



(Registrant's telephone number, including area code)

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, par value \$0.01 per share	NASDAQ Stock Market

**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 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 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (check one):

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 28, 2013 was \$429,653,988.

The number of shares of the registrant’s common stock, par value \$.01 per share, outstanding on March 5, 2014 was 75,706,546.

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**DOCUMENTS INCORPORATED BY REFERENCE**

<b>Document</b>	<b>Where Incorporated Part III, Items 10-14</b>
1. Portions of the Registrant's Definitive Proxy Statement relating to its 2014 Annual Meeting of Stockholders scheduled for May 2014 to be filed with the Securities and Exchange Commission by no later than April 30, 2014.	

**NEW YORK MORTGAGE TRUST, INC.**

**FORM 10-K**

**For the Fiscal Year Ended December 31, 2013**

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## PART I

### Item 1. BUSINESS

*In this Annual Report on Form 10-K we refer to New York Mortgage Trust, Inc., together with its consolidated subsidiaries, as “we,” “us,” “Company,” or “our,” unless we specifically state otherwise or the context indicates otherwise. We refer to our wholly-owned taxable REIT subsidiaries as “TRSs” and our wholly-owned qualified REIT subsidiaries as “QRSs.” In addition, the following defines certain of the commonly used terms in this report: “RMBS” refers to residential mortgage-backed securities comprised of adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only, and principal only securities; “Agency RMBS” refers to RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by a federally chartered corporation (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. government, such as the Government National Mortgage Association (“Ginnie Mae”); “Agency ARMs” refers to Agency RMBS comprised of adjustable-rate and hybrid adjustable-rate RMBS; “non-Agency RMBS” refers to RMBS backed by prime jumbo and Alternative A-paper (“Alt-A”) mortgage loans; “IOs” refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans; “Agency IOs” refers to IOs that represent the right to the interest components of the cash flow from a pool of mortgage loans issued or guaranteed by a GSE or an agency of the U.S. government; “POs” refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; “ARMs” refers to adjustable-rate residential mortgage loans; “prime ARM loans” and “residential securitized loans” each refer to prime credit quality residential ARM loans (“prime ARM loans”) held in securitization trusts; “distressed residential loans” refers to pools of performing and re-performing, fixed-rate and adjustable-rate, fully amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties; “CMBS” refers to commercial mortgage-backed securities comprised of commercial mortgage pass-through securities, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans; and “CLO” refers to collateralized loan obligations.*

#### General

We are a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and, to a lesser extent, financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes certain credit sensitive assets and investments sourced from distressed markets in recent years that create the potential for capital gains, as well as more traditional types of mortgage-related investments that generate interest income.

We were formed in 2003 and commenced operations as a vertically integrated mortgage origination and portfolio investment manager in 2004 upon the completion of our initial public offering. Since exiting the mortgage origination business in 2007, we have endeavored to build a diversified investment portfolio that includes elements of interest rate

and credit risk, which we believe is best suited to deliver stable cash flows over various economic cycles.

Under our investment strategy, our targeted assets currently include multi-family CMBS, mezzanine loans to and preferred equity investments in owners of multi-family properties, residential mortgage loans, including loans sourced from distressed markets, and Agency RMBS. Subject to maintaining our qualification as a REIT, we also may opportunistically acquire and manage various other types of mortgage-related and financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, non-Agency RMBS (which may include IOs and POs), collateralized mortgage obligations and securities issued by newly originated residential securitizations, including credit sensitive securities from these securitizations.

We strive to maintain and achieve a balanced and diverse funding mix to finance our assets and operations. We rely primarily on a combination of short-term borrowings, such as repurchase agreements with terms typically of 30 days, and longer term structured financings, such as securitization and re-securitization transactions, with terms longer than one year.

We internally manage a certain portion of our portfolio, including Agency ARMs, Agency fixed-rate RMBS, non-Agency RMBS, CLOs and residential securitized loans. In addition, as part of our investment strategy, we also contract with certain external investment managers to manage specific asset types targeted by us. We are a party to separate investment management agreements with Headlands Asset Management, LLC, or Headlands, RiverBanc, LLC, or RiverBanc, and The Midway Group, L.P., or Midway, with Headlands providing investment management services with respect to our investments in certain distressed residential loans, RiverBanc providing investment management services with respect to our investments in multi-family CMBS and certain commercial real estate-related debt investments, and Midway providing investment management services with respect to our investments in Agency IOs.

We completed a common stock offering and a preferred stock offering in 2013, generating aggregate net proceeds to us of approximately \$166.8 million, and helping to expand our stockholders' equity from \$322.0 million at December 31, 2012 to \$480.7 million at December 31, 2013. We also completed a public offering of common stock in January 2014, generating net proceeds to us of approximately \$75.8 million. The expansion of our equity capital base over the course of the last two fiscal years has increased our scale and, we believe, our access to larger and more attractive investment and financing opportunities.



We have elected to be taxed as a REIT and have complied, and intend to continue to comply, with the provisions of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), with respect thereto. Accordingly, we do not expect to be subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders if certain asset, income and ownership tests and recordkeeping requirements are fulfilled. Even if we maintain our qualification as a REIT, we expect to be subject to some federal, state and local taxes on our income generated in our TRSs.

The financial information requirements required under this Item 1 may be found in our consolidated financial statements beginning on page F-1 of this Annual Report.

### **Our Investment Strategy**

We intend to continue our strategy of building a residential portfolio that includes elements of both interest rate and credit risk by focusing our investments on (i) “credit residential” assets, which we define as multi-family CMBS and other commercial real estate-related debt investments such as mezzanine loans to and preferred equity investments in owners of multi-family properties, as well as residential mortgage loans, including loans sourced from distressed markets, (ii) leveraged Agency RMBS, which we expect will include Agency ARMs, Agency fixed-rate and Agency IOs, and (iii) the opportunistic acquisition of other types of mortgage-related and financial assets that meet our investment criteria. At the same time we pursue these targeted assets, we will continue to actively manage our existing assets, which include the credit residential assets and leveraged Agency RMBS referred to above as well as CLOs, residential securitized loans and non-Agency RMBS. Prior to deploying capital to any of our targeted asset classes, our management team will consider, among other things, the amount and nature of anticipated cash flows from the asset, our ability to finance or borrow against the asset and the terms of such financing, the related capital requirements, the credit risk related to the asset or the underlying collateral, prepayment risk, liquidity, the costs of financing, hedging, and managing the asset, relative value, expected future interest rate volatility and future expected changes to credit spreads.

Our investment strategy does not, subject to our continued compliance with applicable REIT tax requirements and the maintenance of our exemption from the Investment Company Act of 1940, as amended (the “Investment Company Act”), limit the amount of our capital that may be invested in any of these investments or in any particular class or type of assets. Thus, our future investments may include asset types different from the targeted or other assets described in this report. The investment and capital allocation decisions of our company and our external managers depend on prevailing market conditions and other factors and may change over time in response to opportunities available in different economic and capital market environments. As a result, we cannot predict the percentage of our capital that will be invested in any particular investment at any given time.

For more information regarding our portfolio as of December 31, 2013, see “Item 7- Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

*Investments in Credit Residential Assets*

We seek to identify credit sensitive assets primarily relating to residential housing from which we can extract value through a combination of current yield and/or capital appreciation. Our portfolio of credit residential assets is currently comprised of multi-family CMBS, mezzanine loans to and preferred equity investments in owners of multi-family properties and residential mortgage loans, including distressed residential loans.

We have significantly expanded our multi-family CMBS portfolio since making our first investment in this asset class in 2011. Our portfolio of multi-family CMBS is comprised of (i) fixed rate PO securities and a floating-rate security, in each case, issued from the first loss tranche, or “first loss,” of certain multi-family K-series securitizations sponsored by Freddie Mac and (ii) certain IO securities issued by these securitizations. Our investments in these privately placed first loss PO securities generally represent approximately 7.5% of the overall securitization which typically totals approximately \$1.0 billion in multi-family residential loans consisting of 70 to 100 individual properties diversified across a wide geographic footprint. These first loss securities are typically backed by balloon non-recourse mortgage loans that provide for the payment of principal at maturity date, which is typically seven to ten years. Moreover, each first loss piece of multi-family CMBS in our portfolio is, in most cases, the most junior tranche of security issued by the securitization, meaning it will absorb all losses in the securitization prior to other more senior tranches being exposed to loss. As a result, each of the first loss securities in our portfolio has been purchased, upon completion of a credit analysis and due diligence by our external manager and after consultation with and approval of our senior management, at a significant discount to its then-current par value, which we believe provides us with adequate protection against projected losses. In addition, as the owner of the first loss piece, the Company, through RiverBanc, has the right to participate in the workout of any distressed property in the securitization. We believe this right will allow the Company to mitigate or reduce any possible loss associated with the distressed property. The Company also invests in IO securities from a number of the same multi-family securitizations from which we acquired our first loss PO investments. These IO securities are stripped off the entire securitization allowing the Company to receive cashflows over the life of the multi-family loans backing the securitization. These investments range from 10 to 17 basis points and the underlying notional amount approximates \$1.0 billion each. We may in the future invest in more senior tranches of multi-family CMBS, which may include some form of leverage, if we believe the risk-adjusted returns for such assets are attractive. In addition, we may acquire multi-family CMBS from private originators of, or investors in, mortgage loans, including non-financial institutions and other entities. With respect to the multi-family CMBS owned by us, all of the loans that back the respective securitizations have been underwritten to Freddie Mac underwriting guidelines and standards; however, our securities are not guaranteed by Freddie Mac.

We invest in other commercial real estate-related investments, such as the origination or acquisition of mezzanine loans to and preferred equity investments in owners of multi-family properties, with a primary focus on conventional apartments, cooperative housing associations, student housing and other related property types in increments as low as \$1 million secured by properties valued at \$10 million or greater. A mezzanine loan is a loan made to a property owner that is subordinate to mortgage debt and is typically secured by a pledge of the borrower's ownership interests in the property and/or direct or indirect entities that own the property. A preferred equity investment typically takes the form of an equity investment in the special purpose entity ("SPE") that owns the property and is structured such that the preferred equity investor will receive cash distributions from the SPE in seniority to a more junior class of equity. These preferred equity interests may be subordinate to other forms of mortgage or property-level debt. We also may participate in structured investments such as the acquisition of seasoned or distressed commercial loan portfolios. Our multi-family CMBS and other commercial real estate-related debt assets are managed by RiverBanc.

Our portfolio also includes distressed residential mortgage loans held in securitization trusts and prime ARM loans held in securitization trusts (also referred to as residential securitized loans). The distressed residential loans in our current portfolio have been acquired, in each case, as a pool of distressed residential loans sold by a financial institution. During the year ended December 31, 2013, we acquired multiple pools of distressed residential mortgage loans having an estimated aggregate market value of approximately \$218.2 million at the time of their respective acquisitions. These distressed residential mortgage loans generally consist of performing and re-performing, fixed- and adjustable-rate, fully-amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties. The loans were purchased at a discount to the aggregate principal amount outstanding, which we believe will provide us with adequate credit protection and an opportunity to modify the loan and achieve an attractive yield. These distressed residential mortgage loans are sourced and managed by Headlands.

The prime ARM loans held in securitization trusts, which we refer to as "residential mortgage loans held in securitization trusts" in our consolidated financial statements, are loans that primarily were originated by our discontinued mortgage lending business, and to a lesser extent purchased from third parties, that we securitized in 2005. These loans are substantially prime, full documentation, interest-only hybrid ARMs on residential properties and are all first lien mortgages. We maintain the ownership trust certificates, or equity, of these securitizations, which includes rights to excess interest, if any, and also take an active role in managing delinquencies and default risk related to the loans.

### ***Investments in Agency RMBS***

We intend to achieve more stable cash flows on our collective investments in Agency RMBS across various market cycles, including, various interest rate, yield curve and prepayment cycles, primarily through investments in Agency ARMs, Agency fixed-rate RMBS and Agency IOs. Our Agency ARMs consist of whole pool pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae or Freddie Mac, which are backed by ARMs or hybrid ARMs. Our current portfolio of Agency ARMs has interest reset periods ranging from 10 years to less than three months.

Our Agency RMBS also consist of fixed-rate whole pool pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae or Freddie Mac, which are primarily backed by 15-year residential fixed rate mortgage loans with lesser amounts invested in 20-year residential fixed-rate mortgage loans. The majority of these securities have coupons ranging from 2.5% to 3.5%. Our investments in Agency RMBS attempt to identify securities with characteristics that we believe will exhibit better prepayment profiles in the current low interest rate environment, such as loan size, type of originator, credit scores and geographic area.

Agency IOs are securities that represent the right to receive the interest portion of the cash flow from a pool of mortgage loans issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Agency IOs allow us to make a direct investment in borrower prepayment trends in the current market environment. However, Agency IOs also introduce increased risk as these securities have no underlying principal cash flows, which will cause them to underperform in high prepayment environments as future interest payments will be reduced as a direct result of prepayments. In a rising interest rate environment, the value of an Agency IO generally tends to increase as their expected average life increases and prepayments decrease. Our investments in Agency IOs and related hedging and borrowing activities are managed by Midway, which serves as one of our external managers pursuant to a management agreement. We sometimes refer to these investments and related hedging and borrowing activities as our Agency IO strategy or our Agency IO portfolio.

It should be noted that the guarantee provided by the GSEs on Agency RMBS issued by them does not protect us from prepayment risk and that the payments on Agency IOs are not guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Moreover all of our Agency RMBS (including Agency IOs) are at risk to new or modified government-sponsored homeowner stimulus programs that may induce unpredictable and excessively high prepayment speeds resulting in accelerated premium amortization and reduced net interest margin, both of which could materially adversely affect our business, financial condition and results of operations.

## **Our Financing Strategy**

We strive to maintain and achieve a balanced and diverse funding mix to finance our assets and operations. To achieve this, we rely primarily on a combination of short-term borrowings under repurchase agreements, collateralized debt obligations (“CDO’s”), structured financings, which we sometimes refer to as securitized debt, and long term subordinated debt. The Company's policy for leverage is based on the type of asset, underlying collateral and overall market conditions, with the intent of obtaining more permanent, longer-term financing for our more illiquid assets, such as our credit sensitive first loss multi-family CMBS and distressed residential loans. Currently, we target maximum leverage ratios for callable or short-term financings of 8 to 1, in the case of Agency RMBS (other than Agency IOs), and 2 to 1, in the case of Agency IOs. We may utilize short term financing on other asset classes with leverage ratios driven by the nature of the underlying asset as well as current market conditions. At December 31, 2013, the Company had a repurchase agreement outstanding backed by a CLO security with an advance rate of approximately 65% or a leverage ratio of less than 2 to 1. As of December 31, 2013, our overall leverage ratio, including both our short- and longer-term financings (excluding the CDOs issued by the Consolidated K-Series and our residential CDOs) divided by stockholders' equity, was approximately 2.4 to 1. Our leverage ratio on our short term financings or callable debt was approximately 1.6 to 1. In each case, there may be occasional short-term increases or decreases in the amount of leverage used due to significant market events, and we may change our leverage strategy at any time. We monitor all at risk or short term borrowings to ensure that we have adequate liquidity to satisfy margin calls and have the ability to respond to other market disruptions.

We primarily rely on repurchase agreements to fund our Agency RMBS portfolio. Repurchase agreements provide us with short-term borrowings (typically 30 days) that bear interest rates that are linked to the London Interbank Offered Rate (“LIBOR”), a short term market interest rate used to determine short term loan rates. Pursuant to these repurchase agreements, the financial institution that serves as a counterparty will generally agree to provide us with financing based on the market value of the securities that we pledge as collateral, less a “haircut.” Market value of the collateral represents the price of such collateral obtained from generally recognized sources or most recent closing bid quotation from such source plus accrued income. Our repurchase agreements may require us to deposit additional collateral pursuant to a margin call if the market value of our pledged collateral declines as a result of market conditions or due to principal repayments on the mortgages underlying our pledged securities. Interest rates and haircuts will depend on the underlying collateral pledged.

With respect to our investments in multi-family CMBS, other commercial mortgage debt-related investments and distressed residential loans, we intend to finance our investment in these assets through working capital and, subject to

market conditions, both short-term and long-term borrowings. Our financings may include repurchase agreement borrowings with terms of one year or less, or longer term structured debt financing, such as longer-term repurchase agreement financing and securitized debt where the assets we intend to finance are contributed to an SPE and serve as collateral for the financing. We engage in longer-term financings for the primary purpose of obtaining longer-term non-recourse financing on these assets. During the year ended December 31, 2013, we completed one structured financing on our multi-family CMBS and three structured financings on our distressed residential mortgage loans, resulting in aggregate net proceeds to us of \$191.7 million. As of December 31, 2013, substantially all of our multi-family CMBS and distressed residential loans are financed by some form of securitized debt. Pursuant to the terms for these financings, our ability to access the cash flows generated by the assets serving as collateral may be significantly limited and we may be unable to sell or otherwise transfer or dispose of or modify such assets until the financing has matured. In addition, we have provided a guarantee with respect to certain terms of some of the longer-term debt incurred by our subsidiaries and we may provide a similar guarantee in connection with future financings.

At December 31, 2013, we finance our prime ARM loans held in securitization trusts with approximately \$158.4 million of residential CDOs that were issued in securitization transactions we completed in 2005.

For more information regarding our outstanding borrowings and debt instruments at December 31, 2013, see “Item 7- Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

## **Our Hedging Strategy**

We intend to use hedging instruments in conjunction with our investment portfolio to reduce or mitigate risks associated with changes in interest rates, mortgage spreads, yield curve shapes and market volatility. These hedging instruments may include interest rate swaps, interest rate swaptions, interest rate futures and options on interest rate futures, mortgage derivatives such as forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are “To-Be-Announced,” or TBAs, and U.S. Treasuries.

We use interest rate swaps and Euro-dollar futures to hedge interest rate repricing mismatches between certain of our investments and the related borrowings. For example, the interest coupon reset period on our Agency RMBS is typically greater than the repricing period for the related liabilities, which is usually 30 days. We typically would use interest rate swaps or Euro-dollar futures to extend the liability repricing date to more closely approximate the related asset.

We commonly use TBA transactions to hedge interest rate and market risks associated with our Agency IOs. Pursuant to our TBA transactions, we agree to purchase or sell, for future delivery, Agency RMBS with interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered or received, as applicable, is not identified until shortly before the TBA settlement date. We typically do not take delivery of TBAs but, rather, settle with our trading counterparties on a net basis. By utilizing TBA transactions, we expect to reduce changes in portfolio values due to changes in interest rates. Although TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS, the use of TBAs exposes us to increased market value risk. We typically conduct TBA and other interest rate futures hedging transactions through one of our TRSs.

In connection with our hedging strategy, we, together with our external managers, utilize a model based risk analysis system to assist in projecting portfolio performances over a variety of different interest rates and market scenarios, such as shifts in interest rates, changes in prepayments and other factors impacting the valuations of our assets and liabilities. However, given the uncertainties related to prepayment rates, it is not possible to perfectly lock-in a spread between the earnings asset yield and the related cost of borrowings. Moreover, the cash flows and market values of certain types of structured Agency RMBS, such as the IOs we invest in, are more sensitive to prepayment risks than other Agency RMBS. Nonetheless, through active management and the use of evaluative stress scenarios, we believe that we can mitigate a significant amount of both value and earnings volatility.

## **Our External Managers**

*The Midway Group, L.P.*

A portion of our Agency RMBS portfolio comprised of Agency IOs is externally managed and advised by Midway pursuant to an investment management agreement between Midway and us (the “Midway Management Agreement”). Midway was founded in 2000 by Mr. Robert Sherak, a mortgage industry veteran with more than 25 years’ experience, to serve as investment manager to the Midway Market Neutral Fund LLC, a private investment fund. Midway has been managing a hedged portfolio of mortgage-related securities for over 10 years.

Midway is responsible for administering the business activities and day-to-day operations of our investments in Agency IOs and certain derivative instruments. These responsibilities include arranging and coordinating the purchase and sale of various investment assets and the financing and hedging associated with such assets, with direct oversight from our management team. Midway also may invest from time to time in, among other things, Agency RMBS consisting of pass-through certificates, CMOs, and POs and non-agency RMBS (which may include IOs and POs), although they have made no such investments on our behalf since being engaged as an external manager. As part of its investment process, we expect that Midway will analyze significant amounts of data regarding the historical performance of mortgage-related securities transactions and collateral over various market cycles.

Midway has established portfolio management resources for the investment assets described above and an established infrastructure supporting those resources. We expect that we will benefit from Midway’s highly analytical investment processes, broad-based deal flow, extensive relationships in the financial community and operational expertise. Moreover, since its founding, we believe Midway has developed strong relationships with a wide range of dealers and other market participants that provide Midway access to a broad range of trading opportunities and market information.

As of December 31, 2013, we had allocated approximately \$80.5 million of capital to investments managed by Midway.



***The Midway Management Agreement***

We entered into an investment management agreement with Midway on February 11, 2011, as amended on March 9, 2012. The Midway Management Agreement has a current term that expires on December 31, 2014. The Midway Management Agreement is automatically renewed in successive one year terms unless a termination notice is delivered by either party to the other party at least six months prior to the end of the then current term. Pursuant to the Midway Management Agreement, Midway implements our Agency IO investment strategy and related hedging and borrowing activities and has complete discretion and authority to manage these assets and related hedging and borrowing activities, subject to compliance with the written investment guidelines included in the Midway Management Agreement and the other terms and conditions of the Midway Management Agreement, including our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act.

The following table summarizes the fees that we pay to Midway pursuant to the Midway Management Agreement. We will reimburse Midway for all transaction costs and expenses incurred in connection with the management and administration of the assets and liabilities that they manage on our behalf.

<b>Type</b>	<b>Description</b>
Base management fee	Payable monthly in arrears in a cash amount equal to the product of (i) 1.50% per annum of our invested capital in the assets managed by Midway as of the last business day of the previous month, multiplied by (ii) 1/12th.
Incentive fee	Midway will be entitled to a quarterly incentive fee (the "Midway Incentive Fee") that is calculated quarterly and paid in cash in arrears. The Midway Incentive Fee is subject to a high water mark equal to an 11% return on our invested capital in assets managed by Midway (the "High Water Mark"), and shall be payable in an amount equal to the excess, if any, of (i) 35% of the dollar amount by which adjusted net income (as defined below) attributable to the assets managed by Midway, on a rolling 12-month basis and before accounting for the Midway Incentive Fee, exceeds an annual 12.5% rate of return on invested capital (the "Hurdle Rate") over (ii) the sum of the Midway Incentive Fees paid or accrued for each of the three immediately preceding fiscal quarters. The return rate for each rolling 12-month period (the "Calculation Period") shall be determined by dividing (i) the adjusted net income for the Calculation Period by (ii) the weighted average of our invested capital in assets managed by Midway during the Calculation Period. Upon mutual agreement of the parties to the Midway Management Agreement, a portion of each Midway Incentive Fee payable to Midway may be paid in shares of our common stock.

Adjusted net income is defined as net income (loss) calculated in accordance with generally accepted accounting principles in the United States ("GAAP"), including any unrealized gains and losses, after giving effect to certain expenses. All securities managed for us by Midway will be valued in accordance with GAAP.

Unlike the Hurdle Rate, which is calculated on a rolling 12 month basis, the High Water Mark is calculated on a calendar 12 month basis, and will reset every 24 months. The High Water Mark will be a static dollar figure that Midway will be required to recoup, to the extent there is a deficit in the prior High Water Mark calculation period before it is eligible again to receive a Midway Incentive Fee.

Equity Compensation In addition to the base management and incentive fees provided for in the Midway Management Agreement, we agreed to issue 213,980 shares of restricted stock to Midway in March 2012. The restricted shares vest annually in one-third increments beginning on December 31, 2012. Unvested shares will be forfeited in the event Midway terminates the Midway Management Agreement for any reason prior to the end of the restricted period; whereas all of the restricted shares will vest if we terminate the agreement for any reason.

Although the assets and invested capital managed by Midway are held in an account that is wholly owned by our company, we may only redeem invested capital in an amount equal to the lesser of 10% of our invested capital managed by Midway or \$10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act. Pursuant to the terms of the Midway Management Agreement, we are only permitted to make one such redemption request in any 75-day period.

### ***RiverBanc LLC***

In April 2011, we formed a relationship with RiverBanc, a privately owned investment management and specialty finance company founded by Kevin Donlon, for the purpose of investing in multi-family CMBS, such as Freddie Mac Multifamily Loan Securitization K-Series' assets, and, to a lesser extent, other commercial real estate-related debt investments. Pursuant to an investment management agreement between RiverBanc and us, RiverBanc will source, structure and manage our investments in these asset classes.

### ***RiverBanc Management Agreement***

On March 13, 2013, we entered into an amended and restated management agreement with RB Commercial Mortgage LLC, our wholly-owned subsidiary, and RiverBanc (as amended, the "RiverBanc Management Agreement"). The RiverBanc Management Agreement, which replaces the prior management agreement between RiverBanc and RB Commercial Mortgage LLC, has a term that will expire on December 31, 2014, subject to automatic annual one-year renewals thereafter.

