u>Articles Supplementary of 8.25% Series A Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the Securities and Exchange Commission on August 2, 2012</u>
<u>*3.5</u>	<u>Articles Supplementary of 8.00% Series B Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the Securities and Exchange Commission on September 24, 2012.</u>
<u>*4.1</u>	<u>Specimen Stock Certificate of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 4.1 of Pre-Effective Amendment No. 2.</u>
<u>*4.2</u>	<u>Specimen 8.25% Series A Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the Securities and Exchange Commission on August 2, 2012.</u>
<u>*4.3</u>	<u>Specimen 8.00% Series B Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the Securities and Exchange Commission on September 24, 2012.</u>
<u>*10.1</u>	<u>Form of Registration Rights Agreement by and between the Company and the purchasers of units and shares in the private placement, dated June 29, 2011, incorporated by reference to Exhibit 10.1 of Amendment No. 7 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on June 29, 2011 (“Pre-Effective Amendment No. 7”).</u>
<u>*10.2</u>	<u>Form of Management Agreement, dated June 29, 2011 by and between the Company and AG REIT Management, LLC, incorporated by reference to Exhibit 10.3 of Amendment No. 3 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on April 25, 2011.**</u>
<u>*10.3</u>	<u>Equity Incentive Plan, dated July 6, 2011, incorporated by reference to Exhibit 10.4 of Pre-Effective Amendment No. 2.**</u>
<u>*10.4</u>	<u>Manager Equity Incentive Plan, dated July 6, 2011, incorporated by reference to Exhibit 10.5 of Pre-Effective Amendment No. 2.**</u>
<u>*10.5</u>	<u>Form of Equity Incentive Plan Restricted Stock Award Agreement, dated July 6, 2011, incorporated by reference to Exhibit 10.6 of Pre-Effective Amendment No. 2.**</u>
<u>*10.6</u>	<u>Form of Manager Incentive Plan Restricted Stock Award Agreement, dated July 6, 2011, incorporated by reference to Exhibit 10.7 of Pre-Effective Amendment No. 2.**</u>

Exhibit No.	Description
<u>*10.7</u>	<u>Form of Indemnification Agreement, dated July 6, 2011, by and between the Company and the Company's directors and officers, incorporated by reference to Exhibit 10.10 of Pre-Effective Amendment No. 7.</u>
<u>*10.8</u>	<u>Amended and Restated Master Repurchase and Securities Contract dated as of April 12, 2013 between AG MIT, LLC, AG Mortgage Investment Trust, Inc. and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.1 of Form 8-K, filed with the Securities and Exchange Commission on April 15, 2013.</u>
<u>*10.9</u>	<u>Guarantee Agreement dated as of April 9, 2012 by AG Mortgage Invest Trust, Inc. in favor of Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.2 of Form 8-K, filed with the Securities and Exchange Commission on April 10, 2012.</u>
<u>*10.10</u>	<u>Amended and Restated Master Repurchase and Securities Contract dated as of February 11, 2014 between AG MIT WFB1 2014 LLC and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.1 of Form 8-K, filed with the Securities and Exchange Commission on February 21, 2014.</u>
<u>*10.11</u>	<u>Guarantee Agreement dated as of February 11, 2014 by AG MIT, LLC and AG Mortgage Invest Trust, Inc. in favor of Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.2 of Form 8-K, filed with the Securities and Exchange Commission on February 21, 2014.</u>
<u>*10.12</u>	<u>Master Repurchase and Securities Contract dated as of September 17, 2014 between AG MIT CREL LLC and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.1 of Form 8-K, filed with the Securities and Exchange Commission on September 18, 2014.</u>
<u>*10.13</u>	<u>Guarantee Agreement dated as of September 17, 2014 by AG MIT, LLC and AG Mortgage Investment Trust, Inc. in favor of Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.2 of Form 8-K, filed with the Securities and Exchange Commission on September 18, 2014.</u>
<u>*10.14</u>	<u>Form of Restricted Stock Unit Award Agreement, dated July 1, 2014, incorporated by reference to Exhibit 10.14 on Form 10-Q, filed with the Securities and Exchange Commission on November 6, 2014.**</u>
<u>*10.15</u>	<u>Omnibus Amendment No.1 to Master Repurchase and Securities Contract, Guarantee Agreement and Fee and Pricing Letter dated as of August 4, 2015 between AG MIT CREL, LLC and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 10.14 of Form 10-Q, filed with the Securities and Exchange Commission on August 6, 2015.</u>
<u>*10.16</u>	<u>Form of Restricted Stock Unit Award Agreement, dated July 1, 2017, incorporated by reference to Exhibit 10.14 on Form 10-Q, filed with the Securities and Exchange Commission on August 9, 2017.**</u>
<u>12.1</u>	<u>Computation of ratio of earnings to combined fixed charges and preferred stock dividends.</u>
<u>21.1</u>	<u>Subsidiaries of the Registrant.</u>
<u>23.1</u>	<u>Consent of Independent Registered Public Accounting Firm.</u>
<u>31.1</u>	<u>Certification of David N. Roberts pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification of Brian C. Sigman pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification of David N. Roberts pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certification of Brian C. Sigman pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>99.1</u>	<u>Additional Material U.S. Federal Income Tax Considerations.</u>