Pursuant to the terms of the RiverBanc Management Agreement, RiverBanc will receive a monthly base management fee in arrears in a cash amount equal to the product of (i) 1.50% per annum of "Equity" as of the last business day of the previous month, multiplied by (ii) 1/12th. For purposes of the RiverBanc Management Agreement, Equity is defined as "Assets" minus "Debt," where Assets is defined as the aggregate net carrying value (in accordance with GAAP) of those assets of our company managed by RiverBanc (specifically excluding (i) any unrealized gains or losses that have impacted net carrying value 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 (ii) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case, as mutually agreed between RiverBanc and us) and Debt is defined as the greater of (1) the net carrying value (in accordance with GAAP, excluding adjustments for unrealized gains or losses) of all third-party debt or liabilities secured by the Assets and (2) prior to termination of the RiverBanc Management Agreement, zero, or following termination of the RiverBanc Management Agreement, an amount equal to 50% of Assets. In addition, RiverBanc will be entitled to an incentive fee that is calculated quarterly and paid in cash in arrears. The incentive fee is based upon the average Equity during the fiscal quarter, subject to a high water mark equal to a 9% return on Equity, and shall be payable in an amount equal to 35% of the dollar amount by which adjusted net income (as defined in the RiverBanc Management Agreement) attributable to the Assets, before accounting for any incentive fees payable to RiverBanc, exceeds an annualized 12% rate of return on such average Equity (provided, however, that the applicable percentage for calculation of the incentive fee on any incremental return in excess of 21% shall be reduced to 20% from 35%). Any incentive fee paid for the fourth fiscal quarter of each year under the agreement is calculated based on the incentive fee earned during the calendar twelve-month period less the aggregate incentive fees paid for the first three quarters during the period.

We may terminate the RiverBanc Management Agreement or elect not to renew the agreement, subject to certain conditions and subject, in certain cases, to paying a termination fee equal to the product of (A) 24 and (B) the monthly base management fee earned by RiverBanc during the month immediately preceding the month in which the termination occurs. In the event we terminate the RiverBanc Management Agreement for any reason (other than for “cause”), RiverBanc has, subject to certain conditions, a right of first refusal to purchase from us the assets managed by them.

### ***Headlands Asset Management LLC***

The Company engages Headlands to manage and advise us with respect to the distressed residential mortgage loans acquired by us. Headlands sourced and performed due-diligence procedures on the pools of distressed residential mortgage loans acquired by us and manages the servicing, modification and final disposition or resolution of the loans, which can range from modifying a mortgage loan balance, interest rate or payment to selling the underlying real estate asset.

Headlands was founded on May 2008 as an investment manager focused on purchasing, servicing and managing all aspects of a portfolio of residential mortgage loans.

### ***Headlands Management Agreements***

We are a party to multiple investment management agreements with Headlands. As part of our financing strategy, we have transferred substantially all of the distressed residential loans to certain SPEs, which are treated as consolidated subsidiaries of the Company, for the purpose of securitizing the loans. Each investment management agreement by and between Headlands and any consolidated subsidiary of the Company (the “Securitization Subsidiaries”), provides that Headlands serves as the asset manager of certain notes issued by such Securitization Subsidiary. Each investment management agreement has a term that will expire upon the sale or other liquidation of all mortgage loans held by the Securitization Subsidiaries.

Pursuant to the terms of each investment management agreement, Headlands will receive a monthly base management fee payable on the tenth business day of each month in a cash amount equal to the product of (i) 1.50% per annum of assets under management (“AUM”) as of the first day of each such month, multiplied by (ii)  $1/12$  where AUM is defined as the net asset value of the mortgage loans being managed by Headlands plus any “subsequent collateral account balance” (as defined in the investment management agreement). In addition, Headlands will be entitled to an incentive fee that is calculated quarterly, but is not payable until the notes issued by such Securitization Subsidiary as part of the securitization transaction have been retired in full. The incentive fee is based upon the weighted average AUM during the fiscal quarter and shall be payable in an amount equal to 35% of the dollar amount by which the Securitization Subsidiary’s taxable income (before accounting for any incentive fees earned by Headlands and interest on the notes) exceeds an annualized 12% rate of return on such weighted average AUM (provided, however, that the applicable percentage for calculation of the incentive fee on any incremental return in excess of 22% shall be reduced by the amount of any subordinate servicing fees). The parties will recalculate the annual incentive fee earned by Headlands after the fourth fiscal quarter of each year and will adjust any payments owed or required to be remitted based on such annual calculation.

Headlands may terminate any of the investment management agreements at any time upon not less than 60 days notice; provided, however, that, subject to certain exceptions, it may not terminate an agreement or resign prior to the time such notes issued by the respective Securitization Subsidiary have been retired. We may terminate an investment management agreement in the event of an uncured violation of the agreement or any bankruptcy, insolvency or liquidation proceedings in respect of Headlands. Neither Headlands nor the Securitization Subsidiaries will incur a termination fee upon termination of any of the investment management agreements. We have agreed to guarantee the payment of the base management fees and expenses payable to Headlands by the Securitization Subsidiaries.

### ***Conflicts of Interest with Our External Managers; Equitable Allocation of Opportunities***

Each of Midway, RiverBanc and Headlands manages, and is expected to continue to manage, other client accounts with similar or overlapping investment strategies. In connection with the services provided to those accounts, these managers may be compensated more favorably than for the services provided under our external management agreements, and such discrepancies in compensation may affect the level of service provided to us by our external managers. Moreover, each of our external managers may have an economic interest in the accounts they manage or the investments they propose. In addition, we have in the recent past engaged in certain co-investment opportunities with an external manager or one of its affiliates and we may participate in future co-investment opportunities with our external managers or their affiliates. In these cases, it is possible that our interests and the interests of our external managers will not always be aligned and this could result in decisions that are not in the best interests of our company.

Each of Midway and RiverBanc has agreed that, when making investment allocation decisions between us and its other client accounts, it will, in the case of RiverBanc, allocate investments in a fair and equitable manner and, in the case of Midway, seek to allocate investment opportunities on an equitable basis and in a manner it believes is in the best interests of its relevant accounts. Since certain of our targeted assets are typically available only in specified quantities and since certain of these targeted assets will also be targeted assets for other accounts managed by or

associated with our external managers, our external managers may not be able to buy as much of certain assets as required to satisfy the needs of all of its clients' or associated accounts. In these cases, we understand that the allocation procedures and policies of our external managers would typically allocate such assets to multiple accounts in proportion to, among other things, the objectives, strategy, stage of development or needs of each account. Moreover, the investment allocation policies of Midway may permit departure from proportional allocation when the total allocation would result in an inefficiently small amount of the security being purchased for an account. Although we believe that each of our external managers will seek to allocate investment opportunities in a manner which it believes to be in the best interests of all accounts involved and will seek to allocate, on an equitable basis, investment opportunities believed to be appropriate for us and the other accounts it manages or is associated with, there can be no assurance that a particular investment opportunity will be allocated in any particular manner.

Midway is authorized to follow broad investment guidelines in determining which assets it will invest in. Although our Board of Directors will ultimately determine when and how much capital to allocate to assets managed by Midway, we generally will not approve transactions in advance of their execution. As a result, because Midway has great latitude to determine the types of assets it may decide are proper investments for us, there can be no assurance that we would otherwise approve of these investments individually or that they will be successful. Meanwhile, RiverBanc has complete discretion and authority to manage assets on our behalf subject to investment guidelines approved by our Board of Directors. However, our Board of Directors may elect to change the investment guidelines or waive them for various investments. In addition to conducting periodic reviews, we will rely primarily on information provided to us by our external managers. Finally, our external managers may use complex investment strategies and may engage in complex transactions on our behalf, which may be difficult or impossible to unwind.

Pursuant to the terms of the Midway Management Agreement, we may only redeem invested capital in an amount equal to the lesser of 10% of the invested capital in assets managed by Midway or \$10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act, and we are only permitted to make one such redemption request in any 75-day period. In the event of a significant market event or shock, we may be unable to effect a redemption of invested capital in greater amounts or at a greater rate unless we obtain the consent of Midway. Because a reduction of invested capital would reduce the base management fee under the Midway Management Agreement, Midway may be less inclined to consent to such redemptions.

None of our external managers is obligated to dedicate any specific personnel exclusively to us, nor are they or their personnel obligated to dedicate any specific portion of their time to the management of our business. As a result, we cannot provide any assurances regarding the amount of time our external managers will dedicate to the management of our business. Moreover, each of our external managers has significant responsibilities for other investment vehicles and may not always be able to devote sufficient time to the management of our business. Consequently, we may not receive the level of support and assistance that we otherwise might receive if such services were provided internally by us.

### **Certain Federal Income Tax Considerations and Our Status as a REIT**

We have elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code for federal income tax purposes, commencing with our taxable year ended December 31, 2004, and we believe that our current and proposed method of operation will enable us to continue to qualify as a REIT for our taxable year ending December 31, 2014 and thereafter. Accordingly, the net interest income we earn on our assets is generally not subject to federal income tax as long as we distribute at least 90% of our REIT taxable income in the form of a dividend to our stockholders each year and comply with various other requirements. Taxable income generated by TRSs is subject to regular corporate income tax.

The benefit of REIT tax status is a tax treatment that avoids “double taxation,” or taxation at both the corporate and stockholder levels, that generally applies to distributions by a corporation to its stockholders. Failure to qualify as a REIT would subject us to federal income tax (including any applicable minimum tax) on our taxable income at regular corporate rates and distributions to our stockholders would not be deductible by us.

### ***Summary Requirements for Qualification***

#### *Organizational Requirements*

A REIT is a corporation, trust, or association that meets each of the following requirements:

- 1) It is managed by one or more trustees or directors.
- 2) Its beneficial ownership is evidenced by transferable shares, or by transferable certificates of beneficial interest.
- 3) It would be taxable as a domestic corporation, but for the REIT provisions of the federal income tax laws.

- 4) It is neither a financial institution nor an insurance company subject to special provisions of the federal income tax laws.
- 5) At least 100 persons are beneficial owners of its shares or ownership certificates.  
  
Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by  
6) five or fewer individuals, which the federal income tax laws define to include certain entities, during the last half of any taxable year.
- 7) It elects to be a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status.
- 8) It meets certain other qualification tests, described below, regarding the nature of its income and assets.

We must meet requirements 1 through 4 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

*Qualified REIT Subsidiaries.* A corporation that is a QRS is not treated as a corporation separate from its parent REIT. All assets, liabilities, and items of income, deduction, and credit of a “QRS” are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A “QRS” is a corporation, all of the capital stock of which is owned by the REIT. Thus, in applying the requirements described herein, any “QRS” that we own will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit.



*Taxable REIT Subsidiaries.* A REIT is permitted to own up to 100% of the stock of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. Overall, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more TRSs.

A TRS will pay income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. We have elected for each of Hypotheca Capital, LLC, New York Mortgage Funding, LLC, NYMT Residential Tax, LLC, NYMT Residential Tax 2013-RP1, LLC, NYMT Residential Tax 2013-RP2, LLC and NYMT Residential Tax 2013-RP3, LLC to be treated as TRSs. Our TRSs are subject to corporate income tax on their taxable income.

*Qualified REIT Assets.* On the last day of each calendar quarter, at least 75% of the value of our assets (which includes any assets held through a QRS must consist of qualified REIT assets — primarily real estate, mortgage loans secured by real estate, and certain mortgage-backed securities (“Qualified REIT Assets”), government securities, cash, and cash items. We believe that substantially all of our assets are and will continue to be Qualified REIT Assets. On the last day of each calendar quarter, of the assets not included in the foregoing 75% asset test, the value of securities that we hold issued by any one issuer may not exceed 5% in value of our total assets and we may not own more than 10% of the voting power or value of any one issuer's outstanding securities (with an exception for securities of a QRS or of a TRS). In addition, the aggregate value of our securities in TRSs cannot exceed 25% of our total assets. We monitor the purchase and holding of our assets for purposes of the above asset tests and seek to manage our portfolio to comply at all times with such tests.

We may from time to time hold, through one or more TRSs, assets that, if we held them directly, could generate income that would have an adverse effect on our qualification as a REIT or on certain classes of our stockholders.

### ***Gross Income Tests***

We must meet the following separate income-based tests each year:

*The 75% Test.* At least 75% of our gross income for the taxable year must be derived from Qualified REIT Assets. Such income includes interest (other than interest based in whole or in part on the income or profits of any person) on obligations secured by mortgages on real property, rents from real property, gain from the sale of Qualified REIT Assets, and qualified temporary investment income or interests in real property. The investments that we have made and intend to continue to make will give rise primarily to mortgage interest qualifying under the 75% income test.

The 95% Test. At least 95% of our gross income for the taxable year must be derived from the sources that are 2. qualifying for purposes of the 75% test, and from dividends, interest or gains from the sale or disposition of stock or other assets that are not dealer property.

### ***Distributions***

We must distribute to our stockholders on a pro rata basis each year an amount equal to at least (i) 90% of our taxable income before deduction of dividends paid and excluding net capital gain, plus (ii) 90% of the excess of the net income from foreclosure property over the tax imposed on such income by the Internal Revenue Code, less (iii) any “excess non-cash income.” We have made and intend to continue to make distributions to our stockholders in sufficient amounts to meet the distribution requirement for REIT qualification.

### **Competition**

Our success depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. When we invest in mortgage-backed securities, mortgage loans and other investment assets, we compete with other REITs, investment banking firms, savings and loan associations, insurance companies, mutual funds, hedge funds, pension funds, banks and other financial institutions and other entities that invest in the same types of assets.

### **Corporate Offices and Personnel**

We were formed as a Maryland corporation in 2003. Our corporate headquarters are located at 275 Madison Avenue, Suite 3200, New York, New York, 10016 and our telephone number is (212) 792-0107. As of December 31, 2013, we employed six full-time employees.

## **Access to our Periodic SEC Reports and Other Corporate Information**

Our internet website address is [www.nymtrust.com](http://www.nymtrust.com). We make available free of charge, through our internet website, our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments thereto that we file or furnish pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Corporate Governance Guidelines and Code of Business Conduct and Ethics and the charters of our Audit, Compensation and Nominating and Corporate Governance Committees are also available on our website and are available in print to any stockholder upon request in writing to New York Mortgage Trust, Inc., c/o Secretary, 275 Madison Avenue, Suite 3200, New York, New York, 10016. Information on our website is neither part of nor incorporated into this Annual Report on Form 10-K.

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities; changes in credit spreads; the impact of the downgrade of the long-term credit ratings of the U.S., Fannie Mae, Freddie Mac, and Ginnie Mae; market volatility; changes in the prepayment rates on the mortgage loans underlying our investment securities; increased rates of default and/or decreased recovery rates on our assets; our ability to borrow to finance our assets and the terms thereof; changes in governmental laws, regulations, or policies affecting our business; our ability to maintain our qualification as a REIT for federal tax purposes; our ability to maintain our exemption from registration under the Investment Company Act; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including the risk factors described in Item 1A – “Risk Factors” elsewhere in this Annual Report on Form 10-K, as updated by those risks described in our subsequent filings under the Exchange Act, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to

predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Item 1A. RISK FACTORS

*Set forth below are the risks that we believe are material to stockholders. You should carefully consider the following risk factors and the various other factors identified in or incorporated by reference into any other documents filed by us with the SEC in evaluating our company and our business. The risks discussed herein can adversely affect our business, liquidity, operating results, prospects, and financial condition. These risks could cause the market price of our securities to decline. The risk factors described below are not the only risks that may affect us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, also may adversely affect our business, liquidity, operating results, prospects, and financial condition.*

### Risks Related to Our Business and Our Company

*Declines in the market values of assets in our investment portfolio may adversely affect periodic reported results and credit availability, which may reduce earnings and, in turn, cash available for distribution to our stockholders.*

The market value of the interest-bearing assets in which we invest and any related hedging instruments may move inversely with changes in interest rates. We anticipate that increases in interest rates will generally tend to decrease our net income and the market value of our interest-bearing assets. A significant percentage of the securities within our investment portfolio are classified for accounting purposes as “available for sale.” Changes in the market values of trading securities will be reflected in earnings and changes in the market values of available for sale securities will be reflected in stockholders’ equity. As a result, a decline in market values of certain of our investment securities may reduce the book value of our assets. Moreover, if the decline in market value of an available for sale security is other than temporary, such decline will reduce earnings.

A decline in the market value of our interest-bearing assets may adversely affect us, particularly in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan, which would reduce our liquidity and limit our ability to leverage our assets. In addition, if we are, or anticipate being, unable to post the additional collateral, we would have to sell the assets at a time when we might not otherwise choose to do so. In the event that we do not have sufficient liquidity to meet such requirements, lending institutions may accelerate indebtedness, increase interest rates and terminate our ability to borrow, any of which could result in a rapid deterioration of our financial condition and cash available for distribution to our stockholders. Moreover, if we liquidate the assets at prices lower than the amortized cost of such assets, we will incur losses.

The market values of our investments may also decline without any general increase in interest rates for a number of reasons, such as increases in defaults, actual or perceived increases in voluntary prepayments for those investments

that we have that are subject to prepayment risk, and widening of credit spreads. If the market values of our investments were to decline for any reason, the value of your investment could also decline.

***Changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. government may adversely affect our business.***

Payments on the Agency RMBS (excluding Agency IOs) in which we invest are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. Fannie Mae and Freddie Mac are government sponsored enterprises, or "GSEs," but their guarantees are not backed by the full faith and credit of the United States. As broadly publicized, Fannie Mae and Freddie Mac have experienced significant losses in recent years, causing the U.S. Government to place Fannie Mae and Freddie Mac under federal conservatorship and to inject significant capital in these businesses. Questions regarding the continued viability of Fannie Mae and Freddie Mac, as currently structured, including the guarantees that back the RMBS issued by them, and the U.S. Government's participation in the U.S. residential mortgage market through the GSEs, continue to persist. In February 2011, the U.S. Department of the Treasury along with the U.S. Department Housing and Urban Development released a much-awaited report titled "Reforming America's Housing Finance Market", which outlines recommendations for reforming the U.S. housing system, including reducing the roles of Fannie Mae and Freddie Mac and transforming the government's involvement in the housing market and its relationship to Fannie Mae and Freddie Mac. In February 2012, the Federal Housing Finance Agency, or FHFA, released its "Strategic Plan for Enterprise Conservatorships," which set forth three goals for the next phase of the Fannie Mae and Freddie Mac conservatorships, which include (i) build a new infrastructure for the secondary mortgage market, (ii) gradually reduce Fannie Mae and Freddie Mac's presence in the marketplace while simplifying and shrinking their operations, and (iii) maintaining foreclosure prevention activities and credit availability for new and refinanced mortgages. In March 2013, the FHFA announced that it was creating a new entity as it reduces the roles of Fannie Mae and Freddie Mac that may serve as a foundational element of the mortgage market of the future. Since the FHFA first released its strategic plan, there have been a number of other housing finance reform proposals introduced, both from industry groups and by the U.S. Congress. The most recent bill in the U.S. Congress to receive serious consideration is the "Housing Finance Reform and Taxpayer Protection Act of 2013." This draft bill, among other things, would eliminate Freddie Mac and Fannie Mae and replace them with a new agency which would provide a financial guarantee that would only be tapped after private institutions and investors stepped in. It remains unclear whether this or any other proposals will become law or, should a proposal become law, if or how the enacted law will differ from the current draft of the bill.

As discussed above, each of Fannie Mae, Freddie Mac and Ginnie Mae could be dissolved and the U.S. Government could determine to stop providing liquidity support of any kind to the mortgage market. If Fannie Mae, Freddie Mac or Ginnie Mae were eliminated, or their structures were to change radically or the U.S. Government significantly reduced its support for any or all of them, we may be unable or significantly limited in our ability to acquire Agency RMBS, which would drastically reduce the amount and type of Agency RMBS available for purchase which, in turn, could materially adversely affect our ability to maintain our exclusion from regulation as an investment company under the Investment Company Act. Moreover, any changes to the nature of the guarantees provided by, or laws affecting, Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the credit quality of the guarantees, could increase the risk of loss on purchases of Agency RMBS issued by these GSEs and could have broad adverse market implications for the Agency RMBS they currently guarantee and the mortgage industry generally. Any action that affects the credit quality of the guarantees provided by Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the value of the Agency RMBS and other residential mortgage-related assets that we own or seek to acquire.

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

***Difficult conditions in the mortgage and residential and commercial real estate markets have caused and may cause us to experience losses and these conditions may persist for the foreseeable future.***

Our business is materially affected by conditions in the residential mortgage market, the residential and commercial real estate market, the financial markets and the economy generally. Furthermore, because a significant portion of our current assets and our targeted assets are credit sensitive, we believe the risks associated with our investments will be more acute during periods of economic slowdown or recession, especially if these periods are accompanied by declining real estate values and defaults. Continued concerns about the health of the residential and commercial mortgage markets, as well as inflation, energy costs, sovereign debt and geopolitical issues and the availability and cost of credit have contributed to increased volatility and diminished expectations for the economy and markets going forward. The residential and commercial mortgage markets were adversely affected by changes in the lending landscape during the financial market crisis of 2008, the severity of which was largely unanticipated by the markets, and there is no assurance that these markets will return to prior levels or that they will not worsen again.

In addition, an economic slowdown, delayed recovery or general disruption in the mortgage markets may result in continued decreased demand for residential and commercial property, which would likely further compress homeownership rates and place additional pressure on home price performance, while forcing commercial property owners to lower rents on properties with excess supply. We believe there is a strong correlation between home price growth rates and mortgage loan delinquencies. Moreover, to the extent that a property owner has fewer tenants or receives lower rents, such property owners will generate less cash flow on their properties, which increases significantly the likelihood that such property owners will default on their debt service obligations. If the borrowers of

our mortgage loans, or the loans underlying certain of our investment securities, default, we may incur losses on those loans or investment securities. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income and our ability to acquire our targeted assets in the future on favorable terms or at all. The further deterioration of the mortgage markets, the residential or commercial real estate markets, the financial markets and the economy generally may result in a decline in the market value of our investments or cause us to experience losses related to our assets, which may adversely affect our results of operations, the availability and cost of credit and our ability to make distributions to our stockholders.

***Interest rate mismatches between the interest-earning assets held in our investment portfolio and the borrowings used to fund the purchases of those assets may reduce our net income or result in a loss during periods of changing interest rates.***

Certain of the assets held in our investment portfolio have a fixed coupon rate, generally for a significant period, and in some cases, for the average maturity of the asset. At the same time, our repurchase agreements and certain other borrowings typically provide for a payment reset period of 30 days or less. In addition, the average maturity of our borrowings generally will be shorter than the average maturity of the securities and loans currently in our portfolio and certain other targeted assets in which we seek to invest. Historically, we have used swap agreements as a means for attempting to fix the cost of certain of our liabilities over a period of time; however, these agreements will generally not be sufficient to match the cost of all our liabilities against all of our investments. In the event we experience unexpectedly high or low prepayment rates on RMBS or other mortgage-related assets, our strategy for matching our assets with our liabilities is more likely to be unsuccessful which may result in reduced earnings or losses and reduced cash available for distribution to our stockholders.

In addition, the RMBS and residential mortgage loans we invest in may be comprised of, ARMs that are subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase over the life of the security or loan. Our borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while interest rate caps could limit the interest rates on the Agency ARMs or residential mortgage loans comprised of ARMs in our portfolio. This problem is magnified for securities backed by, or residential mortgage loans comprised of, ARMs and hybrid ARMs that are not fully indexed. Further, certain securities backed by, or residential mortgage loans comprised of, ARMs and hybrid ARMs may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, the payments we receive on Agency ARMs backed by, or residential mortgage loans comprised of, ARMs and hybrid ARMs may be lower than the related debt service costs. These factors could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.



Interest rate fluctuations will also cause variances in the yield curve, which may reduce our net income. The relationship between short-term and longer-term interest rates is often referred to as the “yield curve.” If short-term interest rates rise disproportionately relative to longer-term interest rates (a flattening of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on our interest-earning assets. For example, because the Agency RMBS in our investment portfolio typically bear interest based on longer-term rates while our borrowings typically bear interest based on short-term rates, a flattening of the yield curve would tend to decrease our net income and the market value of these securities. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested, the spread between the yields of the new investments and available borrowing rates may decline, which would likely decrease our net income. 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 significant operating losses.

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

The U.S. Government, through the U.S. Treasury, the Federal Housing Administration, or FHA, and the Federal Deposit Insurance Corporation, or “FDIC,” commenced implementation of programs designed to provide homeowners with assistance in avoiding residential or commercial mortgage loan foreclosures, including the Home Affordable Modification Program, or “HAMP,” which provides homeowners with assistance in avoiding residential mortgage loan foreclosures, the Hope for Homeowners Program, or “H4H Program,” which allows certain distressed borrowers to refinance their mortgages into FHA-insured loans in order to avoid 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. The programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans.

Loan modification and refinance programs may adversely affect the performance of Agency RMBS, non-Agency RMBS and residential mortgage loans owned by us. Residential distressed mortgage loans and non-Agency RMBS are particularly sensitive to loan modification and refinance programs, as a significant number of loan modifications with respect to a given security or pool of loans, including those related to principal forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such investments. In addition, it is also likely that loan modifications would result in increased prepayments on some RMBS and residential mortgage loans.

The U.S. Congress and various state and local legislatures are considering, and in the future may consider, legislation, which, among other provisions, would permit limited assignee liability for certain violations in the mortgage loan origination process, and would allow judicial modification of loan principal in the event of personal bankruptcy. We cannot predict whether or in what form the U.S. Congress or the various state and local legislatures may enact legislation affecting our business or whether any such legislation will require us to change our practices or make changes in our portfolio in the future. These changes, if required, could materially adversely affect our business, results of operations and financial condition and our ability to make distributions to our stockholders, particularly if

we make such changes in response to new or amended laws, regulations or ordinances in any state where we acquire a significant portion of our mortgage loans, or if such changes result in us being held responsible for any violations in the mortgage loan origination process. These loan modification programs, future legislative or regulatory actions, including possible amendments to the bankruptcy laws, which result in the modification of outstanding residential mortgage loans, as well as changes in the requirements necessary to qualify for refinancing mortgage loans with Fannie Mae, Freddie Mac or Ginnie Mae, may adversely affect the value of, and the returns on, our assets which, in turn, could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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

The frequency at which prepayments (including both voluntary prepayments by the borrowers and liquidations due to defaults and foreclosures) occur on the residential mortgage loans we own and those that underlie our RMBS is difficult to predict and is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, legislative and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans.

In general, “premium” securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster-than-anticipated prepayments because the above-market coupon that such premium securities carry will be earned for a shorter period of time. Generally, “discount” securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower-than-anticipated prepayments. Since many RMBS will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these RMBS may be adversely affected by changes in prepayments in any interest rate environment. Although we estimate prepayment rates to determine the effective yield of our assets and valuations, these estimates are not precise and prepayment rates do not necessarily change in a predictable manner as a function of interest rate changes

The adverse effects of prepayments may impact us in various ways. First, particular investments, such as IOs, may experience outright losses in an environment of faster actual or anticipated prepayments. Second, particular investments may under-perform relative to any hedges that we may have constructed for these assets, resulting in a loss to us. In particular, prepayments (at par) may limit the potential upside of many RMBS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. Furthermore, to the extent that faster prepayment rates are due to lower interest rates, the principal payments received from prepayments will tend to be reinvested in lower-yielding assets, which may reduce our income in the long run. Therefore, if actual prepayment rates differ from anticipated prepayment rates, our business, financial condition and results of operations and ability to make distributions to our stockholders could be materially adversely affected.

Some of the commercial real estate loans we may originate or invest in may allow the borrower to make prepayments without incurring a prepayment penalty and some may include provisions allowing the borrower to extend the term of the loan beyond the originally scheduled maturity. Because the decision to prepay or extend a commercial loan is typically controlled by the borrower, we may not accurately anticipate the timing of these events, which could affect the earnings and cash flows we anticipate and could impact our ability to finance these assets.

***Increased levels of prepayments on the mortgages underlying structured mortgage-backed securities, particularly IOs, might decrease net interest income or result in a net loss, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.***

When we acquire structured mortgage-backed securities, such as IOs, we anticipate that the underlying mortgages will prepay at a projected rate, generating an expected yield. When the prepayment rates on the mortgages underlying these securities are higher than expected, our returns on those securities may be materially adversely affected. For example, the value of our Agency IOs is extremely sensitive to prepayments because holders of these securities do not have the right to receive any principal payments on the underlying mortgages. Agency IOs currently comprise a large percentage of our interest earning assets. As a result, increased levels of prepayments on our Agency IOs will negatively impact our net interest income and may result in a loss.

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

On September 21, 2011, the U.S. Federal Reserve, or Federal Reserve, announced "Operation Twist," a program by which it purchased, by the end of December 2012, more than \$650 billion of U.S. Treasury securities with remaining maturities between six and 30 years and sold an equal amount of U.S. Treasury securities with remaining maturities of three years or less. In addition, on September 13, 2012, the Federal Reserve announced a third round of quantitative easing, or "QE3," which is an open-ended program designed to expand the Federal Reserve's holdings of long-term securities by purchasing an additional \$40 billion of Agency RMBS per month until key economic indicators show sufficient signs of improvement. In December 2012, in an effort to keep long-term interest rates at low levels, the Federal Reserve announced an expansion of its asset buying program starting in January 2013, at which time it would commence outright purchases of longer-term U.S. Treasury securities at a pace of \$45 billion per month. This new U.S. Treasury securities purchase program replaced "Operation Twist," which expired in December 2012.

In December 2013, given indications that the U.S. economy had improved sufficiently, the Federal Reserve announced that it would reduce the pace of its purchases of longer-term U.S. Treasury securities to \$40 billion per month and its purchases of Agency RMBs to \$35 billion per month and that it will likely reduce the pace of asset purchases in further measured steps to be announced at future meetings. Interest rates increased during 2013 as a result of market anticipation that the asset purchase program would be reduced. Late in January 2014, the Federal Reserve announced an additional \$10 billion reduction in its monthly asset purchases, beginning in February 2014, which consists of a monthly purchase reduction of \$5 billion in Agency RMBS and \$5 billion in U.S. Treasury securities. Although in the immediate aftermath of the purchase reduction announcements interest rates have generally traded within a range, it remains possible that the precipitous termination of (or even just a phasing out of) Federal Reserve asset purchase programs could cause interest rates to rise substantially. Should the U.S. economy begin to indicate signs of deterioration, the Federal Reserve could decide to increase its asset purchase program or institute other measures designed to reduce interest rates. These measures could lead to a flattening in the yield curve, and increased prepayment rates (resulting from lower long-term interest rates, including mortgage rates), and a narrowing of our net interest margin. The modification or termination by the Federal Reserve of any of its programs could materially adversely affect our business, financial condition and results of operations, and our ability to make distributions to our stockholders.

***Our investments include high yield or subordinated and lower rated securities that have greater risks of loss than other investments, which could adversely affect our business, financial condition and cash available for dividends.***

We own and seek to acquire higher yielding or subordinated or lower rated securities, including subordinated tranches of CMBS or non-Agency RMBS, which involve a higher degree of risk than other investments. Numerous factors may affect a company's ability to repay its high yield or subordinated securities, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. These securities may not be secured by mortgages or liens on assets. Our right to payment and security interest with respect to such securities may be subordinated to the payment rights and security interests of the senior lender. Therefore, we may be limited in our ability to enforce our rights to collect these loans and to recover any of the loan balance through a foreclosure of collateral.

***Our efforts to manage credit risks may fail.***

Despite our efforts to manage credit risk, there are many aspects of credit risk that we cannot control. Our credit policies and procedures may not be successful in limiting future delinquencies, defaults, and losses, or they may not be cost effective. Our underwriting reviews may not be effective. Loan servicing companies may not cooperate with our loss mitigation efforts or those efforts may be ineffective. Service providers to securitizations, such as trustees, loans servicers, bond insurance providers, and custodians, may not perform in a manner that promotes our interests. Delay of foreclosures could delay resolution and increase ultimate loss severities, as a result.

The value of the properties collateralizing or underlying the loans or securities we own may decline. The frequency of default and the loss severity on loans upon default may be greater than we anticipate. Interest-only loans, negative amortization loans, adjustable-rate loans, larger balance loans, reduced documentation loans, subprime loans, alt-a loans, second lien loans, loans in certain locations, and loans or investments that are partially collateralized by non-real estate assets may have increased risks and severity of loss. If property securing or underlying loans become real estate owned as a result of foreclosure, we bear the risk of not being able to sell the property and recovering our investment and of being exposed to the risks attendant to the ownership of real property.

***If we underestimate the loss-adjusted yields of our investments in credit sensitive assets, we may experience losses.***

We and our managers expect to value our investments in many credit sensitive assets, including, but not limited to multi-family CMBS, based on loss-adjusted yields, taking into account estimated future losses on the mortgage loans that we are investing in or that are included in a particular securitization, and the estimated impact of these losses on expected future cash flows. Our loss estimates may not prove accurate, as actual results may vary from estimates. In the event that we underestimate the losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

***We invest in CMBS that are subordinate to more senior securities issued by the applicable securitization, which entails certain risks.***

We currently own and intend to continue to purchase principal only multi-family CMBS that represent the first loss tranche of a multi-family mortgage loan securitization. These first loss principal only securities are subject to the first risk of loss if any losses are realized on the underlying mortgage loans in the securitization. We also own and intend to continue to purchase interest only securities issued by multi-family mortgage loan securitizations. However, these interest only CMBS typically only receive payments of interest to the extent that there are funds available in the securitization to make the payments. CMBS generally entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of commercial or multi-family mortgage loans. Consequently, the CMBS, and in particular, first loss principal only CMBS, will be adversely affected by payment defaults, delinquencies and losses on the underlying mortgage loans, each of which could have a material adverse effect on our cash flows and results of operations.

***Residential mortgage loans, including subprime residential mortgage loans and non-performing and sub-performing residential mortgage loans, are subject to increased risks.***

We acquire and manage residential whole mortgage loans, including loans sourced from distressed markets. Residential mortgage loans, including non-performing and sub-performing mortgage loans as well as subprime mortgage loans, are subject to increased risks of loss. Unlike Agency RMBS, the residential mortgage loans we invest in generally are not guaranteed by the federal government or any GSE. Additionally, by directly acquiring residential mortgage loans, we do not receive the structural credit enhancements that benefit senior tranches of RMBS. A residential whole mortgage loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower and the priority and enforceability of the lien will significantly impact the value of such mortgage. 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 mortgage loans are also subject to "special hazard" risk (property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies), and to bankruptcy risk (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, responsibility for tax payments, environmental hazards and other liabilities. In some cases, these liabilities may be "recourse liabilities" or may otherwise lead to losses in excess of the purchase price of the related mortgage or property.

Our targeted assets currently include distressed residential loans that we acquire from third parties, typically at a discount. Distressed residential loans sell at a discount because they may constitute riskier investments than those selling at or above par value. The distressed residential loans we invest in may be distressed because a borrower may have defaulted thereupon or because the loan may otherwise contain credit quality that is considered to be poor. The likelihood of full recovery of a distressed loan's principal and contractual interest is less than that for loans trading at or above par value. Although we typically expect to receive less than the principal amount or face value of the distressed residential loans that we purchase, the return that we in fact receive thereupon may be less than our investment in such loans due to the failure of the loans to perform or reperform. An economic downturn would exacerbate the risks of the recovery of the full value of the loan or the cost of our investment therein.

***If we sell or transfer any whole mortgage loans to a third party, including a securitization entity, we may be required to repurchase such loans or indemnify such third party if we breach representations and warranties.***

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

***The commercial mortgage loans we may originate or acquire and the mortgage loans underlying our CMBS investments are subject to the ability of the commercial property owner to generate net income from operating the property as well as the risks of delinquency and foreclosure.***

Commercial mortgage loans are secured by multi-family or commercial property and are subject to risks of delinquency and foreclosure, and risk of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than

upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be adversely affected by, among other things,

tenant mix;

success of tenant businesses;

property management decisions;

property location, condition, and design;

new construction of competitive properties;

changes in laws that increase operating expenses or limit rents that may be charged;

changes in national, regional or local economic conditions and/or specific industry segments, including the credit and securitization markets;

declines in regional or local real estate values;

declines in regional or local rental or occupancy rates;

increases in interest rates, real estate tax rates, and other operating expenses;

costs of remediation and liabilities associated with environmental conditions;

the potential for uninsured or underinsured property losses;

changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and

acts of God, terrorist attacks, social unrest, and civil disturbances.





In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss to the extent of any deficiency between the value of the collateral and the outstanding principal and accrued interest of the mortgage loan, and any such losses could have a material adverse effect on our cash flow from operations and our ability to make distributions to our stockholders.

In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

***The preferred equity investments or mezzanine loan assets that we may acquire or originate will involve greater risks of loss than senior loans secured by income-producing properties.***

We may acquire or originate 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. We also may make preferred equity investments in the entity that owns 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 or our equity investment may be effectively extinguished as a result of foreclosure by the senior lender. In addition, mezzanine loans and preferred equity investments are often used to achieve a very high leverage on large commercial projects, resulting in less equity in the property and increasing the risk of loss of principal or investment. 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 or preferred equity investment will be satisfied only after the senior debt, in case of a mezzanine loan, or all senior and subordinated debt, in case of a preferred equity investment, is paid in full. Where senior debt exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies or control decisions made in bankruptcy proceedings relating to borrowers or preferred equity investors. As a result, we may not recover some or all of our investment, which could result in significant losses.

***We have acquired and may acquire in the future non-Agency RMBS collateralized by subprime and Alt A mortgage loans, which are not guaranteed by any government-sponsored entity or agency and are subject to increased risks.***

We have acquired and may acquire in the future non-Agency RMBS, which are backed by residential real estate property but, in contrast to Agency RMBS, their principal and interest are not guaranteed by a GSE such as Fannie Mae or Freddie Mac. We may acquire non-Agency RMBS backed by collateral pools of mortgage loans that have

been originated using underwriting standards that are less restrictive than those used in underwriting “prime mortgage loans” and “Alt A mortgage loans.” These lower standards, which include mortgage loans made to borrowers having imperfect or impaired credit histories, mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified, subject us to increased risk of loss on our investment.

***To the extent that due diligence is conducted on potential assets, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead to losses.***

Before acquiring certain assets, such as whole mortgage loans, CMBS or other mortgage-related or other fixed income assets, we or the external manager responsible for the acquisition and management of such asset may decide to conduct (either directly or using third parties) certain due diligence. Such due diligence may include (i) an assessment of the strengths and weaknesses of the asset’s credit profile, (ii) a review of all or merely a subset of the documentation related to the asset, or (iii) other reviews that we or the external manager may deem appropriate to conduct. There can be no assurance that we or the external manager will conduct any specific level of due diligence, or that, among other things, the due diligence process will uncover all relevant facts or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Our real estate assets are subject to risks particular to real property.***

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

acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;

acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;

adverse changes in national and local economic and market conditions; and

changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;

The occurrence of any of the foregoing or similar events may reduce our return from an affected property or asset and, consequently, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***The lack of liquidity in certain of our assets may adversely affect our business.***

A portion of the securities or loans we own or acquire may be subject to legal, contractual and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. For example, a portion of our multi-family CMBS is held by a securitization trust and may not be sold or transferred until the note issued by the securitization trust matures or is repaid. The illiquidity of certain of our assets may make it difficult for us to sell such assets if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our assets. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

***Our Level 2 portfolio investments are recorded at fair value based on market quotations from pricing services and broker/dealers. Our Level 3 investments are recorded at fair value utilizing internal valuation models. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.***

All of our current portfolio investments are, and some of our future portfolio investments will be, in the form of securities or other investments that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We currently value and will continue to value these investments on a quarterly-basis at fair value as determined by our management based on market quotations from pricing services and brokers/dealers and/or internal valuation models. Because such quotations and valuations are inherently uncertain, they may fluctuate over short periods of time and are based on estimates, therefore our determinations of fair value may differ materially from the values that would have been used if a public market for these securities existed. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

***Our adoption of fair value option accounting could result in income statement volatility, which in turn, could cause significant market price and trading volume fluctuations for our securities.***

We have determined that certain securitization trusts that issued certain of our multi-family CMBS or securitized debt were variable interest entities, or VIEs, of which we are the primary beneficiary, and elected the fair value option on the assets and liabilities held within those securitization trusts. As a result, we are required to consolidate the underlying multi-family loan or securities, as applicable, related debt, interest income and interest expense of those securitization trusts in our financial statements, although our actual investments in these securitization trusts generally represent a small percentage of the total assets of the trusts. Prior to the year ended December 31, 2012, we historically accounted for the multi-family CMBS in our investment portfolio through accumulated other comprehensive income, pursuant to which unrealized gains and losses on those multi-family CMBS were reflected as an adjustment to stockholders' equity. However, the fair value option requires that changes in valuations in the assets and liabilities of those VIEs of which we are the primary beneficiary, such as the Consolidated K-Series, be reflected through our earnings. As we acquire additional multi-family CMBS assets in the future that are similar in structure and form to the Consolidated K-Series' assets or securitize investment securities owned by us, we may be required to consolidate the assets and liabilities of the issuing or securitization trust and would expect to elect the fair value option for those assets. Because of this, our earnings may experience greater volatility in the future as a decline in the fair value of the assets of any VIE that we consolidate in our financial statements could reduce both our earnings and stockholders' equity, which in turn, could cause significant market price and trading volume fluctuations for our securities.

***Failure to procure adequate funding and capital would adversely affect our results and may, in turn, negatively affect the value of our common stock and our ability to distribute cash to our stockholders.***

We depend upon the availability of adequate funding and capital for our operations. To maintain our status as a REIT, we are required to distribute at least 90% of our REIT taxable income annually, determined without regard to the deduction for dividends paid and excluding net capital gain, to our stockholders and therefore are not able to retain our earnings for new investments. We cannot assure you that any, or sufficient, funding or capital will be available to us in the future on terms that are acceptable to us. In the event that we cannot obtain sufficient funding and capital on acceptable terms, there may be a negative impact on the value of our common stock and our ability to make distributions to our stockholders, and you may lose part or all of your investment.

***Competition may prevent us from acquiring assets on favorable terms or at all, which could have a material adverse effect on our business, financial condition and results of operations.***

We operate in a highly competitive market for investment opportunities. Our net income largely depends on our ability to acquire our targeted assets at favorable spreads over our borrowing costs. In acquiring our targeted assets, we compete with other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders and other entities that purchase mortgage-related assets, many of which have greater financial resources than us. Additionally, many of our potential competitors are not subject to REIT tax compliance or required to maintain an exemption from the Investment Company Act. As a result, we may not in the future be able to acquire sufficient quantities of our targeted assets at favorable spreads over our borrowing costs, which could have a material adverse effect on our business, financial condition and results of operations.

***Lack of diversification in the number of assets we acquire would increase our dependence on relatively few individual assets.***

Our management objectives and policies do not place a limit on the size of the amount of capital used to support, or the exposure to (by any other measure), any individual asset or any group of assets with similar characteristics or risks. In addition, because we are a small company, we may be unable to sufficiently deploy capital into a number of assets or asset groups. As a result, our portfolio may be concentrated in a small number of assets or may be otherwise undiversified, increasing the risk of loss and the magnitude of potential losses to us and our stockholders if one or more of these assets perform poorly.

***We may change our investment strategy, hedging strategy and asset allocation and operational and management policies without stockholder consent, which may result in the purchase of riskier assets and materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.***

We may change our investment strategy, hedging strategy and asset allocation and operational and management policies at any time without the consent of our stockholders, which could result in our purchasing assets or entering into hedging transactions that are different from, and possibly riskier than, the assets and hedging transactions described in this report. A change in our investment strategy or hedging strategy may increase our exposure to real estate values, interest rates, prepayment rates, credit risk and other factors. A change in our asset allocation could result in us purchasing assets in classes different from those described in this report. Our Board of Directors determines our operational policies and may amend or revise our policies, including those with respect to our acquisitions, growth, operations, indebtedness, capitalization and distributions or approve transactions that deviate from these policies without a vote of, or notice to, our stockholders. In addition, certain of our external managers have great latitude in making investment and hedging decisions on our behalf. Changes in our investment strategy, hedging strategy and asset allocation and operational and management policies could materially adversely affect our business,

financial condition and results of operations and ability to make distributions to our stockholders.

***Our senior management and our external managers will utilize analytical models and data in connection with the valuation of certain of our assets, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks.***

Given the complexity of certain of our target assets, such as Agency IOs and multi-family CMBS, our senior management team and our external managers must rely heavily on analytical models and information and data supplied by third parties. Models and data will be used to value potential target assets, potential credit risks and reserves and also in connection with hedging our acquisitions. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks.

***In connection with our operating and investment activity, we rely on third parties, including our external managers, to perform certain services, comply with applicable laws and regulations, and carry out contractual covenants and terms, the failure of which by any of these third parties may adversely impact our business and financial results.***

In connection with our business of acquiring and holding loans, engaging in securitization transactions, and investing in third-party issued securities, we rely on third party service providers, including our external managers, to perform certain services, comply with applicable laws and regulations, and carry out contractual covenants and terms. As a result, we are subject to the risks associated with a third party's failure to perform, including failure to perform due to reasons such as fraud, negligence, errors, miscalculations, or insolvency.

***We are highly dependent on information systems and system failures could significantly disrupt our business, which may, in turn, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.***

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems could cause delays or other problems in our securities trading activities which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Actions of the U.S. Government to stabilize or reform the financial markets may not achieve the intended effect and may adversely affect our business.***

In response to the financial issues affecting the banking system and financial markets and going concern threats to commercial banks, investment banks and other financial institutions, the Emergency Economic Stabilization Act (or EESA), was enacted by the U.S. Congress in 2008. Although this action and others implemented in response to the financial crisis appear to have stabilized the banking system and financial markets, there can be no assurance that the EESA or any other U.S. Government actions will have a long-term beneficial impact on the financial markets. To the extent such actions do not function as intended over the longer term, our business may not ultimately receive the anticipated positive impact from the legislation and such result may have broad adverse market implications.

In July 2010, the U.S. Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, in part to impose significant investment restrictions and capital requirements on banking entities and other organizations that are significant to U.S. financial markets. For instance, the Dodd-Frank Act seeks to reform the asset-backed securitization market (including the mortgage-backed securities market) by requiring the retention of a portion of the credit risk inherent in the pool of securitized assets and by imposing additional registration and disclosure requirements. Certain of the new requirements and restrictions exempt Agency RMBS, other government issued or guaranteed securities, or other securities. Nonetheless, the Dodd-Frank Act also imposes significant regulatory restrictions on the origination and securitization of residential mortgage loans. The Dodd-Frank Act also created a new regulator, the Consumer Financial Protection Bureau (or the CFPB), which oversees many of the core laws which regulate the mortgage industry, including among others the Real Estate Settlement Procedures Act and the Truth in Lending Act. While the full impact of the Dodd-Frank Act and the role of the CFPB cannot be assessed until all implementing regulations are released, the Dodd-Frank Act's extensive requirements may have a significant effect on the financial markets, and may affect the availability or terms of financing from our lender counterparties and the availability or terms of mortgage-backed securities, both of which may have an adverse effect on our financial condition and results of operations.

In addition, the U.S. Government, Federal Reserve, U.S. Treasury, the SEC and other governmental and regulatory bodies have taken or are considering taking other actions that impact the mortgage industry and financial markets. We



cannot predict whether or when such actions may occur or what effect, if any such actions could have on our business, results of operations and financial condition.

***The downgrade of the U.S.'s and certain European countries' or certain European financial institutions' credit ratings, any future downgrades of the U.S.'s and certain European countries' or certain European financial institutions' credit ratings and the failure to resolve issues related to U.S. fiscal and debt policies may materially adversely affect our business, liquidity, financial condition and results of operations.***

Recent U.S. debt ceiling and budget deficit concerns have increased the possibility of additional credit-rating downgrades or economic slowdowns in the U.S. Although U.S. lawmakers passed legislation to raise the federal debt ceiling in 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the U.S. from "AAA" to "AA+" in August 2011. The impact of any further downgrades to the U.S. Government's sovereign credit rating or its perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. If the U.S.'s credit rating were downgraded it would likely impact the credit risk associated with Agency RMBS in our portfolio. A downgrade of the U.S. Government's credit rating or a default by the U.S. Government to satisfy its debt obligations likely would create broader financial turmoil and uncertainty, which would weigh heavily on the global banking system and these developments could cause interest rates and borrowing costs to rise and a reduction in the availability of credit, which may negatively impact the value of the assets in our portfolio, our net income, liquidity and our ability to finance our assets on favorable terms.

In addition, in recent years, several large European financial institutions have experienced financial difficulty resulting in downgrades to their credit ratings and, in some cases, these financial institutions have required assistance from European sovereign governments or other large European banks. As economic uncertainty in Europe continues, the financial condition and stability of many European financial institutions remains at risk. Some of these financial institutions have U.S. banking subsidiaries that serve as financing or hedging counterparties to us. Any future downgrade of the credit ratings of these European financial institutions would result in greater counterparty default risk and could materially adversely affect our business, liquidity, access to financing and results of operations

***Failure to obtain and maintain an exemption from being regulated as a commodity pool operator could subject us to additional regulation and compliance requirements and may result in fines and other penalties which could materially adversely affect our business, financial condition and results of operations.***

The Dodd-Frank Act established a comprehensive new regulatory framework for derivative contracts commonly referred to as “swaps.” As a result, any investment fund that trades in swaps may be considered a “commodity pool,” which would cause its operators (and in some cases the fund's directors) to be regulated as “commodity pool operators” (“CPOs”). Under new rules adopted by the U.S. Commodity Futures Trading Commission (the “CFTC”) those funds that become commodity pools solely because of their use of swaps must register with the National Futures Association (“NFA”). Registration requires compliance with the CFTC's regulations and the NFA's rules with respect to capital raising, disclosure, reporting, recordkeeping and other business conduct. However, the CFTC's Division of Swap Dealer and Intermediary Oversight issued a no-action letter in December 2012 saying, although it believes that mortgage REITs are properly considered commodity pools, it would not recommend that the CFTC take enforcement action against the operator of a mortgage REIT who does not register as a CPO if, among other things, the mortgage REIT limits the initial margin and premiums required to establish its swaps, futures and other commodity interest positions to not more than five percent of its total assets, the mortgage REIT limits the net income derived annually from those commodity interest positions that are not qualifying hedging transactions to less than five percent of its gross income and interests in the mortgage REIT are not marketed to the public as or in a commodity pool or otherwise as or in a vehicle for trading in the commodity futures, commodity options or swaps markets.