Exhibit No.	Description
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Fully or partly previously filed.

** Management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None

SIGNATURES

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

AG MORTGAGE INVESTMENT TRUST, INC.

February 28, 2018

By:

/s/ DAVID N. ROBERTS

David N. Roberts

Chief Executive Officer (Principal Executive Officer)

February 28, 2018

By:

/s/ BRIAN C. SIGMAN

Brian C. Sigman

Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report was signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

February 28, 2018

By:

/s/ DAVID N. ROBERTS

David Roberts

Director, Chief Executive Officer and President

February 28, 2018

By:

/s/ FRANK STADELMAIER

Frank Stadelmaier

Director

February 28, 2018

By:

/s/ ARTHUR AINSBERG

Arthur Ainsberg

Director

February 28, 2018

By:

/s/ ANDREW L. BERGER

Andrew L. Berger

Director

February 28, 2018

By:

/s/ DEBRA HESS

Debra Hess

Director

February 28, 2018

By:

/s/ JOSEPH LAMANNA

Joseph LaManna

Director

February 28, 2018

By:

/s PETER LINNEMAN

Peter Linneman

Director

AG Mortgage Investment Trust, Inc.
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

The following table sets forth the calculation of our ratio of earnings to combined fixed charges and preferred stock dividends for each of the periods indicated:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Net Income/(Loss)	\$ 118,557,610	\$ 63,682,771	\$ 13,818,537	\$ 109,395,568	\$ (31,578,636)
Fixed Charges (1)	51,813,595	40,259,274	45,065,367	51,464,389	59,408,921
Preferred stock dividends	13,469,416	13,469,416	13,469,416	13,469,416	13,469,416
Total fixed charges and preferred stock dividends	65,283,011	53,728,690	58,534,783	64,933,805	72,878,337
Earnings available to cover fixed charges and preferred stock dividends	\$ 183,840,621	\$ 117,411,461	\$ 72,353,320	\$ 174,329,373	\$ 41,299,701
Ratio of earnings to combined fixed charges and preferred stock dividends	2.8	2.2	1.2	2.7	0.6

(1) Fixed charges consist of interest expense on all indebtedness reported for GAAP, plus \$2.6 million and \$5.9 million relating to the underlying interest charge on repurchase agreements accounted for as a component of linked transactions for the years ended December 31, 2014, and December 31, 2013, respectively. Due to ASU 2014-11 being effective as of January 1, 2015, the Company is required to separately account for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, and as a result, no interest expense relating to the underlying interest charges on repurchase agreements accounted for as a component of linked transactions was recognized for the years ended December 31, 2017, December 31, 2016 and December 31, 2015. Additionally, fixed charges consist of \$7.8 million, \$6.0 million, \$13.2 million, \$22.3 million, and \$27.9 million relating to the net periodic interest settlements of interest rate swaps for the years ended December 31, 2017, December 31, 2016, December 31, 2015, December 31, 2014, and December 31, 2013, respectively. Fixed charges also consist of \$0.3 million, \$0.5 million and \$0.6 million of interest expense relating to investments held through affiliated entities, exclusive of our investment in AG Arc, at December 31, 2017, December 31, 2016, and December 31, 2015, respectively. We had an immaterial amount of interest expense relating to investments held through affiliated entities at December 31, 2014. We had no such interest expense for the year ended December 31, 2013.