We use hedging instruments in conjunction with our investment portfolio and related borrowings to reduce or mitigate risks associated with changes in interest rates, mortgage spreads, yield curve shapes and market volatility. These hedging instruments include interest rate swaps, interest rate futures and options on interest rate futures. We do not currently engage in any speculative derivatives activities or other non-hedging transactions using swaps, futures or options on futures. We do not use these instruments for the purpose of trading in commodity interests, and we do not consider our company or our operations to be a commodity pool as to which CPO registration or compliance is required. We have submitted the required filing to claim the no-action relief afforded by the above-described no-action letter. Consequently, we will be restricted to operating within the parameters discussed in the no-action letter and will not enter into hedging transactions covered by the no-action letter if they would cause us to exceed the limits set forth in the no-action letter. In the event that we fail to comply with statutory requirements relating to derivatives or with the CFTC's rules thereunder, including the no-action letter described above, we may be subject to significant fines, penalties and other civil or governmental actions or proceedings, any of which could have a materially adverse effect on our business, financial condition and results of operations.

### **Risk Related to Our Debt Financing and Hedging**

***Our access to financing sources, which may not be available on favorable terms, or at all, may be limited, and this may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.***

We depend upon the availability of adequate capital and financing sources on acceptable terms to fund our operations. However, as previously discussed, the capital and credit markets have experienced unprecedented levels of volatility and disruption in recent years that has generally caused a reduction of availability credit. Continued volatility or disruption in the credit markets or a downturn in the global economy could materially adversely affect one or more of our lenders and could cause one or more of our lenders to be unwilling or unable to provide us with financing, or to increase the costs of that financing, or to become insolvent. Although we finance some of our assets with longer-term structured financing having terms of three years or more, we rely heavily on access to short-term borrowings, primarily in the form of repurchase agreements, to finance our investments. We are currently party to repurchase agreements of a short duration and there can be no assurance that we will be able to roll over or re-set these borrowings on favorable terms, if at all. In the event we are unable to roll over or re-set our repurchase agreement borrowings, it may be more difficult for us to obtain debt financing on favorable terms or at all. In addition, if regulatory capital requirements imposed on our lenders change, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price. Under current market conditions, securitizations are generally unavailable or limited, which has also limited borrowings under warehouse facilities and other credit facilities that are intended to be refinanced by such securitizations. Consequently, depending on market conditions at the relevant time, we may have to rely on additional equity issuances to meet our capital and financing needs, which may be dilutive to our stockholders, or we may have to rely on less efficient forms of debt financing that consume a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities, cash distributions to our stockholders and other purposes. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause us to curtail our investment activities and/or dispose of assets, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***We may incur increased borrowing costs related to repurchase agreements and that would adversely affect our profitability.***

Currently, a significant portion of our borrowings are collateralized borrowings in the form of repurchase agreements. If the interest rates on these agreements increase at a rate higher than the increase in rates payable on our investments, our profitability would be adversely affected.

Our borrowing costs under repurchase agreements generally correspond to short-term interest rates such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon a number of factors, including, without limitation:

the movement of interest rates;

the the availability of financing in the market; and

the the value and liquidity of our mortgage-related assets.

During 2008 and 2009, many repurchase agreement lenders required higher levels of collateral than they had required in the past to support repurchase agreements collateralized by RMBS. Although these collateral requirements have been reduced to more appropriate levels, we cannot assure you that they will not again experience a dramatic increase. If the interest rates, lending margins or collateral requirements under our short-term borrowings, including repurchase agreements, increase, or if lenders impose other onerous terms to obtain this type of financing, our results of operations will be adversely affected.

***The repurchase agreements that we use to finance our investments may require us to provide additional collateral, which could reduce our liquidity and harm our financial condition.***

We intend to use repurchase agreements to finance certain of our investments, primarily RMBS. If the market value of the loans or securities pledged or sold by us to a funding source decline in value, we may be required by the lending institution to provide additional collateral or pay down a portion of the funds advanced, but we may not have the funds available to do so. Posting additional collateral to support our repurchase agreements will reduce our liquidity and limit our ability to leverage our assets. In the event we do not have sufficient liquidity to meet such requirements, lending institutions can accelerate our indebtedness, increase our borrowing rates, liquidate our collateral at inopportune times and terminate our ability to borrow. This could result in a rapid deterioration of our financial condition and possibly require us to file for protection under the U.S. Bankruptcy Code.

*We intend to leverage our equity, which will exacerbate any losses we incur on our current and future investments and may reduce cash available for distribution to our stockholders.*

We intend to leverage our equity through borrowings, generally through the use of repurchase agreements and other short-term borrowings or through longer-term structured debt, such as CDOs and other forms of securitized debt. We may, in the future, utilize other forms of borrowing. The amount of leverage we incur varies depending on the asset type, our ability to obtain borrowings, the cost of the debt and our lenders' estimates of the value of our portfolio's cash flow. The return on our investments and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets we hold in our investment portfolio. Further, the leverage on our equity may exacerbate any losses we incur.

Our debt service payments will reduce the net income available for distribution to our stockholders. We may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to sale to satisfy our debt obligations. A decrease in the value of the assets may lead to margin calls under our repurchase agreements which we will have to satisfy. Significant decreases in asset valuation, could lead to increased margin calls, and we may not have the funds available to satisfy any such margin calls. Although we have established target leverage amounts for many of our assets, there is no established limitation, other than may be required by our financing arrangements, on our leverage ratio or on the aggregate amount of our borrowings.

***If we are unable to leverage our equity to the extent we currently anticipate, the returns on certain of our assets could be diminished, which may limit or eliminate our ability to make distributions to our stockholders.***

If we are limited in our ability to leverage our assets to the extent we currently anticipate, the returns on these assets may be harmed. A key element of our strategy is our use of leverage to increase the size of our portfolio in an attempt to enhance our returns. Our repurchase agreements are not currently committed facilities, meaning that the counterparties to these agreements may at any time choose to restrict or eliminate our future access to the facilities and we have no other committed credit facilities through which we may leverage our equity. If we are unable to leverage our equity to the extent we currently anticipate, the returns on our portfolio could be diminished, which may limit or eliminate our ability to make distributions to our stockholders.

***We directly or indirectly utilize non-recourse securitizations and recourse structured financings and such structures expose us to risks that could result in losses to us.***

We sometimes utilize non-recourse securitizations of our investments in mortgage loans or CMBS to the extent consistent with the maintenance of our REIT qualification and exemption from the Investment Company Act of 1940, as amended, in order to generate cash for funding new investments and/or to leverage existing assets. In most instances, this involves us transferring loans or CMBS owned by us to a SPE in exchange for cash and typically the ownership certificate or residual interest in the entity. In some sale transactions, we also retain a subordinated interest in the loans or CMBS sold, such as a B-note. The securitization or other structured financing of our portfolio investments might magnify our exposure to losses on those portfolio investments because the subordinated interest we retain in the loans or CMBS sold would be subordinate to the senior interest in the loans or CMBS sold, and we would, therefore, absorb all of the losses sustained with respect to a loan sold before the owners of the senior interest experience any losses. Under the terms of these financings, which generally have terms of three to ten years, we may agree to receive no cash flows from the assets transferred to the SPE until the debt issued by the special purpose entity has matured or been repaid. We cannot be assured that we will be able to access the securitization markets in the future, or be able to do so at favorable rates. The inability to consummate longer term financing for the credit sensitive assets in our portfolio could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect our performance and our ability to grow our business.

In addition, under the terms of the securitization or structured financing, we may have limited or no ability to sell, transfer or replace the assets transferred to the SPE, which could have a material adverse effect on our ability to sell the assets opportunistically or during periods when our liquidity is constrained or to refinance the assets. Finally, we have in the past and may in the future guarantee certain terms or conditions of these financings, including the payment of principal and interest on the debt issued by the SPE, the cash flows for which are typically derived from the assets transferred to the entity. If a SPE defaults on its obligations and we have guaranteed the satisfaction of that obligation, we may be materially adversely affected.

***If a counterparty to our repurchase transactions defaults on its obligation to resell the underlying security back to us at the end of the transaction term or if we default on our obligations under the repurchase agreement, we may incur losses.***

When we engage in repurchase transactions, we generally sell RMBS or CMBS to lenders (i.e., repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same security back to us at the end of the term of the transaction. Because the cash we receive from the lender when we initially sell the security to the lender is less than the value of those security (this difference is referred to as the “haircut”), if the lender defaults on its obligation to resell the same security back to us we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the security). Certain of the assets that we pledge as collateral, including Agency IOs and CLOs, are currently subject to significant haircuts. Further, if we default on one of our obligations under a repurchase transaction, the lender can terminate the transaction and cease entering into any other repurchase transactions with us. Our repurchase agreements 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. Any losses we incur on our repurchase transactions could adversely affect our earnings and thus our cash available for distribution to our stockholders.

***Our use of repurchase agreements to borrow funds may give our lenders greater rights in the event that either we or a lender files for bankruptcy.***

Our borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving our lenders the ability to avoid the automatic stay provisions of the bankruptcy code and to take possession of and liquidate our collateral under the repurchase agreements without delay in the event that we file for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for us to recover our pledged assets in the event that a lender files for bankruptcy. Thus, the use of repurchase agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either a lender or us.

***Our liquidity may be adversely affected by margin calls under our repurchase agreements because we are dependent in part on the lenders' valuation of the collateral securing the financing.***

Each of these repurchase agreements allows the lender, to varying degrees, to revalue the collateral to values that the lender considers to reflect market value. If a lender determines that the value of the collateral has decreased, it may initiate a margin call requiring us to post additional collateral to cover the decrease. When we are subject to such a margin call, we must provide the lender with additional collateral or repay a portion of the outstanding borrowings with minimal notice. Any such margin call could harm our liquidity, results of operation and financial condition. Additionally, in order to obtain cash to satisfy a margin call, we may be required to liquidate assets at a disadvantageous time, which could cause it to incur further losses and adversely affect our results of operations and financial condition.

***Adoption of the Basel III standards and other proposed supplementary regulatory standards may negatively impact our access to financing or affect the terms of our future financing arrangements.***

In response to various financial crises and the volatility of financial markets, the Basel Committee on Banking Supervision adopted the Basel III standards several years ago. The final package of Basel III reforms was approved by the G20 leaders in November 2010. In January 2013, the Basel Committee agreed to delay implementation of the Basel III standards and expanded the scope of assets permitted to be included in a bank's liquidity measurement. U.S. regulators have elected to implement substantially all of the Basel III standards. Financial institutions will have until 2019 to fully comply with the Basel III standards, which could cause an increase in capital requirements for, and could place constraints on, the financial institutions from which we borrow.

Shortly after approving the Basel III standards, U.S. regulators also issued a notice of proposed rule-making calling for enhanced supplementary leverage ratio standards, which would impose capital requirements more stringent than those of the Basel III standards for the most systematically significant banking organizations in the U.S. The enhanced standards are currently subject to public comment, and there can be no assurance that they will be adopted or, if adopted, that they will resemble the current proposal. Adoption and implementation of the Basel III standards and the supplemental regulatory standards proposed by U.S. regulators may negatively impact our access to financing or affect the terms of our future financing arrangements.

***Hedging against credit events and interest rate changes and other risks may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.***

Subject to compliance with the requirements to qualify as a REIT, we engage in certain hedging transactions to limit our exposure to changes in interest rates and therefore may expose ourselves to risks associated with such



transactions. We may utilize instruments such as interest rate swaps, caps, collars and floors and Eurodollar and U.S. Treasury futures to seek to hedge the interest rate risk associated with our portfolio. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, we may establish other hedging positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, at any point in time we may choose not to hedge all or a portion of these risks, and we generally will not hedge those risks that we believe are appropriate for us to take at such time, or that we believe would be impractical or prohibitively expensive to hedge.

Even if we do choose to hedge certain risks, for a variety of reasons we generally will not seek to establish a perfect correlation between our hedging instruments and the risks being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. Our hedging activity will vary in scope based on the composition of our portfolio, our market views, and changing market conditions, including the level and volatility of interest rates. When we do choose to hedge, hedging may fail to protect or could materially adversely affect us because, among other things:

either we or our external managers may fail to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the assets in the portfolio being hedged;

either we or our external managers may fail to recalculate, re-adjust and execute hedges in an efficient and timely manner;

the hedging transactions may actually result in poorer over-all performance for us than if we had not engaged in the hedging transactions;

credit hedging can be expensive, particularly when the market is forecasting future credit deterioration and when markets are more illiquid;

interest rate hedging can be expensive, particularly during periods of volatile interest rates;

available hedges may not correspond directly with the risks for which protection is sought;

the durations of the hedges may not match the durations of the related assets or liabilities being hedged;

many hedges are structured as over-the-counter contracts with counterparties whose creditworthiness is not guaranteed, raising the possibility that the hedging counterparty may default on their payment obligations; and

to the extent that the creditworthiness of a hedging counterparty deteriorates, it may be difficult or impossible to terminate or assign any hedging transactions with such counterparty.

For these and other reasons, our hedging activity may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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

Hedging instruments and other derivatives involve risk because they may not, in many cases, be traded on regulated exchanges and may not be guaranteed or regulated by any U.S. or foreign governmental authorities. Consequently, for these instruments, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. We are restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with one counterparty. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default under the hedging agreement. Default by a party with whom we enter into a hedging transaction may result in losses and may force us to re-initiate similar hedges with other counterparties at the then-prevailing market levels. Generally we will seek to reserve the right to terminate our hedging transactions upon a counterparty's insolvency, but absent an actual insolvency, we may not be able to terminate a hedging transaction without the consent of the hedging counterparty, and we may not be able to assign or otherwise dispose of a hedging transaction to another counterparty without the consent of both the original hedging counterparty and the potential assignee. If we terminate a hedging transaction, we may not be able to enter into a replacement contract in order to cover our risk. There can be no assurance that a liquid secondary market will exist for hedging instruments purchased or sold, and therefore we may be required to maintain any hedging position until exercise or expiration, which could materially adversely affect our business, financial condition and results of operations.

The U.S. Commodity Futures Trading Commission, or CFTC, and certain commodity exchanges have established limits referred to as speculative position limits or position limits on the maximum net long or net short position which any person or group of persons may hold or control in particular futures and options. Limits on trading in options contracts also have been established by the various options exchanges. It is possible that trading decisions may have to be modified and that positions held may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could materially adversely affect our business, financial condition and results of operation and our ability to make distributions to our stockholders.

***Certain of our hedging instruments are regulated by the CFTC and such regulations may cause us to incur increased compliance costs.***

From time to time, we enter into interest rate swaps and other derivative instruments on corporate indices to hedge risks associated with our portfolio. Entities entering into such swaps are exposed to credit losses in the event of non-performance by counterparties to these transactions. Effective October 12, 2012, the CFTC issued new rules regarding such swaps under the authority granted to it pursuant to the Dodd-Frank Act. Although the new rules do not directly affect the negotiations and terms of individual hedging transactions between counterparties, they do require that since September 9, 2013, these swap transactions be cleared through registered derivatives clearing organizations, or swap execution facilities, through standardized documents under which each swap counterparty transfers its position to another entity. In this arrangement, the centralized clearinghouse effectively becomes the counterparty to each side of the swap. It is the intent of the Dodd-Frank Act that the clearing of swaps in this manner is designed to avoid concentration of swap risk in any single entity by spreading and centralizing the risk in the clearinghouse and its members. In addition to greater initial and periodic margin (collateral) requirements and additional transaction fees both by the swap execution facility and the clearinghouse, the swap transactions are now subjected to greater regulation by both the CFTC and the SEC. These additional fees, costs, margin requirements, documentation, and regulation could adversely affect our business and results of operations.

Additionally, for all swaps we entered into prior to September 9, 2013, we are not required to clear them through the central clearinghouse and these swaps are still subject to the risks of nonperformance by any of the individual counterparties with whom we entered into these transactions.

***Our delayed delivery transactions, including TBAs, subject us to certain risks, including price risks and counterparty risks.***

We purchase a significant portion of our Agency RMBS through delayed delivery transactions, including TBAs. In a delayed delivery transaction, we enter into a forward purchase agreement with a counterparty to purchase either (i) an identified Agency RMBS, or (ii) a to-be-issued (or “to-be-announced”) Agency RMBS with certain terms. As with any forward purchase contract, the value of the underlying Agency RMBS may decrease between the contract date and the settlement date. Furthermore, a transaction counterparty may fail to deliver the underlying Agency RMBS at the

settlement date. If any of the above risks were to occur, our financial condition and results of operations may be materially adversely affected.

### **Risks Related to Our Agreements with Our External Managers**

*We are dependent on certain of our external managers and certain of their key personnel and may not find a suitable replacement if they terminate their respective management agreements with us or such key personnel are no longer available to us.*

We historically were organized as a self-advised company that acquired, originated, sold and managed its assets; however, as we modified our business strategy and the targeted assets we seek to acquire in response to changing market conditions, we began to outsource the management of certain targeted asset classes for which we had limited internal resources or experience. We presently utilize three external managers to manage certain of our assets and investment strategies. Each of our external managers, in some manner, identifies, evaluates, negotiates, structures, closes and monitors certain investments on our behalf. In each case, we have engaged these third parties because of the expertise of certain key personnel of our external managers. The departure of any of the senior officers of our external managers, or of a significant number of investment professionals or principals of our external managers, could have a material adverse effect on our ability to achieve our investment objectives. We are subject to the risk that our external managers will terminate their respective management agreement with us or that we may deem it necessary to terminate such agreement or prevent certain individuals from performing services for us, and that no suitable replacement will be found to manage certain of our assets and investment strategies.

***Pursuant to our management agreements, our external managers are entitled to receive a management fee that is payable regardless of the performance of the assets under their management.***

We will pay each of our external managers substantial base management fees, based on our invested capital (as such term is defined in the respective management agreements), regardless of the performance of the assets under their management. The external managers' entitlement in many cases to non-performance based compensation may reduce its incentive to devote the time and effort of its professionals to seeking profitable investment opportunities for our company, which could result in the under-performance of assets under their management and negatively affect our ability to pay distributions to our stockholders or to achieve capital appreciation.

***Pursuant to the terms of our management agreements, our external managers are generally entitled to receive an incentive fee, which may induce them to make certain investments, including speculative or high risk investments.***

In addition to the base management fees payable to our external managers, our external managers are generally entitled to receive incentive compensation based, in part, upon the achievement of targeted levels of net income. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead our external managers to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining liquidity and/or management of interest rate, credit or market risks, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. In addition, Midway has broad discretion regarding the types of investments it will make pursuant to its management agreement with us. This could result in increased risk to the value of our assets under the management of our external managers.

***We compete with our external managers' other clients for access to them.***

Each of our external managers manages, and is expected to continue to manage, other client accounts with similar or overlapping investment strategies. In connection with the services provided to those accounts, these managers may be compensated more favorably than for the services provided under our external management agreements, and such discrepancies in compensation may affect the level of service provided to us by our external managers. Moreover, each of our external managers may have an economic interest in the accounts they manage or the investments they propose. As a result, we will compete with these other accounts and interests for access to our external managers and the benefits derived from those relationships. For the same reasons, the personnel of our external managers may be unable to dedicate a substantial portion of their time managing our investments to the extent they manage or are associated with any future investment vehicles not related to us.

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

We may acquire or sell assets in which an external manager or its affiliates have or may have an interest, or we may participate in co-investment opportunities with our external managers or their affiliates. In these cases, it is possible that our interests and the interests of our external managers will not always be aligned and this could result in decisions that are not in the best interests of our company. Similarly, our external managers or its affiliates may acquire or sell assets in which we have or may have an interest. Although such acquisitions or dispositions may present conflicts of interest, we nonetheless may pursue and consummate such transactions. Additionally, we may engage in transactions directly with our external managers or their affiliates, including the purchase and sale of all or a portion of a targeted asset.

Acquisitions made for entities with similar objectives may be different from those made on our behalf. Our external managers may have economic interests in or other relationships with others in whose obligations or securities we may acquire. In particular, such persons may make and/or hold an investment in securities that we acquire that may be pari passu, senior or junior in ranking to our interest in the securities or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities and otherwise create conflicts of interest. In such instances, the external managers may, in their sole discretion, make recommendations and decisions regarding such securities for other entities that may be the same as or different from those made with respect to securities acquired by us and may take actions (or omit to take actions) in the context of these other economic interests or relationships, the consequences of which may be adverse to our interests.

The key personnel of our external managers and its affiliates devote as much time to us as our external managers deem appropriate, however, these individuals may have conflicts in allocating their time and services among us and their other accounts and investment vehicles. During turbulent conditions in the mortgage industry, distress in the credit markets or other times when we will need focused support and assistance from our external managers, other entities for which our external managers serve as manager, or their accounts, will likewise require greater focus and attention, placing the resources of our external managers in high demand. In such situations, we may not receive the necessary support and assistance we require or would otherwise receive if we were internally managed.

We, directly or through our external managers, may obtain confidential information about the companies or securities in which we have invested or may invest. If we do possess confidential information about such companies or securities, there may be restrictions on our ability to dispose of, increase the amount of, or otherwise take action with respect to the securities of such companies. Our external managers' management of other accounts could create a conflict of interest to the extent such external manager is aware of material non-public information concerning potential investment decisions and this in turn could impact our ability to make necessary investment decisions. Any limitations that develop as a result of our access to confidential information could therefore materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***There are limitations on our ability to withdraw invested capital from the account managed by Midway and our inability to withdraw our invested capital when necessary may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.***

Pursuant to the terms of the Midway Management Agreement, we may only redeem invested capital in an amount equal to the lesser of 10% of the invested capital in the account managed by Midway or \$10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act. In addition, we are only permitted to make one such redemption request in any 75-day period. In the event of a significant market event or shock, we may be unable to effect a redemption of invested capital in greater amounts or at a greater rate unless we obtain the consent of Midway. Moreover, because a reduction of invested capital would reduce the base management fee under the Midway Management Agreement, Midway may be less inclined to consent to such redemptions. If we are unable to withdraw invested capital as needed to meet our obligations in the future, our business and financial condition could be materially adversely affected.

***Termination of our external management agreements may be difficult and costly.***

Termination of the RiverBanc Management Agreement without cause is subject to several conditions which may make such a termination difficult and costly. The RiverBanc Management Agreement provides that we may only terminate RiverBanc without cause and not be obligated to pay a termination fee unless we realize a negative 15% return on the assets managed for us by RiverBanc. Moreover, except as described in the preceding sentence, we cannot terminate RiverBanc without cause until expiration of the initial term and then only upon providing 180 days advance notice and subject to the payment of a termination fee equal to the product of (A) 24 and (B) the base management fee earned by RiverBanc during the one month period immediately preceding the termination date. Thus, in the event we elect not to renew the RiverBanc Management Agreement for any reason other than cause or as otherwise described in this paragraph, we will be required to pay this termination fee. In addition, the RiverBanc Management Agreement provides RiverBanc with an exclusive right of first refusal to purchase any of our assets managed by it subject to certain exceptions, in the event we terminate them for any reason. This provision could result in our loss of assets that our earnings are dependent upon or may cause us to sell assets prior to our recovery of lost value. These provisions may increase the effective cost to us of terminating the RiverBanc Management Agreement, thereby adversely affecting our ability to terminate RiverBanc without cause.

Pursuant to the Midway Management Agreement, we are not permitted to terminate our agreement with Midway prior to the end of the initial term, and while we have agreed with Midway that we could suspend additional capital contributions to Midway in the event we experience a 20% decline in cumulative return on our invested capital in assets managed by Midway during any calendar year in the initial term, we do not have the right to cause Midway to liquidate the assets in that account. In the event we determine to terminate the Midway Management Agreement at any time in the future following expiration of the initial term, Midway has the right to liquidate the assets it manages on our behalf in its sole discretion. Moreover, as discussed above, there are certain restrictions on our ability to redeem invested capital under the Midway Management Agreement. As a result, we may have little control over the liquidation of any of our assets that are managed by Midway or the timing of the full redemption of our invested capital, which may make it more difficult to terminate our agreement with Midway and could have a material adverse effect on our business, financial condition and results of operations.



## **Risks Related to an Investment in Our Capital Stock**

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

The market price of our stock is highly volatile and subject to wide fluctuations. In addition, the trading volume in our stock may fluctuate and cause significant price variations to occur. Some of the factors that could result in fluctuations in the price or trading volume of our stock include, among other things: actual or anticipated changes in our current or future financial performance; changes in market interest rates and general market and economic conditions. We cannot assure you that the market price of our stock will not fluctuate or decline significantly.

*We have not established a minimum dividend payment level for our common stockholders and there are no assurances of our ability to pay dividends to common or preferred stockholders in the future.*

We intend to pay quarterly dividends and to make distributions to our common stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a minimum dividend payment level for our common stockholders and our ability to pay dividends may be harmed by the risk factors described herein. From July 2007 until April 2008, our Board of Directors elected to suspend the payment of quarterly dividends on our common stock. Our Board's decision reflected our focus on the elimination of operating losses through the sale of our mortgage lending business and the conservation of capital to build future earnings from our portfolio management operations. All distributions to our common stockholders 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 and such other factors as our Board of Directors may deem relevant from time to time. There are no assurances of our ability to pay dividends to our common or preferred stockholders in the future at the current rate or at all.

*Future offerings of debt securities, which would rank senior to our common stock and preferred stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.*

In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our preferred stock and common stock, with holders of our preferred stock having priority over holders of our common stock. Additional equity

offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

***Future sales of our stock could have an adverse effect on the price of our stock.***

We cannot predict the effect, if any, of future sales of our stock, or the availability of shares for future sales, on the market price of our common or preferred stock. Sales of substantial amounts of stock, or the perception that such sales could occur, may adversely affect prevailing market prices for our common or preferred stock.

***Your interest in us may be diluted if we issue additional shares.***

Current stockholders of our company do not have preemptive rights to any common stock issued by us in the future. Therefore, our stockholders may experience dilution of their equity investment if we sell additional common stock in the future, sell securities that are convertible into common stock or issue shares of common stock or options exercisable for shares of common stock. In addition, we could sell securities at a price less than our then-current book value per share.

***Investing in our securities may involve a high degree of risk.***

The investments we make in accordance with our investment strategy may result in a high degree of risk, volatility or loss of principal than alternative investment options. Our investments may be highly speculative and aggressive, and therefore, an investment in our securities may not be suitable for someone with lower risk tolerance.

## **Risks Related to Our Company, Structure and Change in Control Provisions**

*Our directors have approved broad investment guidelines for us and do not approve each investment we make.*

Our external managers are generally authorized to follow broad investment guidelines in determining which assets we will invest in. Although our Board of Directors will ultimately determine when and how much capital to allocate to our investment strategies, we generally will not, with certain exceptions, approve transactions in advance of their execution by these managers. In addition, in conducting periodic reviews, we will rely primarily on information provided to us by our external managers. Complicating matters further, our external managers may use complex investment strategies and transactions, which may be difficult or impossible to unwind. As a result, because our external managers have great latitude to determine the types of assets it may decide are proper investments for us, there can be no assurance that we would otherwise approve of these investments individually or that they will be successful.

*We are dependent on certain key personnel.*

We are a small company and are substantially dependent upon the efforts of our Chief Executive Officer and President, Steven R. Mumma, and certain key individuals employed by our external managers. The loss of Mr. Mumma or any key personnel or their services could have a material adverse effect on our operations.

*Certain provisions of Maryland law and our charter and bylaws could hinder, delay or prevent a change in control which could have an adverse effect on the value of our securities.*

Certain provisions of Maryland law, our charter and our bylaws may have the effect of delaying, deferring or preventing transactions that involve an actual or threatened change in control. These provisions include the following, among others:

our charter provides that, subject to the rights of one or more classes or series of preferred stock to elect one or more directors, a director may be removed with or without cause only by the affirmative vote of holders of at least two-thirds of all votes entitled to be cast by our stockholders generally in the election of directors;

our bylaws provide that only our Board of Directors shall have the authority to amend our bylaws;

under our charter, our Board of Directors has authority to issue preferred stock from time to time, in one or more series and to establish the terms, preferences and rights of any such series, all without the approval of our stockholders;

the Maryland Business Combination Act; and

the Maryland Control Share Acquisition Act.

Although our Board of Directors has adopted a resolution exempting us from application of the Maryland Business Combination Act and our bylaws provide that we are not subject to the Maryland Control Share Acquisition Act, our Board of Directors may elect to make the “business combination” statute and “control share” statute applicable to us at any time and may do so without stockholder approval.

***Maintenance of our Investment Company Act exemption imposes limits on our operations.***

We have conducted and intend to continue to conduct our operations so as not to become regulated as an investment company under the Investment Company Act. We believe that there are a number of exclusions under the Investment Company Act that are applicable to us. To maintain the exclusion, the assets that we acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act. On August 31, 2011, the SEC published a concept release entitled “Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments” (Investment Company Act Rel. No. 29778). This release suggests that the SEC may modify the exemption relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities. If the SEC acts to narrow the availability of, or if we otherwise fail to qualify for, our exclusion, we could, among other things, be required either (a) to change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have a material adverse effect on our operations and the market price of our common stock.

***The stock ownership limit imposed by our charter may inhibit market activity in our common stock and 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 the issued and outstanding shares of our capital stock may be owned, actually or constructively, 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 (other than our first year as a REIT). This test is known as the “5/50 test.” Attribution rules in the Code apply to determine if any individual or entity actually or constructively owns our capital stock for purposes of this requirement. Additionally, at least 100 persons must beneficially own our capital stock during at least 335 days of each taxable year (other than our first year as a REIT). To help ensure that we meet these tests, our charter restricts the acquisition and ownership of shares of our capital stock. Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and provides that, unless exempted by our Board of Directors, no person may own more than 9.9% in value of the aggregate of the outstanding shares of our capital stock or more than 9.9% in value or in number of shares, whichever is more restrictive, of the aggregate of our outstanding shares of common stock. The ownership limits contained in our charter could delay or prevent a transaction or a change in control of our company under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then current market price for our common stock or would otherwise be in the best interests of our stockholders.

## **Tax Risks Related to Our Structure**

***Failure to qualify as a REIT would adversely affect our operations and ability to make distributions.***

We have operated and intend to continue to operate so to qualify as a REIT for federal income tax purposes. Our continued qualification as a REIT will depend on our ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income, and the amount of our distributions to our stockholders. In order to satisfy these requirements, we might have to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our investment performance. Moreover, while we intend to continue to operate so to qualify as a REIT for federal income tax purposes, given the highly complex nature of the rules governing REITs, there can be no assurance that we will so qualify in any taxable year.

If we fail to qualify as a REIT in any taxable year and we do not qualify for certain statutory relief provisions, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. We might be required to borrow funds or liquidate some investments in order to pay the applicable tax. Our payment of income tax would reduce our net earnings available for investment or distribution to stockholders. Furthermore, if we fail to qualify as a REIT and do not qualify for certain statutory relief provisions, we would no longer be required to make distributions to stockholders. Unless our failure to qualify as a REIT were

excused under the federal income tax laws, we generally would be disqualified from treatment as a REIT for the four taxable years following the year in which we lost our REIT status.

***REIT distribution requirements could adversely affect our liquidity.***

In order to qualify as a REIT, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income, excluding any net capital gain. To the extent that we distribute at least 90%, but less than 100% of our REIT taxable income, we will be subject to corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us with respect to any calendar year are less than the sum of (i) 85% of our ordinary REIT income for that year, (ii) 95% of our REIT capital gain net income for that year, and (iii) 100% of our undistributed REIT taxable income from prior years.

We have made and intend to continue to make distributions to our stockholders to comply with the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax. However, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax.

Certain of our assets may generate substantial mismatches between REIT taxable income and available cash. Such assets could include mortgage-backed securities we hold that have been issued at a discount and require the accrual of taxable income in advance of the receipt of cash. As a result, our taxable income may exceed our cash available for distribution and the requirement to distribute a substantial portion of our net taxable income could cause us to:

sell assets in adverse market conditions,

borrow on unfavorable terms or

distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt in order to comply with the REIT distribution requirements.

Further, our lenders could require us to enter into negative covenants, including restrictions on our ability to distribute funds or to employ leverage, which could inhibit our ability to satisfy the 90% distribution requirement.

***Dividends payable by REITs do not qualify for the reduced tax rates on dividend income from regular corporations.***

The maximum U.S. federal income tax rate for dividends payable to domestic stockholders that are individuals, trust and estates is 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rate applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

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

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge the RMBS in our investment portfolio. Our aggregate gross income from non-qualifying hedges, fees, and certain other non-qualifying sources cannot exceed 5% of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. Any hedging income earned by a TRS would be subject to federal, state and local income tax at regular corporate rates. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

***A decline in the value of the real estate securing the mortgage loans that back RMBS could cause a portion of our income from such securities to be nonqualifying income for purposes of the REIT 75% gross income test, which could cause us to fail to qualify as a REIT.***

Pools of mortgage loans back the RMBS that we hold in our investment portfolio and in which we invest. In general, the interest income from a mortgage loan is qualifying income for purposes of the 75% gross income test applicable to REITs to the extent that the mortgage loan is secured by real property. If a mortgage loan has a loan-to-value ratio greater than 100%, however, then only a proportionate part of the interest income is qualifying income for purposes of the 75% gross income test and only a proportionate part of the value of the loan is treated as a "real estate asset" for purposes of the 75% asset test applicable to REITs. This loan-to-value ratio is generally measured at the time that the REIT commits to acquire the loan. Although the IRS has ruled generally that the interest income from non-CMO RMBS is qualifying income for purposes of the 75% gross income test, it is not entirely clear how this guidance would apply if we purchase non-CMO RMBS in the secondary market at a time when the loan-to-value ratio of one or

more of the mortgage loans backing the non-CMO RMBS is greater than 100%, and, accordingly, a portion of any income from such non-CMO RMBS may be treated as non-qualifying income for purposes of the 75% gross income test. In addition, that guidance does not apply to CMO RMBS. In the case of CMO RMBS, if less than 95% of the assets of the issuer of the CMO RMBS constitute “real estate assets,” then only a proportionate part of our income derived from the CMO RMBS will qualify for purposes of the 75% gross income test. Although the law is not clear, the IRS may take the position that the determination of the loan-to-value ratio for mortgage loans that back CMO RMBS is to be made on a quarterly basis. A decline in the value of the real estate securing the mortgage loans that back our CMO RMBS could cause a portion of the interest income from those RMBS to be treated as non-qualifying income for purposes of the 75% gross income test. If such non-qualifying income caused us to fail the 75% gross income test and we did not qualify for certain statutory relief provisions, we would fail to qualify as a REIT.

***Our ability to invest in distressed mortgage loans may be limited by our intention to maintain our qualification as a REIT, and our investments in distressed residential mortgage loans may affect our ability to qualify as a REIT.***

We have acquired distressed mortgage loans and may acquire distressed mortgage loans in the future. In general, under the applicable Treasury Regulations, if a loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of (i) the date we agreed to acquire the loan or (ii) in the event of a significant modification, the date we modified the loan, then a portion of the interest income from such a loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test.

Although the law is not entirely clear, a portion of the loan will also likely be a non-qualifying asset for purposes of the 75% asset test. The non-qualifying portion of such a loan would be subject to, among other requirements, the 10% value test. Revenue Procedure 2011-16 provides a safe harbor under which the IRS has stated that it will not challenge a REIT’s treatment of a loan as being, in part, a qualifying real estate asset in an amount equal to the lesser of (i) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan or (ii) the fair market value of the loan on the date of the relevant quarterly REIT asset testing date. This safe harbor will help us comply with the REIT asset tests immediately following the acquisition of a distressed mortgage loan. It will be less helpful if the value of the distressed mortgage loan increases over time. Under the safe harbor, when the current value of a distressed mortgage loan exceeds the fair market value of the real property that secures the loan, determined as of the date we committed to acquire the loan, the excess will be treated as a non-qualifying asset. Accordingly, an increasing portion of a distressed mortgage loan will be treated as a non-qualifying asset as the value of the distressed mortgage loan increases.



Additionally, Revenue Procedure 2011-16 states that the IRS will treat distressed mortgage loans secured by real property and other property as producing in part non-qualifying income for the 75% gross income test. Specifically, Revenue Procedure 2011-16 indicates that interest income on a distressed mortgage loan will be treated as qualifying income based on the ratio of (i) the fair market value of the real property securing the loan determined as of the date we committed to acquire the loan and (ii) the face amount of the loan (and not the purchase price or current value of the loan). The face amount of a distressed mortgage loan will typically exceed the fair market value of the real property securing the loan on the date we commit to acquire the loan. Accordingly, a distressed mortgage loan that is secured by real property and other property may produce a significant amount of non-qualifying income for purposes of the 75% gross income test and a significant portion of a distressed mortgage loan may be treated as a non-qualifying asset for the REIT asset tests once the loan increases in value.

As noted above, the applicable Treasury Regulations require the apportionment of interest for purposes of the 75% gross income test only if the mortgage loan in question is secured by both real property and other property. To the extent that any distressed residential mortgage loan that we acquire is secured by both real property and other property, such loan will be subject to the apportionment rules described above. If we determine that a distressed residential mortgage loan is not subject to the apportionment rules described above because it is secured only by real property, no assurance could be given that the IRS would not assert successfully that the distressed residential mortgage loan was secured by property other than real property. In that case, a significant portion of our interest income from the distressed residential mortgage loan would be treated as nonqualifying income for the 75% gross income test. If we did not satisfy the 75% gross income test, we could lose our REIT qualification or be required to pay a penalty to the IRS.

Accordingly, we may be limited in our ability to invest in distressed mortgage loans and maintain our qualification as a REIT, and our investments in distressed residential mortgage loans could affect our ability to qualify as a REIT.

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

In connection with our investment in Agency IOs, we may purchase Agency RMBS through TBAs, or dollar roll transactions. In certain instances, rather than take delivery of the Agency RMBS subject to a TBA, we will dispose of the TBA through a dollar roll transaction in which we agree to purchase similar securities in the future at a predetermined price or otherwise, which may result in the recognition of income or gains. We account for dollar roll transactions as purchases and sales. 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 investment in TBAs

and any non-qualifying assets to no more than 25% of our 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 purchase Agency RMBS through TBAs and to dispose of TBAs, through dollar roll transactions or otherwise, 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 (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.

***We may incur a significant tax liability as a result of selling assets that might be subject to the prohibited transactions tax if sold directly by us.***

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of assets held primarily for sale to customers in the ordinary course of business. There is a risk that certain loans that we are treating as owning for federal income tax purposes and property received upon foreclosure of these loans will be treated as held primarily for sale to customers in the ordinary course of business. Although we expect to avoid the prohibited transactions tax by contributing those assets to one of our TRS's and conducting the marketing and sale of those assets through that TRS, no assurance can be given that the IRS will respect the transaction by which those assets are contributed to our TRS. Even if those contribution transactions are respected, our TRS will be subject to federal, state and local corporate income tax and may incur a significant tax liability as a result of those sales.

**Item 1B. *UNRESOLVED STAFF COMMENTS***

None.

**Item 2. *PROPERTIES***

Other than real estate owned, acquired through, or in lieu of, foreclosures on mortgage loans, the Company does not own any properties. As of December 31, 2013, our principal executive and administrative offices are located in leased space at 275 Madison Avenue, Suite 3200, New York, New York 10016.

**Item 3. *LEGAL PROCEEDINGS***

We are at times subject to various legal proceedings arising in the ordinary course of our business. As of the date of this report, we do not believe that any of our current legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations, financial condition or cash flows.

**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 Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters*

Our common stock is traded on the NASDAQ Global Select Market under the trading symbol "NYMT". As of December 31, 2013, we had 64,102,029 shares of common stock outstanding and as of December 31, 2013, there were approximately 25 holders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

The following table sets forth, for the periods indicated, the high, low and quarter end closing sales prices per share of our common stock and the cash dividends paid or payable on our common stock on a per share basis:

	Common Stock Prices			Cash Dividends	
	High	Low	Quarter End	Declaration Date	Amount Per Share
<b>Year Ended December 31, 2013</b>					
Fourth quarter	\$7.30	\$6.08	\$ 6.99	12/00/2013	\$ 0.27
Third quarter	6.80	5.57	6.24	09/10/2013	0.27
Second quarter	7.38	6.57	6.77	06/08/2013	0.27
First quarter	7.60	6.48	7.54	03/08/2013	0.27

	Common Stock Prices			Cash Dividends	
	High	Low	Quarter End	Declaration Date	Amount Per Share
<b>Year Ended December 31, 2012</b>					
Fourth quarter	\$7.11	\$5.63	\$ 6.32	12/04/2012	\$ 0.27
Third quarter	7.63	6.67	7.05	09/18/2012	0.27
Second quarter	7.13	6.44	7.05	06/05/2012	0.27

First quarter	7.12	6.36	6.54	03/09/2012	0.25
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We intend to continue to pay quarterly dividends to holders of shares of common stock. Future distributions will be at the discretion of the Board of Directors and will depend on our earnings and financial condition, maintenance of our REIT qualification, restrictions on making distributions under Maryland law and such other factors as our Board of Directors deems relevant.

*Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

The Company has a share repurchase program, which it previously announced in November 2005. At management's discretion, the Company is authorized to repurchase shares of Company common stock in the open market or through privately negotiated transactions through December 31, 2015. The plan may be temporarily or permanently suspended or discontinued at any time. The Company has not repurchased any shares since March 2006 and currently has no intention to recommence repurchases in the near-future.

*Securities Authorized for Issuance Under Equity Compensation Plans*

The following table sets forth information as of December 31, 2013 with respect to compensation plans under which equity securities of the Company are authorized for issuance. The Company has no such plans that were not approved by security holders.

<b>Plan Category</b>	<b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans</b>
Equity compensation plans approved by security holders	—	\$ —	995,029

*Performance Graph*

The following line graph sets forth, for the period from December 31, 2008 through December 31, 2013, a comparison of the percentage change in the cumulative total stockholder return on the Company's common stock compared to the cumulative total return of the Russell 2000 Index and the FTSE National Association of Real Estate Investment Trusts Mortgage REIT ("FTSE NAREIT Mortgage REITs") Index. The graph assumes that the value of the investment in the Company's common stock and each of the indices were \$100 as of December 31, 2008.

*The foregoing graph and chart shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933 or under the Exchange Act, except to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those acts.*



**Item 6. SELECTED FINANCIAL DATA**

The following table sets forth our selected historical operating and financial data. The selected historical operating and financial data for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 have been derived from our historical 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, (amounts in thousands, except per share data):

**Selected Statement of Operations Data:**

	<b>For the Years Ended December 31,</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Interest income	\$291,727	\$137,348	\$24,291	\$19,899	\$31,095
Interest expense	231,178	105,926	4,837	9,611	14,235
Net interest income	60,549	31,422	19,454	10,288	16,860
Other income (expense)	29,062	9,105	(3,693)	3,332	901
General, administrative and other expenses <sup>(1)</sup>	19,917	11,427	10,518	7,950	6,877
Net income attributable to common stockholders	\$65,387	\$28,279	\$4,776	\$6,805	\$11,670
Per share basic income	\$1.11	\$1.08	\$0.46	\$0.72	\$1.25
Per share diluted income	\$1.11	\$1.08	\$0.46	\$0.72	\$1.19
Dividends declared per common share	\$1.08	\$1.06	\$1.00	\$0.79	\$0.91
Weighted average shares outstanding-basic	59,102	26,067	10,495	9,422	9,367
Weighted average shares outstanding-diluted	59,102	26,067	10,495	9,422	11,867

- (1) Includes expenses incurred on termination of management contract amounting to \$0, \$40,000 and \$2.2 million for the years ended December 31, 2013, 2012 and 2011.

**Selected Balance Sheet Data:**

	<b>As of December 31,</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Investment securities, available for sale, at fair value	\$912,443	\$1,034,711	\$200,342	\$86,040	\$176,691
Investment securities, available for sale, at fair value held in securitization trusts	92,578	71,159	—	—	—
Residential mortgage loans held in securitization trusts (net)	163,237	187,229	206,920	228,185	276,176
	254,721	60,459	—	—	—



Distressed residential mortgage loans held in securitization trusts (net)					
Multi-family loans held in securitization trusts, at fair value	8,111,022	5,442,906	—	—	—
Total assets <sup>(1)</sup>	9,898,675	7,160,401	682,705	374,294	488,814
Financing arrangements, portfolio investments	791,125	889,134	112,674	35,632	85,106
Residential collateralized debt obligations	158,410	180,979	199,762	219,993	266,754
Multi-family collateralized debt obligations, at fair value	7,871,020	5,319,573	—	—	—
Securitized debt	304,964	117,591	—	—	—
Subordinated debentures (net)	45,000	45,000	45,000	45,000	44,892
Convertible preferred debentures (net)	—	—	—	—	19,851
Total liabilities <sup>(1)</sup>	9,418,009	6,838,395	596,398	305,807	425,827
Total stockholders' equity	\$480,666	\$322,006	\$85,278	\$68,487	\$62,987

Our consolidated balance sheets include assets and liabilities of consolidated variable interest entities ("VIEs") as the Company is the primary beneficiary of these VIEs. As of December 31, 2013 and December 31, 2012, assets <sup>(1)</sup> of consolidated VIEs totaled \$8,665,829 and \$5,786,569, respectively, and the liabilities of consolidated VIEs totaled \$8,365,345 and \$5,636,650, respectively. See Note 7 for further discussion.

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

### **General**

We are a REIT, for federal income tax purposes, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and, to a lesser extent, financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes certain credit sensitive assets and investments sourced from distressed markets in recent years that create the potential for capital gains, as well as more traditional types of mortgage-related investments that generate interest income.

We have endeavored to build in recent years a diversified investment portfolio that includes elements of interest rate and credit risk, as we believe a portfolio diversified among interest rate and credit risks are best suited to delivering stable cash flows over various economic cycles. Under our investment strategy, our targeted assets currently include multi-family CMBS, mezzanine loans to and preferred equity investments in owners of multi-family properties, residential mortgage loans, including loans sourced from distressed markets, and Agency RMBS. Subject to maintaining our qualification as a REIT, we also may opportunistically acquire and manage various other types of mortgage-related and financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, non-Agency RMBS (which may include IOs and POs), collateralized mortgage obligations and securities issued by newly originated residential securitizations, including credit sensitive securities from these securitizations.

We strive to maintain and achieve a balanced and diverse funding mix to finance our assets and operations. To this end, we rely primarily on a combination of short-term borrowings, such as repurchase agreements with terms typically of 30 days, and longer term structured financings, such as securitization and re-securitization transactions, with terms longer than one year.

We internally manage a certain portion of our portfolio, including Agency ARMs, fixed-rate Agency RMBS, non-Agency RMBS, CLOs and residential securitized loans. In addition, as part of our investment strategy, we also contract with certain external investment managers to manage specific asset types targeted by us. We are a party to separate investment management agreements with Headlands, Midway, and RiverBanc, with Headlands providing investment management services with respect to our investments in certain distressed residential mortgage loans, Midway providing investment management services with respect to our investments in Agency IOs, and RiverBanc providing investment management services with respect to our investments in multi-family CMBS and certain commercial real estate-related debt investments.

**Significant Events in 2013**

We generated net income attributable to common stockholders of \$1.11 per share;

We declared aggregate 2013 dividends of \$1.08 per common share;

We issued 13,600,000 shares of common stock in a public offering at a net price to the public of \$6.96 per share resulting in net proceeds to us of \$94.4 million, after deducting underwriting discounts and commissions and offering expenses;

We issued 3,000,000 shares of 7.75% Series B Cumulative Redeemable Preferred Stock with a liquidation preference of \$25.00 per share, in a public offering for net proceeds of approximately \$72.4 million, after deducting underwriting discounts and offering expenses;

We acquired two first loss PO securities and certain IO securities issued by two Freddie Mac-sponsored securitizations for an aggregate purchase price of \$71.6 million;

We acquired distressed residential mortgage loans for an aggregate purchase cost of \$218.2 million; and

We completed a term structured financing of multi-family CMBS and three separate structured financings of distressed residential mortgage loans, resulting in net proceeds to us, after expenses, of \$55.1 million and \$136.6 million, respectively.

## **Key Fourth Quarter 2013 Developments**

### ***Multi-Family CMBS Transaction***

On November 22, 2013, we acquired the first loss PO security in a newly issued Freddie Mac-sponsored Multifamily K-Series securitization and entered into a master repurchase agreement with an expected three-year term for the purpose of financing this security and other PO securities owned by us that were issued by Freddie Mac-sponsored Multifamily K-Series securitizations that are collateralized by multi-family mortgage loans. As part of the financing, we received net cash proceeds of approximately \$55.1 million after deducting expenses associated with the transaction.

### ***Fourth Quarter 2013 Common Stock Dividend***

On December 10, 2013, our Board of Directors declared a regular quarterly cash dividend of \$0.27 per common share for the quarter ended December 31, 2013. The dividend was paid on January 27, 2014 to our common stockholders of record as of December 20, 2013.