AG Mortgage Investment Trust, Inc. Significant Subsidiaries

	Subsidiary	State of Incorporation
1.	AG MIT, LLC	Delaware
2.	AG MIT CMO, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-203908) and Form S-8 (No. 333-175354) of AG Mortgage Investment Trust, Inc. of our report dated February 28, 2018 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, New York
February 28, 2018

CERTIFICATION

I, David N. Roberts, certify that:

1. I have reviewed this annual report on Form 10-K of AG Mortgage Investment Trust, 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: February 28, 2018

/s/ David N. Roberts

David N. Roberts

Chief Executive Officer

CERTIFICATION

I, Brian C. Sigman, certify that:

1. I have reviewed this annual report on Form 10-K of AG Mortgage Investment Trust, 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: February 28, 2018

/s/ Brian C. Sigman

Brian C. Sigman
Chief Financial Officer and
Principal Accounting Officer

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

In connection with the Annual Report on Form 10-K of AG Mortgage Investment Trust, Inc. (the “Company”) for the annual period ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David N. Roberts, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

/s/ David N. Roberts

David N. Roberts
Chief Executive Officer
February 28, 2018

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

In connection with the Annual Report on Form 10-K of AG Mortgage Investment Trust, Inc. (the “Company”) for the annual period ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brian C. Sigman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

/s/ Brian C. Sigman

Brian C. Sigman
Chief Financial Officer and
Principal Accounting Officer
February 28, 2018

Additional Material Federal Income Tax Considerations

The following is a summary of certain additional material federal income tax considerations with respect to the ownership of our common stock. This summary supplements and should be read together with “Material Federal Income Tax Considerations” in the prospectus supplement dated May 5, 2017 and filed as part of our registration statement on Form S-3 (No. 333-203908).

Recent Legislation

The recently passed Tax Cuts and Jobs Act (“TCJA”) made many significant changes to the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders, and may lessen the relative competitive advantage of operating as a REIT rather than as a C corporation. Pursuant to this legislation, as of January 1, 2018, (1) the federal income tax rate applicable to corporations is reduced to 21%, (2) the highest marginal individual income tax rate is reduced to 37%, (3) the corporate alternative minimum tax is repealed, and (4) the backup withholding rate for U.S. holders is reduced to 24%. In addition, individuals, estates and trusts may deduct up to 20% of certain pass-through income, including ordinary REIT dividends that are not “capital gain dividends” or “qualified dividend income,” subject to complex limitations. For taxpayers qualifying for the full deduction, the effective maximum tax rate on ordinary REIT dividends would be 29.6% (through taxable years ending in 2025). The maximum rate of withholding with respect to our distributions to non-U.S. holders that are treated as attributable to gains from the sale or exchange of U.S. real property interests is also reduced from 35% to 21%. The deduction of net interest expense is limited for all businesses; provided that certain businesses, including real estate businesses, may elect not to be subject to such limitations and instead to depreciate their real property related assets over longer depreciable lives. The reduced corporate tax rate will apply to our domestic TRSs. To the extent that a domestic TRS has interest expense that exceeds its interest income, the net interest expense limitation could potentially apply to such taxable REIT subsidiary.

Under the TCJA, we generally will be required to take certain amounts in income no later than the time such amounts are reflected on certain financial statements. The application of this rule may require the accrual of income with respect to our debt instruments or MBS, such as original issue discount or market discount, earlier than would be the case under the general tax rules, although the precise application of this rule is unclear at this time. This rule generally will be effective for tax years beginning after December 31, 2017 or, for debt instruments or MBS issued with original issue discount, for tax years beginning after December 31, 2018. To the extent that this rule requires the accrual of income earlier than under the general tax rules, it could increase our “phantom income,” which may make it more likely that we could be required to borrow funds or take other action to satisfy the REIT distribution requirements for the taxable year in which this “phantom income” is recognized.

Under the TCJA, deferred foreign income of our foreign TRSs that has not previously been subject to tax would be deemed repatriated and would be included in income. We have included in our income, even without the receipt of actual distributions, earnings from our investment in any foreign TRS. Thus, we do not expect our foreign TRSs to have any deferred foreign income that will be deemed repatriated in 2018. Any income deemed repatriated would be excluded from both the 75% and 95% gross income tests, but would increase our REIT distribution requirement. REITs are permitted to elect to include such income in taxable income over an eight year period.

We urge you to consult your tax advisors regarding the impact of this legislation on the purchase, ownership and sale of our common stock.