### ***Preferred Stock Dividend***

On December 10, 2013, our Board of Directors declared a Series B Preferred Stock quarterly cash dividend of \$0.484375 per share of Series B Preferred Stock. The dividend was paid on January 15, 2014 to our preferred stockholders of record as of January 1, 2014.

## **Subsequent Developments**

On January 10, 2014, we closed on the issuance of 11,500,000 shares of common stock in an underwritten public offering (including 1,500,000 shares issuable pursuant to an option granted to the underwriters), resulting in net proceeds of approximately \$75.8 million after deducting estimated offering expenses.

In January 2014, the Company sold a pool of distressed residential mortgage loans with a carrying value of approximately \$29.4 million for an aggregate purchase price of approximately \$36.9 million. This sale will result in a net realized gain, before income taxes to the Company, of approximately \$7.5 million.

### **Current Market Conditions and Commentary**

*General.* The U.S. economy continued to exhibit mixed results in 2013, with real gross domestic product (“GDP”) estimated to have expanded by 1.9% for the full year, as compared to growth of 2.8% in 2012. However, the U.S. economy showed signs of expansion during the second half of the year, with GDP growing at an annual rate of 4.1% and 2.4% in the third and fourth quarters of 2013, respectively. According to the U.S. Department of Labor, the U.S. unemployment rate fell from 7.9% as of the end of December 2012 to 6.7% as of the end of December 2013, while total nonfarm payroll employment posted an average monthly increase of 194,000 jobs in 2013 as compared to an average monthly increase of 181,000 jobs in 2012. While these signs of employment growth are encouraging, the economy continued to produce mixed employment results in 2013 and evidence of a continued decline in the labor force participation rate has raised concerns that the current unemployment rate is not an accurate measure of the economy’s overall health. However, the improved performance of the U.S. economy during the second half of 2013 has contributed to an improved outlook of many U.S. Federal Reserve, or Federal Reserve, policymakers in recent months. According to the minutes of a meeting of the Federal Reserve Open Market Committee (the “FOMC”) of the U.S. Federal Reserve from December 17-18, 2013, most meeting participants expressed greater confidence in their outlook for the U.S. economy and almost all continued to project that the rate of growth of economic activity would strengthen in coming years, projecting GDP growth of 2.8% to 3.2% in 2014 and 3.0% to 3.4% in 2015. Based, in part, on this data, and as more fully discussed below, the FOMC announced on December 18, 2013 that it would commence tapering of asset purchases under QE3 (defined below) beginning in January 2014. Markets reacted to this news mostly favorably, with many market participants relieved that tapering had finally begun.

The Federal Reserve has undertaken three rounds of quantitative easing in an effort to support a stronger economic recovery and to help ensure that inflation, over time, is at a rate that is most consistent with the Federal Reserve’s dual mandate of fostering maximum employment and price stability. The most current version of the Federal Reserve’s quantitative easing program, which is referred to as “QE3,” was originally announced in September 2012 as an open-ended program to purchase an additional \$40 billion of Agency RMBS per month until the unemployment rate, among other economic indicators, showed signs of improvement. This program, when combined with the Federal Reserve’s programs to extend its holdings’ average maturity, or “operation twist,” and reinvest principal payments from its holdings of agency debt and Agency RMBS into Agency RMBS, was expected to increase the Federal Reserve’s holdings of long-term securities by approximately \$85 billion per month through the end of 2012. As “operation twist” expired in December 2012, the Federal Reserve announced that it would continue purchasing additional Agency RMBS by about \$40 billion per month and longer-term U.S. Treasury securities at a pace of \$45 billion per month, and would continue its policy of reinvesting the principal payments from its holdings of Agency debt and Agency RMBS in Agency RMBS. This accommodative monetary policy contributed to historically low-levels of interest rates and higher valuations for Agency RMBS, resulting in an extremely attractive investment environment for Agency RMBS-focused strategies.

As data began to show signs of a strengthening U.S. economy during the second quarter of 2013, speculation surrounding the timing and size of a possible reduction in the Federal Reserve’s asset purchase program grew more

significant. The FOMC meeting minutes released on May 22, 2013 announced, for the first time, that the Federal Reserve was considering beginning to taper the pace of purchases of Agency RMBS as early as June 2013. In mid-June 2013, Chairman Bernanke announced that the Federal Reserve would begin to scale back Agency RMBS purchases later in 2013 if the economy continued to improve in line with the FOMC's current projections and that such purchases would cease entirely when the unemployment rate reached 7%. Chairman Bernanke reiterated a similar view in mid-July 2013 while reporting to the U.S. House of Representatives' Financial Services Committee, but then softened the statement by noting that any such moderation in purchases could be adjusted depending on incoming economic data. However, despite the Chairman's uncertain outlook for tapering and the sluggish expansion of GDP in the first half of 2013, the markets had priced in the expectation that the FOMC would begin to taper in the near term, and that such tapering might be announced as early as September. In mid-September 2013, contrary to the general market consensus, the FOMC announced that it would maintain its current level of asset purchases under QE3, thereby causing further uncertainty for interest rates and the credit markets. Finally, on December 18, 2013, given indications that the U.S. economy had improved sufficiently, the Federal Reserve announced that it would reduce the pace of its purchases of (i) longer-term U.S. Treasury securities to \$40 billion per month and (ii) Agency RMBS to \$35 billion per month, and that it would likely reduce the pace of asset purchases in further measured steps to be announced at future meetings. In late January 2014, the Federal Reserve announced that it would reduce its asset purchases by an additional \$10 billion per month beginning in February 2014.

The market reaction during the second and third quarters of 2013 to the possible tapering of QE3 was extremely negative, although volatility eased some and pricing improved for many fixed-income assets subsequent to the FOMC's mid-September 2013 announcement. The rate on the ten-year U.S. Treasury note moved sharply higher after dropping to 1.63% in early May, rising to 2.49% at the end of the second quarter and to as high as 2.99% in early September before falling to 2.61% at the end of September, and then rising again to close at 3.03% at the end of December 2013. As the yield on the ten-year U.S. Treasury note advanced during 2013, Agency RMBS underperformed, in some cases dramatically, as evidenced by significantly lower pricing on these assets. However, losses on these assets recovered some subsequent to the FOMC's September announcement. With tapering now well underway, we believe that market conditions for many types of fixed income securities will be less volatile in 2014.

Notwithstanding the changes to QE3, the FOMC has maintained its intent to keep the target range for the federal funds rate between 0% and 0.25% until either the unemployment rate drops below 6.5% or the projected inflation rate over the next one to two years increases above 2.5% and longer-term inflation expectations continue to be well anchored, although the FOMC has recently indicated that it may be necessary to maintain the current target range until well past the time that the unemployment rate declines below 6.5%.

Unlike many mortgage REITs, the market movements outlined above generally had a positive impact on our overall portfolio and results in 2013. Although these movements had a meaningful negative impact on our existing Agency RMBS portfolio (including our Agency IOs), primarily during the second quarter of 2013, which suffered from negative price movements outside of our hedged expectations, valuations for our multi-family CMBS and distressed residential loans responded to the market movements of 2013 in a generally positive manner, thereby mitigating to a large extent the downside impact of these events on our overall portfolio and helping us to achieve earnings growth in 2013.

*Single-Family Homes and Residential Mortgage Market.* The residential real estate market showed signs of continued improvement in 2013, although the rate of price gains have begun to slow some since April 2013. Data released by S&P Indices for its S&P/Case-Shiller Home Price Indices for November 2013 showed that, on average, home prices have increased by 23.7% for the 20-City Composite as compared to March 2012. In addition, according to data provided by the U.S. Department of Commerce, there were 617,800 privately-owned housing starts for single family homes in 2013, the highest since 2008 and up 15.4% over last year. We expect the single-family residential real estate market to continue to improve in the near term, but believe that higher interest rates and tepid job creation will contribute to slowing housing gains for single family homes over the next 12 months.

*Multi-family Housing.* Apartments and other residential rental properties remain one of the better performing segments of the commercial real estate market. According to data provided by the U.S. Department of Commerce, there were 305,600 starts on multi-family homes, such as apartment buildings, the highest since 2007 and up 24.6% over last year. We believe the performance of multi-family housing in the past year is due, in part, to a significant decline in new construction during the recent economic downturn and increased demand from former homeowners, which has driven stronger rental income growth across the country. In turn, these factors have led to recent valuation improvements for multi-family properties and negligible delinquencies on new multi-family loans originated by

Freddie Mac and Fannie Mae.

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*Developments at Fannie Mae and Freddie Mac.* Payments on the Agency ARMs and fixed-rate Agency RMBS in which we invest are guaranteed by Fannie Mae and Freddie Mac. In addition, although not guaranteed by Freddie Mac, all of our multi-family CMBS has been issued by securitization vehicles sponsored by Freddie Mac. As broadly publicized, Fannie Mae and Freddie Mac are presently under federal conservatorship as the U.S. Government continues to evaluate the future of these entities and what role the U.S. Government should continue to play in the housing markets in the future. Since being placed under federal conservatorship, there have been a number of proposals introduced, both from industry groups and by the U.S. Congress, relating to changing the role of the U.S. government in the mortgage market and reforming or eliminating Fannie Mae and Freddie Mac. The most recent bill to receive serious consideration is the Housing Finance Reform and Taxpayer Protection Act of 2013, also known as the Corker-Warner Bill, which was introduced in the U.S. Senate. This legislation, among other things, would eliminate Freddie Mac and Fannie Mae and replace them with a new agency which would provide a financial guarantee that would only be tapped after private institutions and investors stepped in. It remains unclear how this or any other proposal will become law or, should a proposal become law, if or how the enacted law will differ from the current draft of this bill. It is unclear how the proposal or any other similar proposal would impact housing finance, and what impact, if any, they will have on mortgage REITs.

*Credit Spreads.* Credit spreads in the residential and commercial markets have generally continued to tighten further during 2013, continuing a trend exhibited during a significant part of 2012. Typically when credit spreads widen, credit-sensitive assets such as CLOs and multi-family CMBS, as well as Agency IOs, are negatively impacted, while tightening credit spreads typically have a positive impact on the value of such assets.

*Financing markets and liquidity.* The 30-day London Interbank Offered Rate (“LIBOR”) was 0.17% at December 31, 2013, marking a decrease of approximately 4 basis points from December 31, 2012. Longer term interest rates were higher as of December 31, 2013 as compared to the 2012 year end, with the rate on the 10-year U.S. Treasury note increasing by approximately 127 basis points to 3.03%. We expect interest rates to rise over the longer term as the U.S. and global economic outlook improves.

## Significant Estimates and Critical Accounting Policies

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires the use of estimates, judgments and assumptions that affect reported amounts. These estimates are based, in part, on our judgment and assumptions regarding various economic conditions that we believe are reasonable based on facts and circumstances existing at the time of reporting. The results of these estimates affect reported amounts of assets, liabilities and accumulated other comprehensive income at the date of the consolidated financial statements and the reported amounts of income, expenses and other comprehensive income during the periods presented.

Changes in the estimates and assumptions could have a material effect on these financial statements. Accounting policies and estimates related to specific components of our consolidated financial statements are disclosed in the notes to our consolidated financial statements. In accordance with SEC guidance, those material accounting policies and estimates that we believe are most critical to an investor's understanding of our financial results and condition and which require complex management judgment are discussed below.

*Revenue Recognition.* Interest income on our investment securities available for sale and on our mortgage loans is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with investment securities and mortgage loans at the time of purchase or origination are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Interest income on our credit sensitive securities, such as our non-Agency RMBS and certain of our CMBS that were purchased at a discount to par value, is recognized based on the security's effective interest rate. The effective interest rate on these securities is based on management's estimate from each security of the projected cash flows, which are estimated based on the Company's assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on these securities.

Based on the projected cash flows from the Company's first loss principal only CMBS purchased at a discount to par value, a portion of the purchase discount is designated as non-accretable purchase discount or credit reserve, which partially mitigates the Company's risk of loss on the mortgages collateralizing such CMBS, and is not expected to be accreted into interest income. The amount designated as a credit reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a credit reserve is more favorable than forecasted, a portion of the amount designated as credit reserve may be accreted into interest income over

time. Conversely, if the performance of a security with a credit reserve is less favorable than forecasted, the amount designated as credit reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could result.

With respect to interest rate swaps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps will be recognized in current earnings.

*Fair value.* The Company has established and documented processes for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, then fair value is based upon internally developed models that primarily use inputs that are market-based or independently-sourced market parameters, including interest rate yield curves. Such inputs to the valuation methodology are unobservable and significant to the fair value measurement. The Company's IOs, POs, multi-family loans held in securitization trusts and multi-family CDOs are considered to be the most significant of its fair value estimates.

The Company's valuation methodologies are described in "Note 13 – Fair Value of Financial Instruments" included in Item 8 of this Annual Report on Form 10-K.

*Residential Mortgage Loans Held in Securitization Trusts – Impaired Loans (net).* Impaired residential mortgage loans held in the securitization trusts are recorded at amortized cost less specific loan loss reserves. Impaired loan value is based on management's estimate of the net realizable value taking into consideration local market conditions of the distressed property, updated appraisal values of the property and estimated expenses required to remediate the impaired loan.

*Variable Interest Entities* – A variable interest entity (“VIE”) is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company consolidates a VIE when it is the primary beneficiary of such VIE. As primary beneficiary, it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

*Loan Consolidation Reporting Requirement for Certain Multi-Family K-Series Securitizations.* As of December 31, 2013, we owned 100% of the first loss securities of the “Consolidated K-Series”. The Consolidated K-Series, collectively represents six separate Freddie Mac sponsored multi-family loan K-Series securitizations, of which we, or one of our special purpose entities, or SPEs, own the first loss PO securities and certain IO securities. We determined that the Consolidated K-Series were VIEs and that we are the primary beneficiary of the Consolidated K-Series. As a result, we are required to consolidate the Consolidated K-Series’ underlying multi-family loans including their liabilities, income and expenses in our consolidated financial statements. We have elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series will be reflected in our consolidated statement of operations. As of December 31, 2012, the Consolidated K-Series represented four separate Freddie Mac sponsored multi-family loan K-Series securitizations.

*Fair Value Option* – The fair value option provides an election that allows companies to irrevocably elect fair value for financial assets and liabilities on an instrument-by-instrument basis at initial recognition. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur. The Company elected the fair value option for its Agency IO strategy and the Consolidated K-Series (as defined in Note 2 to our consolidated financial statements included in this report).

*Acquired Distressed Residential Mortgage Loans* – Acquired distressed residential mortgage loans that have evidence of deteriorated credit quality at acquisition are accounted for under ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"). Under ASC 310-30, the acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Once a pool is assembled, it is treated as if it was one loan for purposes of applying the accounting guidance. The Company applied pool accounting on distressed residential mortgage loans acquired in 2013; distressed residential mortgage loans acquired prior to 2013 are accounted for individually (i.e., not in pools).

Under ASC 310-30, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the “accretable yield,” is accreted into interest income over the life of the loans in each pool or individually using a level yield methodology. Accordingly, our acquired distressed residential mortgage loans accounted for under ASC 310-30 are not subject to classification as nonaccrual classification in the same manner as our residential mortgage

loans that were not distressed when acquired by us. Rather, interest income on acquired distressed residential mortgage loans relates to the accretable yield recognized at the pool level or on an individual loan basis, and not to contractual interest payments received at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the “non-accretable difference,” includes estimates of both the impact of prepayments and expected credit losses over the life of the individual loan, or the pool (for loans grouped into a pool).

The Company monitors actual cash collections against its expectations, and revised cash flow expectations are prepared as necessary. A decrease in expected cash flows in subsequent periods may indicate that the loan pool or individual loan, as applicable, is impaired thus requiring the establishment of an allowance for loan losses by a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield for the loan pool. The adjustment of accretable yield due to an increase in expected cash flows is accounted for prospectively as a change in estimate. The additional cash flows expected to be collected are reclassified from the non-accretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool or individual loan, as applicable.

### **Recent Accounting Pronouncements**

A discussion of recent accounting pronouncements and the possible effects on our financial statements is included in “Note 2 — Summary of Significant Accounting Policies” included in Item 8 of this Annual Report on Form 10-K.

**Capital Allocation**

The following tables set forth our allocated capital by investment type at December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

At December 31, 2013:

	<b>Agency RMBS<sup>(1)</sup></b>	<b>Agency IOs</b>	<b>Multi- Family<sup>(2)</sup></b>	<b>Distressed Residential Loans</b>	<b>Residential Securitized Loans<sup>(3)</sup></b>	<b>Other<sup>(4)</sup></b>	<b>Total</b>
Carrying value	\$745,265	\$131,609	\$360,430	\$265,390	\$163,237	\$39,825	\$1,705,756
Liabilities:							
Callable <sup>(5)</sup>	(687,927)	(94,698 )	—	—	—	(8,500 )	(791,125 )
Non-callable	—	—	(135,093)	(169,871 )	(158,410 )	(45,000)	(508,374 )
Hedges (Net) <sup>(6)</sup>	3,474	11,256	—	—	—	—	14,730
Cash	—	30,441	—	—	—	31,798	62,239
Other	1,916	1,861	1,218	7,975	1,745	(17,275)	(2,560 )
Net capital allocated	\$62,728	\$80,469	\$226,555	\$103,494	\$6,572	\$848	\$480,666

(1)Includes both Agency ARMs and Agency fixed rate RMBS.

(2)The Company determined it is the primary beneficiary of the Consolidated K-Series and has consolidated the Consolidated K-Series into the Company's financial statements. A reconciliation to our financial statements as

of December  
31, 2013  
follows:

Multi-Family loans held in securitization trusts, at fair value	\$	8,111,022	
Multi-Family CDOs, at fair value		(7,871,020	)
Net carrying value		240,002	
Investment securities available for sale, at fair value held in securitization trusts		92,578	
Total CMBS, at fair value		332,580	
First mortgage loan, mezzanine loan and preferred equity investments		27,850	
Securitized debt		(135,093	)
Other		1,218	
Net Capital in Multi-Family	\$	226,555	

(3) Represents our residential mortgage loans held in securitization trusts.

Other includes CLOs having a carrying value of \$33.2 million, non-Agency RMBS and loans held for investment.

(4) Other callable liabilities include an \$8.5 million repurchase agreement on our CLO securities and other non-callable liabilities consist of \$45.0 million in subordinated debentures.

(5) Includes repurchase agreements.

(6) Includes derivative assets, derivative liabilities, payable for securities purchased and restricted cash posted as margin.

At December 31, 2012:

	Agency RMBS <sup>(1)</sup>	Agency IOs	Multi- Family <sup>(2)</sup>	Distressed Residential Loans	Residential Securitized Loans <sup>(3)</sup>	Other <sup>(4)</sup>	Total
Carrying value	\$901,867	\$99,372	\$194,492	\$60,459	\$187,229	\$41,800	\$1,485,219
Liabilities:							
Callable <sup>(5)</sup>	(806,477)	(74,707)	—	—	—	(7,950)	(889,134)
Non-callable	—	—	(78,891)	(38,700)	(180,979)	(45,000)	(343,570)
Hedges (Net) <sup>(6)</sup>	3,716	10,782	—	—	—	—	14,498
Cash	—	25,797	—	—	—	31,777	57,574
Other	3,126	1,575	1,971	2,928	1,410	(13,591)	(2,581)
Net capital allocated	\$102,232	\$62,819	\$117,572	\$24,687	\$7,660	\$7,036	\$322,006

Includes  
both  
Agency  
ARMs  
(1) and  
Agency  
fixed  
rate  
RMBS.

(2) The Company determined it is the primary beneficiary of the Consolidated K-Series and has consolidated the Consolidated K-Series into the Company's financial statements. A reconciliation to our financial



statements as  
of December  
31, 2012  
follows:

Multi-Family loans held in securitization trusts, at fair value	\$	5,442,906	
Multi-Family CDOs, at fair value		(5,319,573	)
Net carrying value		123,333	
Investment securities available for sale, at fair value held in securitization trusts		71,159	
Total CMBS, at fair value		194,492	
Securitized debt		(78,891	)
Other		1,971	
Net Capital in Multi-Family	\$	117,572	

(3) Represents our residential mortgage loans held in securitization trusts.

Other includes CLOs having a carrying value of \$30.8 million, non-Agency RMBS and loans held for investment.

(4) Other callable liabilities include an \$8.0 million repurchase agreement on our CLO securities and other non-callable liabilities consist of \$45.0 million in subordinated debentures.

(5) Includes repurchase agreements.

(6) Includes derivative assets, derivative liabilities, payable for securities purchased and restricted cash posted as margin.

## Results of Operations

### Comparison of the Year Ended December 31, 2013 to the Year Ended December 31, 2012

For the year ended December 31, 2013, we reported net income attributable to common stockholders of \$65.4 million, as compared to net income attributable to common stockholders of \$28.3 million for the prior year. The main components of the change in net income for the year ended December 31, 2013 as compared to the prior year are detailed in the following table (dollar amounts in thousands, except per share data):

	For the Years Ended December 31,		
	2013	2012	\$ Change
Net interest income	\$60,549	\$31,422	\$29,127
Total other income	\$29,062	\$9,105	\$19,957
Total general, administrative and other expenses	\$19,917	\$11,427	\$8,490
Income from continuing operations before income taxes	\$69,694	\$29,100	\$40,594
Income tax expense (benefit)	\$739	\$932	\$(193 )
Net income	\$68,955	\$28,182	\$40,773
Preferred stock dividends	\$(3,568 )	\$—	\$(3,568 )
Net income attributable to common stockholders	\$65,387	\$28,279	\$37,108
Basic income per common share	\$1.11	\$1.08	\$0.03
Diluted income per common share	\$1.11	\$1.08	\$0.03

In general, the significant increases in a number of the line items above are largely a function of the growth in the Company's stockholders' equity from \$322.0 million as of December 31, 2012 to \$480.7 million as of December 31, 2013 and the corresponding growth in the size of the Company's portfolio of interest earning assets, combined with an improved investment environment for the Company's multi-family CMBS.

### *Net Interest Income*

The significant increase in net interest income in 2013 is directly attributable to the growth in our average interest earning assets, which increased by \$294.5 million in 2013 as compared to the prior year. During the year ended December 31, 2013, the Company increasingly allocated capital to credit sensitive, higher yielding investments and allocated less capital to its Agency RMBS portfolio, which is lower-yielding. As of December 31, 2013, 69% of the Company's capital was allocated to investments in multi-family CMBS, other multi-family investments and distressed residential loans, up from 44% at December 31, 2012. In particular, this selective allocation of capital favorably

impacted net interest margin for the third and fourth quarters of 2013. The fourth quarter of 2013 was also favorably impacted by a significant slowdown in prepayment rates in our Agency RMBS and Agency IO portfolios as detailed in the “Quarterly Comparative Net Interest Spread” section below.

The combination of investment allocation to credit sensitive assets and decreased prepayment rates resulted in a 77 basis point increase in net interest spread when comparing the fourth quarter of 2013 to the fourth quarter of 2012. During the year ended December 31, 2012, the Company’s net interest margin experienced a steady decline throughout the year, impacted, in part, by (i) the disproportionate impact that higher yielding, CLO investments had on a much smaller portfolio of interest earning assets during the first half of 2012, and (ii) the expansion of the Company’s lower yielding Agency RMBS portfolio in the second half of 2012, which was driven by deployment of public offering proceeds during that time.

**Other Income**

Total other income increased by \$20.0 million for the year ended December 31, 2013 as compared to the prior year. The changes in total other income for the year ended December 31, 2013 as compared to the previous year were primarily driven by:

an increase in net unrealized gains on multi-family loans and debt held in securitization trusts of \$24.8 million for the year ended December 31, 2013 as compared to the previous year, primarily due to improved pricing on our multi-family CMBS investments as well as an increase in multi-family CMBS investments as compared to the previous year. As of December 31, 2013, the net carrying value of our multi-family CMBS investments, which measures unrealized gains and losses through earnings, amounts to approximately \$240.0 million as compared to approximately \$123.3 million at December 31, 2012;

a decrease in unrealized loss on investment securities and related hedges of \$9.4 million and a decrease in realized gain on investment securities and related hedges of \$17.0 million for the year ended December 31, 2013, respectively, as compared to the previous year, which is primarily related to our Agency IO portfolio. Increased interest rate volatility combined with illiquidity in the inverse IO market resulted in larger than expected losses in this strategy during the second quarter of 2013, with a partial reversal realized during the third and fourth quarters of 2013; and

an increase in realized gains on distressed residential mortgage loans of \$1.5 million for the year ended December 31, 2013 as compared to the previous year. The realized gains are derived from loan refinancings, workouts and resales, with the majority of the realized income in 2013 from loan refinancings. The Company's investment in this asset class did not commence until the fourth quarter of 2012.

**Comparative General, Administrative and Other Expenses** (dollar amounts in thousands)

<b><u>General, Administrative and Other Expenses:</u></b>	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>\$ Change</b>
Salaries, benefits and directors' compensation	\$2,786	\$2,078	\$ 708
Professional fees	2,721	1,794	927
Management fees	8,133	5,010	3,123
Expenses on distressed residential mortgage loans	3,868	—	3,868
Other	2,409	2,545	(136 )
<b>Total</b>	<b>\$19,917</b>	<b>\$11,427</b>	<b>\$ 8,490</b>

The increase in general, administrative and other expenses was largely attributable to the increase in management fees and expenses related to our distressed residential mortgage loan investments. The increase in management fees was driven in large part by the increase in assets managed by our external managers. The increase in expenses related to distressed residential mortgage loans is due to the significant increase in our investment in this asset class as compared to the prior year. The distressed residential mortgage loan strategy typically has a higher cost, as loan servicing and resolution processing on distressed loans is more operationally intensive than performing loans.

**Comparison of the Year Ended December 31, 2012 to the Year Ended December 31, 2011**

For the year ended December 31, 2012, we reported net income attributable to common stockholders of \$28.3 million, as compared to net income attributable to common stockholders of \$4.8 million for the year ended December 31, 2011. The main components of the change in net income for the year ended December 31, 2012 as compared to the prior year are detailed in the following table (dollar amounts in thousands, except per share data):

	<b>For the Years Ended</b>		
	<b>December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>\$ Change</b>
Net interest income	\$31,422	\$19,454	\$11,968
Total other income (expense)	\$9,105	\$(3,693)	\$12,798
Total general, administrative and other expenses	\$11,427	\$10,518	\$909
Income from continuing operations before income taxes	\$29,100	\$5,243	\$23,857
Income tax expense	\$932	\$433	\$499
Net income	\$28,182	\$4,873	\$23,309
Net income attributable to common stockholders	\$28,279	\$4,776	\$23,503
Basic income per common share	\$1.08	\$0.46	\$0.62
Diluted income per common share	\$1.08	\$0.46	\$0.62

In general, the significant increases in a number of the line items are largely a function of the growth in the Company's stockholders' equity from \$85.3 million as of December 31, 2011 to \$322.0 million as of December 31, 2012 and the corresponding growth in the size of the Company's portfolio of interest earning assets. The increase in net income is primarily due to an increase in net interest margin of \$12.0 million, an increase in unrealized gain on multi-family loans and debt held in securitization trusts of \$6.7 million, a decrease in unrealized loss on investment securities and related hedges of \$5.7 million, a decrease in provision for loan loss of \$0.9 million, an increase in realized gain on investment securities and related hedges of \$0.5 million, partially offset by a decrease in income from investments in limited partnership and limited liability company of \$1.4 million, an increase in general, administrative and other expenses of \$0.9 million, and an increase in income tax expense of \$0.5 million.

***Net Interest Income***

The increase in net interest margin of \$12.0 million is primarily due to an increase of \$365.0 million in average interest earning assets driven by the deployment of proceeds totaling \$231.6 million from four public equity offerings completed in 2012 and the use of leverage in connection with our Agency RMBS investments. The proceeds were mainly invested in Agency RMBS and multi-family CMBS during 2012.

***Other Income***

Total other income increased by \$12.8 million for the year ended December 31, 2012 as compared to the prior year. The changes in total other income for the year ended December 31, 2013 as compared to the prior year were primarily driven by:

an increase in unrealized gain related to multi-family loans and debt held in securitization trusts of \$6.7 million due to improving market conditions for these assets during the year ended December 31, 2012. There were no multi-family loans and debt held in securitization trusts investments during the year ended December 31, 2011; and

a decline in net unrealized loss on investment securities and related hedges due to an improved environment for our investment portfolio, particularly our Agency IO portfolio, as compared to the comparative 2011 period. During the second half of 2011, a confluence of factors, including uncertainty and concerns of systemic risk related to the European sovereign debt crisis and a revamping of the rules for HARP II, contributed to a significant widening of credit spreads and prepayment speed concerns, which in turn, negatively impacted the pricing of our Agency IOs at December 31, 2011.

*Comparative General, Administrative and Other Expenses (dollar amounts in thousands)*

<b><u>General, Administrative and Other Expenses:</u></b>	<b>For the Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>\$ Change</b>
Salaries, benefits and directors' compensation	\$2,078	\$1,518	\$ 560
Professional fees	1,794	1,521	273
Management fees	4,970	3,250	1,720
Termination of management contract <sup>(1)</sup>	40	2,195	(2,155 )
Other	2,545	2,034	511
Total	\$11,427	\$10,518	\$ 909

(1) Expenses are related to the termination of our advisory agreement with Harvest Capital Strategies LLC ("HCS").

The increase in general, administrative and other expenses was due primarily to an increase in management fees offset by a \$2.2 million decrease in termination of management contract. The increase in management fees for the year ended December 31, 2012 is primarily a result of an increase in assets managed by third parties and increased profitability of our investments. The decrease in termination of management contract is due to the termination fees related to the termination of the advisory agreement between the Company and HCS amounting to \$2.2 million, substantially all of which was recorded during the year ended December 31, 2011.



**Quarterly Comparative Net Interest Spread**

Our results of operations for our investment portfolio during a given period typically reflects the net interest income earned on our investment portfolio of Agency and non-Agency RMBS, CMBS (including CMBS held in securitization trusts), residential securitized loans, distressed residential loans including distressed residential loans held in securitization trusts, loans held for investment, loans held for sale and CLOs (collectively, our “Interest Earning Assets”). The net interest spread is impacted by factors such as our cost of financing, the interest rate that our investments bear and our interest rate hedging strategies. Furthermore, the amount of premium or discount paid on purchased portfolio investments and the prepayment rates on portfolio investments will impact the net interest spread as such factors will be amortized over the expected term of such investments. Realized and unrealized gains and losses on TBAs, Eurodollar and Treasury futures and other derivatives associated with our Agency IO investments, which do not utilize hedge accounting for financial reporting purposes, are included in other income (expense) in our statement of operations, and therefore, not reflected in the data set forth below.

The following table sets forth, among other things, the net interest spread for our portfolio of Interest Earning Assets by quarter for the eight most recently completed quarters, excluding the costs of our subordinated debentures:

Quarter Ended	Average Interest Earning Assets (\$ millions) <sup>(2)</sup>	Weighted		Cost of Funds <sup>(4)</sup>	Net Interest Spread <sup>(5)</sup>		
		Average Yield on Interest Earning Assets <sup>(3)</sup>					
December 31, 2013 <sup>(1)</sup>	\$ 1,644.7	5.99	%	1.89	%	4.10	%
September 30, 2013 <sup>(1)</sup>	\$ 1,586.6	5.21	%	1.62	%	3.59	%
June 30, 2013 <sup>(1)</sup>	\$ 1,524.1	4.89	%	1.41	%	3.48	%
March 31, 2013 <sup>(1)</sup>	\$ 1,446.1	4.86	%	1.38	%	3.48	%
December 31, 2012	\$ 1,350.2	4.46	%	1.13	%	3.33	%
September 30, 2012	\$ 698.5	5.99	%	1.29	%	4.70	%
June 30, 2012	\$ 409.4	7.28	%	1.33	%	5.95	%
March 31, 2012	\$ 396.4	7.59	%	1.01	%	6.58	%

(1) Average Interest Earning Assets for the quarter excludes all Consolidated K-Series assets other than those securities issued by the securitizations comprising the Consolidated K-Series that are actually owned by us.

(2)

Our Average Interest Earning Assets is calculated each quarter as the daily average balance of our Interest Earning Assets for the quarter, excluding unrealized gains and losses.

(3) Our Weighted Average Yield on Interest Earning Assets was calculated by dividing our annualized interest income from Interest Earning Assets for the quarter by our average Interest Earning Assets for the quarter.

(4) Our Cost of Funds was calculated by dividing our annualized interest expense from our Interest Earning Assets for the quarter by our average financing arrangements, portfolio investments, Residential CDOs and Securitized Debt for the quarter. Our cost of funds includes impact of our liability interest rate hedging activities.

(5) Net Interest Spread is the difference between our Weighted Average Yield on Interest Earning Assets and our Cost of Funds.

### *Prepayment History*

The following table sets forth the actual constant prepayment rates (“CPR”) for selected asset classes, by quarter, for the periods indicated:

Quarter Ended	Agency	Agency	Agency	Non-Agency	Residential	Residential	Residential	Weighted				
	ARMs	Fixed	IOs	RMBS				Securitized	Securitized	Average	Average	
		Rate			Securitized	Securitized	Securitized	for	for			
								Overall	Overall			
								Portfolio	Portfolio			
December 31, 2013	6.7	%	5.3	%	13.5	%	16.8	%	12.6	%	10.0	%
September 30, 2013	16.8	%	8.5	%	20.4	%	23.6	%	12.0	%	15.3	%
June 30, 2013	22.2	%	6.4	%	21.9	%	18.3	%	6.5	%	15.4	%
March 31, 2013	20.8	%	3.8	%	21.6	%	15.9	%	10.2	%	12.9	%
December 31, 2012	14.5	%	1.9	%	21.8	%	16.2	%	11.6	%	12.5	%
September 30, 2012	17.5	%	2.0	%	19.2	%	15.1	%	4.6	%	15.1	%
June 30, 2012	24.8	%	N/A		19.4	%	15.2	%	7.4	%	16.6	%
March 31, 2012	18.1	%	N/A		19.6	%	13.3	%	8.1	%	16.6	%

When prepayment expectations over the remaining life of assets increase, we have to amortize premiums over a shorter time period resulting in a reduced yield to maturity on our investment assets. Conversely, if prepayment expectations decrease, the premium would be amortized over a longer period resulting in a higher yield to maturity. In addition, the market values and cash flows from our Agency IOs can be materially adversely affected during periods of elevated prepayments. We monitor our prepayment experience on a monthly basis and adjust the amortization rate to reflect current market conditions.

As a result of the significant increase in long-term term treasury rates and mortgage rates during the quarter ended June 30, 2013, mortgage originations related to refinancing decreased, resulting in lower prepayment speeds in many of our Agency RMBS portfolio in the latter part of the year.

### Portfolio Asset Yields for the Quarters Ended December 31, 2013, 2012, and 2011

The following table summarizes the Company's significant assets at December 31, 2013, classified by relevant categories (dollar amount in thousands):

	Carrying Value	Coupons <sup>(1)</sup>	Yield <sup>(1)</sup>	CPR <sup>(1)</sup>
Agency Fixed Rate RMBS	\$535,943	2.94	% 2.06	% 5.3
CMBS <sup>(2)</sup>	\$332,580	0.12	% 11.73	% N/A
Distressed Residential Loans	\$264,434	5.34	% 6.64	% N/A
Agency ARMs	\$209,322	2.92	% 2.27	% 6.7
Residential Securitized Loans	\$163,237	2.67	% 2.55	% 12.6
Agency IOs	\$131,609	5.69	% 14.73	% 13.5
CLOs	\$33,208	4.23	% 41.36	% N/A

<sup>(1)</sup> Coupons, yields and CPRs are based on fourth quarter 2013 daily average balances. Yields are calculated on amortized cost basis.

CMBS carrying value, coupons and yield calculations are based on the underlying CMBS that are actually owned <sup>(2)</sup>by the Company and do not include the other consolidated assets and liabilities of the Consolidated K-Series not owned by the Company.

The following table summarizes the Company's significant assets at December 31, 2012, classified by relevant categories (dollar amount in thousands):

**Coupons<sup>(1)</sup>    Yield<sup>(1)</sup>    CPR<sup>(1)</sup>**

	<b>Carrying Value</b>						
Agency Fixed Rate RMBS	\$627,944	2.96	%	2.34	%	1.9	%
CMBS <sup>(2)</sup>	\$194,492	0.12	%	11.94	%	N/A	
Distressed Residential Loans	\$60,459	5.77	%	9.58	%	N/A	
Agency ARMs	\$273,923	2.98	%	1.75	%	14.5	%
Residential Securitized Loans	\$187,229	2.91	%	2.81	%	11.6	%
Agency IOs	\$99,372	5.94	%	10.83	%	21.8	%
CLOs	\$30,785	4.35	%	40.59	%	N/A	

(1) Coupons, yields and CPRs are based on fourth quarter 2013 daily average balances. Yields are calculated on amortized cost basis.

CMBS carrying value, coupons and yield calculations are based on the underlying CMBS that are actually owned (2) by the Company and do not include the other consolidated assets and liabilities of the Consolidated K-Series not owned by the Company.

The following table summarizes the Company's significant interest earning assets at December 31, 2011, classified by relevant categories (dollar amount in thousands):

	<b>Carrying Value</b>	<b>Coupons<sup>(1)</sup></b>	<b>Yield<sup>(1)</sup></b>	<b>CPR<sup>(1)</sup></b>
CMBS	\$41,185	5.02	% 11.09	% N/A
Agency ARMs	\$68,776	3.73	% 2.97	% 16.9
Residential Securitized Loans	\$206,920	2.71	% 2.66	% 5.2
Agency IOs	\$63,681	5.21	% 18.06	% 19.5
CLOs	\$22,755	4.36	% 34.83	% N/A

(1) Coupons, yields and CPRs are based on fourth quarter 2011 daily average balances. Yields are calculated on amortized cost basis.



## Financial Condition

As of December 31, 2013, we had approximately \$9.9 billion of total assets, as compared to approximately \$7.2 billion of total assets as of December 31, 2012. The increase is primarily due to the consolidation of multi-family loans held in securitization trusts on our balance sheet for six separate Freddie Mac-Sponsored multi-family loan securitizations included in Consolidated K-Series at December 31, 2013 (amounting to \$8.1 billion at December 31, 2013), as compared to four separate securitizations included in the Consolidated K-Series at December 31, 2012, and the purchase of additional distressed residential mortgage loans with cash proceeds from our public offerings of preferred and common stock in 2013. See "Significant Estimates and Critical Accounting Policies - Loan Consolidation Reporting Requirement for Certain Multi-Family K-Series Securitizations."

## Balance Sheet Analysis

**Investment Securities Available for Sale.** At December 31, 2013, our securities portfolio includes Agency RMBS, including Agency fixed-rate and ARM pass-through certificates, Agency IOs, non-Agency RMBS and CLOs, which are classified as investment securities available for sale. At December 31, 2013, we had no investment securities in a single issuer or entity that had an aggregate book value in excess of 10% of our total assets. The decrease in investment securities available for sale as of December 31, 2013 as compared to December 31, 2012 is primarily a result of principal paydowns, as well as changes in market value.

The following tables set forth the balances of our investment securities available for sale by vintage (i.e., by issue year) as of December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

	December 31, 2013		December 31, 2012	
	Par Value	Carrying Value	Par Value	Carrying Value
Agency RMBS				
ARMs				
Prior to 2011	\$24,500	\$25,815	\$32,868	\$34,691
2011	25,795	27,243	37,257	39,601
2012	153,863	156,264	189,726	199,631
Total ARMs	204,158	209,322	259,851	273,923
Fixed				
2011	3,028	3,085	4,573	4,802
2012	526,465	532,858	586,681	623,142
Total Fixed	529,493	535,943	591,254	627,944

IO				
Prior to 2010	71,164	10,321	76,699	10,359
2010	176,575	24,472	238,297	32,388
2011	160,856	26,350	137,217	20,376
2012	293,322	52,388	193,724	36,249
2013	100,656	18,078	—	—
Total IOs	802,573	131,609	645,937	99,372
Total Agency RMBS	1,536,224	876,874	1,497,042	1,001,239
Non Agency RMBS				
2006	3,001	2,361	3,868	2,687
CLOs				
2007	35,550	33,208	35,550	30,785
Total	\$1,574,775	\$912,443	\$1,536,460	\$1,034,711

**Detailed Composition of Loans Securitizing Our CLOs**

The following tables summarize the loans securitizing our CLOs grouped by range of outstanding balance and industry greater than 5% of outstanding balance as of December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

Range of Outstanding Balance	As of December 31, 2013		As of December 31, 2012		Total Principal
	Number of Loans	Maturity Date	Number of Loans	Maturity Date	
\$0 - \$500	18	12/2013 - 4/2019	32	8/2015 - 8/2019	\$12,508
\$500 - \$2,000	107	5/2014-8/2020	131	12/2013 - 12/2019	163,939
\$2,000 - \$5,000	68	12/2014-8/2020	74	4/2013 - 12/2019	210,991
\$5,000+	9	5/2016-5/2018	5	2/2013 - 5/2018	31,248
Total	202		242		\$418,686

Industry	December 31, 2013			December 31, 2012		
	Number of Loans	Outstanding Balance	% of Outstanding Balance	Number of Loans	Outstanding Balance	% of Outstanding Balance
Healthcare, Education & Childcare	22	\$ 57,664	14.1 %	23	\$ 50,192	12.0 %
Chemicals, Plastics and Rubber	14	42,532	10.4 %	17	32,058	7.7 %
Diversified/Conglomerate Service	16	28,105	6.9 %	20	33,761	8.1 %
Retail Store	13	26,554	6.5 %	19	35,746	8.5 %
Leisure, Amusement, Motion Pictures & Entertainment	10	21,492	5.3 %	10	18,723	4.5 %

**Investment Securities Available for Sale Held in Securitization Trusts.** At December 31, 2013, our securities portfolio includes multi-family CMBS classified as investment securities available for sale held in securitization trusts, which are multi-family CMBS transferred to securitization trusts as part of securitization transactions. The increase in carrying value is primarily due to improved pricing on our CMBS investments. The following table sets forth the balances of our investment securities available for sale held in securitization trusts by vintage (i.e., by issue year) as of December 31, 2013 (dollar amounts in thousands):

December 31, 2013	December 31, 2012
Carrying	Carrying



	<b>Par Value</b>	<b>Value</b>	<b>Par Value</b>	<b>Value</b>
CMBS:				
2011	\$900,137	\$ 29,289	\$908,606	\$ 22,610
2012	1,101,549	63,289	1,104,410	48,549
Total	\$2,001,686	\$ 92,578	\$2,013,016	\$ 71,159

***Residential Mortgage Loans Held in Securitization Trusts (net)***. Included in our portfolio are prime ARM loans that we originated or purchased in bulk from third parties that met our investment criteria and portfolio requirements and that we subsequently securitized in 2005.

At December 31, 2013, residential mortgage loans held in securitization trusts totaled approximately \$163.2 million. The Company's net investment in the residential securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the ARM mortgage loans and real estate owned held in residential securitization trusts and the amount of Residential CDOs outstanding, was \$6.6 million. Of the residential mortgage loans held in securitized trusts, 100% are traditional ARMs or hybrid ARMs, 82.5% of which are ARM loans that are interest only. With respect to the hybrid ARMs included in these securitizations, interest rate reset periods were predominately five years or less and the interest-only period is typically 9 years, which mitigates the "payment shock" at the time of interest rate reset. None of the residential mortgage loans held in securitization trusts are pay option-ARMs or ARMs with negative amortization.

The following table details our residential mortgage loans held in securitization trusts at December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

	<b>Number of Loans</b>	<b>Par Value</b>	<b>Carrying Value</b>
December 31, 2013	422	\$ 165,222	\$ 163,237
December 31, 2012	474	\$ 189,009	\$ 187,229

*Characteristics of Our Residential Mortgage Loans Held in Securitization Trusts:*

The following table sets forth the composition of our residential mortgage loans held in securitization trusts as of December 31, 2013 and December 31, 2012 respectively (dollar amounts in thousands):

	<b>December 31, 2013</b>			<b>December 31, 2012</b>		
	<b>Average</b>	<b>High</b>	<b>Low</b>	<b>Average</b>	<b>High</b>	<b>Low</b>
<b>General Loan Characteristics:</b>						
Original Loan Balance	\$438	\$2,950	\$48	\$440	\$2,950	\$48
Current Coupon Rate	2.77 %	7.25 %	1.25 %	3.08 %	7.25 %	2.50 %
Gross Margin	2.37 %	4.13 %	1.13 %	2.37 %	4.13 %	1.13 %
Lifetime Cap	11.32 %	13.25 %	9.13 %	11.29 %	13.25 %	9.13 %
Original Term (Months)	360	360	360	360	360	360
Remaining Term (Months)	256	264	223	268	276	235
Average Months to Reset	3	11	1	3	11	1
Original FICO Score	727	818	593	728	818	593
Original LTV	70.21 %	95.00 %	13.94 %	70.47 %	95.00 %	13.94 %

The following tables detail the activity for the residential mortgage loans held in securitization trusts (net) for the years ended December 31, 2013 and 2012, respectively (dollar amounts in thousands):

	<b>Principal</b>	<b>Premium</b>	<b>Allowance for Loan Losses</b>	<b>Net Carrying Value</b>
<b>Balance, January 1, 2013</b>	\$ 189,009	\$ 1,198	\$ (2,978 )	\$ 187,229
Principal repayments	(22,200 )			(22,200 )
Provision for loan loss			(747 )	(747 )
Transfer to real estate owned	(1,636 )		628	(1,008 )
Charge-Offs			108	108

Amortization of premium		(145 )		(145 )
<b>Balance, December 31, 2013</b>	\$ 165,173	\$ 1,053	\$ (2,989 )	\$ 163,237

	Principal	Premium	Allowance for Loan Losses	Net Carrying Value
<b>Balance, January 1, 2012</b>	\$208,934	\$ 1,317	\$ (3,331 )	\$ 206,920
Principal repayments	(17,571 )	—	—	(17,571 )
Provision for loan loss	—	—	(675 )	(675 )
Transfer to real estate owned	(2,467 )	—	899	(1,568 )
Charge-Offs	113	—	129	242
Amortization of premium	—	(119 )	—	(119 )
<b>Balance, December 31, 2012</b>	\$ 189,009	\$ 1,198	\$ (2,978 )	\$ 187,229

**Acquired Distressed Residential Mortgage Loans.** Distressed residential mortgage loans held in securitization trusts and distressed residential mortgage loans are comprised of pools of fixed and adjustable rate residential mortgage loans acquired by the Company at a discount to par value (that is due, in part, to credit quality of the borrower). Distressed residential mortgage loans held in securitization trusts are distressed residential mortgage loans transferred to Consolidated VIEs that have been securitized into beneficial interests.

At December 31, 2013 and December 31, 2012, distressed residential mortgage loans held in securitization trusts, had a carrying value of \$254.7 million and \$60.5 million, respectively. The Company's net investment in the securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the net assets and liabilities associated with the distressed residential mortgage loans held in securitization trusts, was \$93.9 million and \$24.7 million at December 31, 2013 and 2012, respectively.

At December 31, 2013 and December 31, 2012, distressed residential mortgage loans included in receivables and other assets account in the accompanying consolidated balance sheets had a carrying value of \$9.7 million and \$0, respectively

The following table details our portfolio of distressed residential mortgage loans, including those distressed residential mortgage loans held in securitization trusts, at December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

	<b>Number of Loans</b>	<b>Unpaid principal</b>	<b>Carrying Value</b>
December 31, 2013	2,580	\$ 339,578	\$264,434
December 31, 2012	513	\$ 91,831	\$60,459

*Characteristics of Our Distressed Residential Mortgage Loans, including Distressed Residential Mortgage Loans Held in Securitization Trusts:*

<b>Loan to Value at Purchase</b>	<b>December 31,</b>	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>		
50.00% or less	4.3	% 1.4	%	
50.01% - 60.00%	4.2	% 2.8	%	
60.01% - 70.00%	7.4	% 5.4	%	
70.01% - 80.00%	9.9	% 7.2	%	
80.01% - 90.00%	14.5	% 16.8	%	
90.01% - 100.00%	12.2	% 12.8	%	
100.01% and over	47.5	% 53.6	%	
Total	100.0	% 100.0	%	

<b>FICO Scores at Purchase</b>	<b>December 31,</b>	<b>December 31,</b>
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	<b>2013</b>		<b>2012</b>	
550 or less	16.4	%	16.6	%
551 to 600	22.6	%	22.3	%
601 to 650	24.6	%	30.8	%
651 to 700	18.8	%	16.9	%
701 to 750	11.7	%	9.7	%
751 to 800	5.2	%	2.3	%
801 and over	0.7	%	1.4	%
Total	100.0	%	100.0	%

<b>Current Coupon</b>	<b>December 31,</b>		<b>December 31,</b>	
	<b>2013</b>		<b>2012</b>	
3.00% or less	17.9	%	13.6	%
3.01% - 4.00%	9.9	%	13.7	%
4.01% - 5.00%	10.1	%	12.0	%
5.01% - 6.00%	14.6	%	20.6	%
6.01% and over	47.5	%	40.1	%
Total	100.0	%	100.0	%

<b>Delinquency Status</b>	<b>December 31,</b>		<b>December 31,</b>	
	<b>2013</b>		<b>2012</b>	
Current	79.5	%	73.0	%
31 - 60 days	12.0	%	21.9	%
61 - 90 days	4.1	%	4.3	%
90+ days	4.4	%	0.8	%
Total	100.0	%	100.0	%

Origination Year	December	December		
	31,	31,		
	2013	2012		
2005 or earlier	33.4	%	20.2	%
2006	15.6	%	7.0	%
2007	44.0	%	62.4	%
2008 or later	7.0	%	10.4	%
Total	100.0	%	100.0	%

**Consolidated K-Series** As of December 31, 2013 and December 31, 2012, we owned 100% of the first loss securities of the Consolidated K-Series. The Consolidated K-Series are comprised of multi-family mortgage loans held in six and four Freddie Mac-sponsored multi-family K-Series securitizations as of December 31, 2013 and December 31, 2012, respectively, of which we, or one of our SPEs, own the first loss securities and certain IOs. We determined that the securitizations comprising the Consolidated K-Series were VIEs and that we are the primary beneficiary of these securitizations. Accordingly, we are required to consolidate the Consolidated K-Series' underlying multi-family loans and related debt, income and expense in our financial statements. We have elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series will be reflected in our statement of operations. As of December 31, 2013 and December 31, 2012, the Consolidated K-Series was comprised of \$8.1 billion and \$5.4 billion, respectively in multi-family loans held in securitization trusts and \$7.9 billion and \$5.3 billion, respectively, in multi-family CDOs outstanding with a weighted average interest rate of 4.16% and 4.59% respectively. The increase in balances at December 31, 2013 as compared to December 31, 2012 is primarily a result of our consolidation of two additional Freddie Mac K-Series securitizations in 2013. In addition, as a result of the consolidation of the Consolidated K-Series, our statement of operations for the year ended December 31, 2013 included \$228.6 million in interest income and \$210.2 million in interest expense, respectively. Also, we recognized a \$31.5 million unrealized gain in the statement of operations for the year ended December 31, 2013 as a result of the fair value accounting method election. We do not have any claims to the assets (other than the security represented by our first loss piece) or obligations for the liabilities of the Consolidated K-Series. Our investment in the Consolidated K-Series is limited to the multi-family CMBS comprised of first loss tranche PO securities and or/certain IOs issued by these K-Series securitizations with an aggregate net carrying value of \$240.0 million and \$123.3 million as of December 31, 2013 and December 31, 2012, respectively.

*Multi-Family CMBS Loan Characteristics:*

The following table details the loan characteristics of the loans that back our multi-family CMBS (including the Consolidated K-Series) in our portfolio as of December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands, except as noted):

December	December
31,	31,

	<b>2013</b>		<b>2012</b>	
Current balance of loans	\$12,585,131		\$9,932,167	
Number of loans	742		609	
Weighted average original LTV	69.0	%	69.2	%
Weighted average underwritten debt service coverage ratio	1.50	x	1.49	x
Current average loan size	\$16,961		\$16,309	
Weighted average original loan term (in months)	112		108	
Weighted average current remaining term (in months)	85		89	
Weighted average loan rate	4.37	%	4.54	%
First mortgages	100	%	100	%
Geographic state concentration (greater than 5.0%):				
California	14.0	%	13.6	%
Texas	13.7	%	14.0	%
New York	7.2	%	6.8	%
Florida	6.5	%	7.4	%
Washington	5.3	%	5.0	%
Georgia	4.4	%	5.4	%

**Financing Arrangements, Portfolio Investments.** As of December 31, 2013 and 2012, we had approximately \$791.1 million and \$889.1 million of repurchase borrowings outstanding, respectively. As of December 31, 2013 and December 31, 2012, the current weighted average borrowing rate on these financing facilities was 0.49% and 0.54%, respectively. Our repurchase agreements typically have terms of 30 days or less.

As of December 31, 2013, we had no counterparties where the amount at risk was in excess of 5% of Stockholders' Equity. As of December 31, 2012, the Company's only exposure where the amount at risk in excess of 5% of Stockholders' Equity was to JPMorgan Chase Bank N.A. at 5.7%. The amount at risk is defined as the fair value of securities pledged as collateral to the repurchase agreement in excess of the repurchase agreement liability.

As of December 31, 2013, the outstanding balance under our repurchase agreements was funded at an advance rate of 92.2% that implies an average haircut of 7.8%. As of December 31, 2012, the outstanding balance under our repurchase agreements was funded at an advance rate of 93.1% that implies an average haircut of 6.9%. The weighted average “haircut” related to our repurchase agreement financing for our Agency RMBS (excluding Agency IOs), Agency IOs and CLOs was approximately 5%, 25% and 35%, respectively, for a total weighted average “haircut” of 7.8% and 6.9% as of December 31, 2013 and December 31, 2012, respectively.

The following table details the ending balance, quarterly average balance and maximum balance at any month-end during the quarter over the last three years for repurchase agreement borrowings outstanding (dollar amounts in thousands):

<b>Quarter Ended</b>	<b>Quarterly Average Balance</b>	<b>End of Quarter Balance</b>	<b>Maximum Balance at any Month-End</b>
December 31, 2013	\$ 796,044	\$ 791,125	\$ 800,193
September 30, 2013	\$ 799,341	\$ 794,181	\$ 810,506
June 30, 2013	\$ 885,942	\$ 855,153	\$ 924,667
March 31, 2013	\$ 879,732	\$ 878,824	\$ 882,611
December 31, 2012	\$ 878,201	\$ 889,134	\$ 889,134
September 30, 2012	\$ 446,610	\$ 580,176	\$ 592,976
June 30, 2012	\$ 129,101	\$ 138,871	\$ 138,871
March 31, 2012	\$ 113,092	\$ 118,385	\$ 118,385
December 31, 2011	\$ 116,916	\$ 112,674	\$ 123,788
September 30, 2011	\$ 117,234	\$ 111,500	\$ 121,920
June 30, 2011	\$ 82,469	\$ 96,370	\$ 96,370
March 31, 2011	\$ 38,711	\$ 46,563	\$ 46,563

**Residential Collateralized Debt Obligations.** As of December 31, 2013 and 2012, we had residential collateralized debt obligations, or Residential CDOs, of \$158.4 million and \$181.0 million, respectively. As of December 31, 2013 and 2012, the weighted average interest rate of these Residential CDOs was 0.55% and 0.59%, respectively. The Residential CDOs are collateralized by ARM loans with a principal balance of \$165.2 million and \$189.0 million at December 31, 2013 and 2012, respectively. The Company retained the owner trust certificates, or residual interest for three securitizations, and, as of December 31, 2013 and 2012, had a net investment in the residential securitization trusts of \$6.6 million and \$7.0 million, respectively.



**Securitized Debt.** The following table summarizes the Company's securitized debt collateralized by multi-family CMBS and distressed residential mortgage loans (dollar amounts in thousands):

	<b>Multi-family CMBS</b>	<b>Collateralized Recourse Financings</b>	<b>Distressed Residential Mortgage Loan Securitized</b>
Original Face amount of Notes issued by the VIE and purchased by 3rd party investors	\$ 35,000	\$ 107,853	\$ 176,970
Principal Amount at December 31, 2013	\$ 34,508	\$ 107,853	\$ 169,871
Principal Amount at December 31, 2012	\$ 35,000	\$ 52,000	\$ 38,700
Carrying Value at December 31, 2013	\$ 27,240	\$ 107,853	\$ 169,871
Carrying Value at December 31, 2012	\$ 26,891	\$ 52,000	\$ 38,700
Pass-through rate of Notes issued	5.35	% One-month LIBOR plus 5.25% - 6.50%	4.25% - 4.85%

Refer to Note 7 of our consolidated financial statements included in this report for more information on Securitized Debt.

**Subordinated Debentures.** As of December 31, 2013, certain of our wholly owned subsidiaries had trust preferred securities outstanding of \$45.0 million with a weighted average interest rate of 4.08%. The securities are fully guaranteed by us with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities are classified as subordinated debentures in the liability section of our consolidated balance sheets.

***Derivative Assets and Liabilities.*** We generally hedge the risks related to changes in interest rates related to our borrowings as well as market values of our overall portfolio.

In order to reduce our interest rate risk related to our borrowings, we may utilize various hedging instruments, such as interest rate swap agreement contracts whereby we receive floating rate payments in exchange for fixed rate payments, effectively converting our short term repurchase agreement borrowings or Residential CDOs to a fixed rate. At December 31, 2013, the Company had \$350.0 million of notional amount of interest rate swaps outstanding with a fair market asset value of \$2.0 million. At December 31, 2012, the Company had \$358.4 million of notional amount of interest rate swaps outstanding with a fair market liability value of \$1.7 million. The interest rate swaps qualify as cash flow hedges for financial reporting purposes.

In addition to utilizing interest rate swaps, we may purchase or sell short U.S. Treasury securities or enter into Eurodollar or other futures contracts or options on futures to help mitigate the potential impact of changes in interest rates on the performance of our Agency IOs. We may borrow securities to cover short sales of U.S. Treasury securities under reverse repurchase agreements. Realized and unrealized gains and losses associated with purchases and short sales of U.S. Treasury securities, Eurodollar or other futures and swaptions are recognized through earnings in the consolidated statements of operations.

The Company uses To-Be-Announced securities, or TBAs, U.S. Treasury securities and U.S. Treasury futures and options to hedge interest rate risk, as well as spread risk associated with its investments in Agency IOs. For example, we may utilize TBAs to hedge the interest rate or yield spread risk inherent in our long Agency RMBS positions associated with our investments in Agency IOs by taking short positions in TBAs that are similar in character. In a TBA transaction, we would agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. The Company typically does not take delivery of TBAs, but rather settles with its trading counterparties on a net basis. TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS. For TBA contracts that we have entered into, we have not asserted that physical settlement is probable. Because we have not designated these forward commitments associated with our Agency IOs as hedging instruments, realized and unrealized gains and losses associated with these TBAs, U.S. Treasury securities and U.S. Treasury futures and options are recognized through earnings in the condensed consolidated statements of operations.

The use of TBAs exposes the Company to market value risk, as the market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price. The use of TBAs associated with our Agency IO investments creates significant short term payables (and/or receivables) on our balance sheet.

Derivative financial instruments may contain credit risk to the extent that the institutional counterparties may be unable to meet the terms of the agreements. We minimize this risk by limiting our counterparties to major financial institutions with good credit ratings. In addition, we regularly monitor the potential risk of loss with any one party resulting from this type of credit risk. Accordingly, we do not expect any material losses as a result of default by other parties, but we cannot guarantee that we will not experience counterparty failures in the future.

In connection with our investment in Agency IOs, we utilize several types of derivative instruments to hedge the overall risk profile of these investments. This hedging technique is dynamic in nature and requires frequent adjustments, which accordingly makes it very difficult to qualify for hedge accounting treatment. Hedge accounting treatment requires specific identification of a risk or group of risks and then requires that we designate a particular trade to that risk with no minimal ability to adjust over the life of the transaction. Because we and Midway are frequently adjusting these derivative instruments in response to current market conditions, we have determined to account for all the derivative instruments related to our Agency IO investments as derivatives not designated as hedging instruments.

#### **Balance Sheet Analysis - Stockholders' Equity**

Stockholders' equity at December 31, 2013 was \$480.7 million and included \$3.1 million of accumulated other comprehensive income. The accumulated other comprehensive income consisted of \$14.7 million in unrealized gains primarily related to our CLOs, \$18.3 million in net unrealized gains related to our CMBS and \$2.0 million in unrealized derivative gains related to cash flow hedges, partially offset by \$31.9 million in unrealized losses related to our Agency RMBS and non-Agency RMBS. Stockholders' equity at December 31, 2012 was \$322.0 million and included \$18.1 million of accumulated other comprehensive income. The accumulated other comprehensive income consisted of \$20.0 million in unrealized gains primarily related to our CLOs, partially offset by \$1.7 million in unrealized derivative losses related to cash flow hedges and \$0.2 million in unrealized losses related to our Agency RMBS. The increase in stockholders' equity at December 31, 2013, as compared to December 31, 2012, is primarily due to our issuance of common and preferred stock in public and at-the-market offerings with net proceeds to us of \$100.2 million and \$72.4 million, respectively, after deducting underwriting discounts and commissions and offering expenses, during the year ended December 31, 2013.

### Analysis of Changes in Book Value

The following table analyzes the changes in book value for the quarter and year ended December 31, 2013, respectively (amounts in thousands, except per share):

	Quarter Ended December 31, 2013			Year Ended December 31, 2013		
	Amount	Shares	Per Share <sup>(1)</sup>	Amount	Shares	Per Share <sup>(1)</sup>
<b>Beginning Balance</b>	<b>\$402,683</b>	<b>63,755</b>	<b>\$ 6.32</b>	<b>\$322,006</b>	<b>49,575</b>	<b>\$ 6.50</b>
Common stock issuance, net	2,516	347		101,105	14,527	
Preferred stock issuance, net	—			72,397		
Preferred stock liquidation preference	—			(75,000)		
Balance after share issuance activity	405,199	64,102	6.32	420,508	64,102	6.56
Dividends declared	(17,295)		(0.27)	(65,213)		(1.02)
Net change AOCI: <sup>(2)</sup>						
Hedges	449		0.01	3,785		0.06
RMBS	(8,114)		(0.13)	(31,772)		(0.49)
CMBS	4,304		0.07	15,532		0.24
CLOs	(710)		(0.01)	(2,561)		(0.04)
Net income	21,833		0.34	65,387		1.02
<b>Ending Balance</b>	<b>\$405,666</b>	<b>64,102</b>	<b>\$ 6.33</b>	<b>\$405,666</b>	<b>64,102</b>	<b>\$ 6.33</b>

(1) Outstanding shares used to calculate book value per share for the quarter and year ended periods are based on outstanding shares as of December 31, 2013 of 64,102,029.

(2) Accumulated other comprehensive income (“AOCI”).

The following table analyzes the changes in book value for the quarter and year ended December 31, 2012, respectively (amounts in thousands, except per share):

	Quarter Ended December 31, 2012			Year Ended December 31, 2012		
	Amount	Shares	Per Share <sup>(1)</sup>	Amount	Shares	Per Share <sup>(1)</sup>
<b>Beginning Balance</b>	<b>\$222,014</b>	<b>34,044</b>	<b>\$ 6.52</b>	<b>\$85,278</b>	<b>13,938</b>	<b>\$ 6.12</b>
Stock issuance, net	104,249	15,531		232,462	35,637	
Balance after share issuance activity	326,263	49,575	6.58	317,740	49,575	6.41
Dividends declared	(13,383)		(0.27)	(30,809)		(0.62)

Net change AOCI: <sup>(2)</sup>

Hedges	179	0.00	(1,440 )	(0.03 )		
RMBS	(3,640 )	(0.07 )	(327 )	(0.01 )		
CMBS	3,000	0.06	3,766	0.08		
CLOs	197	0.00	4,797	0.10		
Net income	9,390	0.19	28,279	0.57		
<b>Ending Balance</b>	<b>\$322,006</b>	<b>49,575</b>	<b>\$ 6.50</b>	<b>\$322,006</b>	<b>49,575</b>	<b>\$ 6.50</b>

(1) Outstanding shares used to calculate book value per share for the quarter and year ended periods are based on outstanding shares as of December 31, 2012 of 49,575,331.

(2) Accumulated other comprehensive income (“AOCI”).

## Liquidity and Capital Resources

### General

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, comply with margin requirements, fund our operations, pay management, incentive and consulting fees, pay dividends to our stockholders and other general business needs. Our investments and assets, excluding the principal only multi-family CMBS we invest in, generate liquidity on an ongoing basis through principal and interest payments, prepayments, net earnings retained prior to payment of dividends and distributions from unconsolidated investments, while the principal only multi-family CMBS we invest in are backed by balloon non-recourse mortgage loans that provide for the payment of principal at maturity date, which is typically seven to ten years. In addition, depending on market conditions, the sale of investment securities, structured financings or capital market transactions may provide additional liquidity. However, our intention is to meet our liquidity needs through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

During the year ended December 31, 2013, net cash is primarily unchanged, as a result of \$152.3 million used in investing activities, which was offset by \$99.0 million provided by financing activities and \$53.3 million of cash provided by operating activities. Our investing activities primarily included \$218.1 million of purchases of distressed residential mortgage loans, \$72.1 million of purchases of investment securities, \$71.6 million in purchases of multi-family CMBS, \$16.8 million in the funding of mezzanine loans and preferred equity investments, \$11.0 million in net payments on other derivative instruments settled during the period, and \$6.5 million in the funding of a first mortgage loan, partially offset by \$125.9 million in principal paydowns on investment securities available for sale, \$73.8 million in principal repayments received on multi-family loans held in securitization trusts, \$22.3 million in principal repayments received on residential mortgage loans held in securitization trusts, \$15.6 million in principal payments received on distressed residential mortgage loans, \$2.5 million in restricted cash, \$1.3 million of proceeds from sales of investment securities and \$3.6 million in return of capital from investments in limited partnership and limited liability companies. Our financing activities primarily included \$191.7 million in net proceeds from securitized debt, net proceeds from common and preferred stock issuances of \$172.6 million, partially offset by \$98.0 million in payments of financing arrangements, \$73.8 million in payments made on multi-family CDOs, \$63.4 million in dividends paid on common and Series B Preferred Stock, \$22.7 million in payments made on Residential CDOs, and \$7.4 million in payments made on securitized debt.

We fund our investments and operations through a balanced and diverse funding mix, which includes proceeds from equity offerings, short-term and longer-term repurchase agreement borrowings, CDOs, securitized debt, and trust preferred debentures. The type and terms of financing used by us depends on the asset being financed. In those cases where we utilize some form of structured financing, be it through CDOs, longer-term repurchase agreements or securitized debt (including financings similar to our CMBS Master Repurchase Agreements), the cash flow produced by the assets that serve as collateral for these structured finance instruments may be restricted in terms of its use or applied to pay principal or interest on CDOs, repurchase agreements, or notes that are senior to our interests. At December 31, 2013, we had cash and cash equivalents balances of \$31.8 million, which was unchanged from December 31, 2012. Based on our current investment portfolio, new investment initiatives, leverage ratio and available and future possible borrowing arrangements, we believe our existing cash balances, funds available under our various financing arrangements and cash flows from operations will meet our liquidity requirements for at least the next 12 months.

#### *Liquidity – Financing Arrangements*

We rely primarily on short-term repurchase agreements (typically 30 days) to finance the more liquid assets in our investment portfolio, such as Agency RMBS and CLOs. As of December 31, 2013, we have outstanding short-term repurchase agreements, a form of collateralized short-term borrowing, with eleven different financial institutions. These agreements are secured by certain of our investment securities and bear interest rates that have historically moved in close relationship to LIBOR. Our borrowings under repurchase agreements are based on the fair value of our investment securities portfolio. Interest rate changes and increased prepayment activity can have a negative impact on the valuation of these securities, reducing the amount we can borrow under these agreements. Moreover, our repurchase agreements allow the counterparties to determine a new market value of the collateral to reflect current market conditions and because these lines of financing are not committed, the counterparty can call the loan at any time. Market value of the collateral represents the price of such collateral obtained from generally recognized sources

or most recent closing bid quotation from such source plus accrued income. If a counterparty determines that the value of the collateral has decreased, the counterparty may initiate a margin call and require us to either post additional collateral to cover such decrease or repay a portion of the outstanding borrowing in cash, on minimal notice. Moreover, in the event an existing counterparty elected to not renew the outstanding balance at its maturity into a new repurchase agreement, we would be required to repay the outstanding balance with cash or proceeds received from a new counterparty or to surrender the securities that serve as collateral for the outstanding balance, or any combination thereof. If we are unable to secure financing from a new counterparty and had to surrender the collateral, we would expect to incur a loss. In addition, in the event one of our lenders under the repurchase agreement defaults on its obligation to “re-sell” or return to us the securities that are securing the borrowings at the end of the term of the repurchase agreement, we would incur a loss on the transaction equal to the amount of “haircut” associated with the short-term repurchase agreement, which we sometimes refer to as the “amount at risk.” As of December 31, 2013, we had an aggregate amount at risk under our repurchase agreements with eleven counterparties of approximately \$62.1 million, with no greater than approximately \$21.0 million at risk with any single counterparty. The volatility in the market place during 2013 has not had an impact on our liquidity or our ability to finance our more liquid assets through short-term repurchase agreements.

At December 31, 2013, the Company had short-term repurchase agreement borrowings of \$791.1 million as compared to \$889.1 million as of December 31, 2012. In addition to our excess cash, the Company has \$59.2 million in unencumbered securities, including \$40.8 million of RMBS, of which \$38.4 million are Agency RMBS. The \$31.8 million of cash, the \$40.8 million in RMBS, and \$30.4 million held in overnight deposits in our Agency IO portfolio included in restricted cash that is available to meet margin calls as it relates to our Agency IO portfolio repurchase agreements, which collectively represent 13% of our financing arrangements, portfolio investments, are liquid and could be monetized to pay down or collateralize the liability immediately.

At December 31, 2013, we also had other longer-term debt, including Residential CDOs outstanding of \$158.4 million, multi-family CDOs outstanding of \$7.9 billion (which represent obligations of the Consolidated K-Series), subordinated debt of \$45.0 million and securitized debt of \$305.0 million. The CDOs are collateralized by residential and multi-family loans held in securitization trusts, respectively. The securitized debt represents the notes issued in (i) our May 2012 multi-family re-securitization transaction, (ii) our November 2012 and November 2013 multi-family CMBS collateralized recourse financing transaction, and (iii) our December 2012, July 2013 and September 2013 distressed residential mortgage loan securitization transactions, which are described in Note 7 in our consolidated financial statements.

As of December 31, 2013, our overall leverage ratio, including both our short- and longer-term financing (and excluding the CDO's issued by the Consolidated K-Series and our Residential CDOs) divided by stockholders' equity, was approximately 2.4 to 1. As of December 31, 2013, our leverage ratio on our short term financings or callable debt was approximately 1.6 to 1. We monitor all at risk or short term borrowings to ensure that we have adequate liquidity to satisfy margin calls and have the ability to respond to other market disruptions.

#### *Liquidity – Hedging and Other Factors*

Certain of our hedging instruments may also impact our liquidity. We use interest rate swaps, swaptions, TBAs, Eurodollar or other futures contracts to hedge interest rate risk associated with our investments in Agency RMBS (including Agency IOs). With respect to interest rate swaps, futures contracts and TBAs, initial margin deposits will be made upon entering into these contracts and can be either cash or securities. During the period these contracts are open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of these contracts at the end of each day's trading. We may be required to satisfy variable margin payments periodically, depending upon whether unrealized gains or losses are incurred.

We also use TBAs to hedge interest rate risk associated with our investments in Agency IOs. Since delivery for these securities extends beyond the typical settlement dates for most non-derivative investments, these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and thereby are more vulnerable to increasing amounts at risk with the applicable counterparties. The use of TBAs associated with our Agency IO investments creates significant short term payables (and/or receivables), amounting to \$191.6 million at December 31, 2013, and is included in payable for securities purchased on our consolidated balance sheet.

We also use U.S. Treasury securities and U.S. Treasury futures and options to hedge interest rate risk associated with our investments in Agency IOs and interest rate swap agreements and swaptions as a mechanism to reduce the interest rate risk of our Agency ARMs and mortgage loans held in securitization trusts.



For additional information regarding the Company's derivative instruments and hedging activities for the periods covered by this report, including the fair values and notional amounts of these instruments and realized and unrealized gains and losses relating to these instruments, please see Note 8 to our consolidated financial statements included in this report. Also, please see Item 7A. Quantitative and Qualitative Disclosures about Market Risk, under the caption, "Fair Value Risk", for a tabular presentation of the sensitivity of the market value and net duration changes of the Company's portfolio across various changes in interest rates, which takes into account the Company's hedging activities.

#### *Liquidity — Equity Offerings*

In addition to the financing arrangements described above under the caption "Liquidity—Financing Arrangements," we also rely on secondary equity offerings as a source of both short-term and long-term liquidity. During the year ended December 31, 2013, we closed on the following public equity offerings:

On April 29, 2013, we entered into an underwriting agreement whereby the underwriters agreed to purchase 13,600,000 shares of our common stock from us at a price of \$6.96 per share. On May 3, 2013, we closed on the issuance of 13,600,000 shares of common stock to the underwriters, resulting in net proceeds of approximately \$94.4 million, after deducting estimated offering expenses.

On May 28, 2013, we entered into an underwriting agreement for the issuance and sale of 3,000,000 shares of 7.75% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock"), with a liquidation preference of \$25.00 per share, for net proceeds of approximately \$72.4 million, after deducting underwriting discounts and offering expenses payable by us. On June 4, 2013, we closed on the issuance and sale of the 3,000,000 shares of Series B Preferred Stock.

On January 7, 2014, we entered into an underwriting agreement whereby the underwriters agreed to purchase 11,500,000 shares of our common stock (including the 1,500,000 shares that were issuable pursuant to an over-allotment option) from us at a price of \$6.81 per share. On January 10, 2013, we closed on the issuance of 11,500,000 shares of common stock to the underwriters, resulting in net proceeds to the Company of approximately \$75.8 million, after deducting estimated offering expenses.

We used substantially all of the net proceeds from these offerings to fund additional investments in our targeted assets, particularly, multi-family CMBS and distressed residential mortgage loans.

We also may generate liquidity through the sale of shares of our common stock in an “at the market” offering program pursuant to an equity distribution agreement, as well as through the sale of shares of our common stock pursuant to our Dividend Reinvestment Plan, or DRIP. On January 14, 2013, we filed a registration statement on Form S-3 to enable us to issue up to \$20,000,000 of shares of our common stock pursuant to our DRIP. On June 11, 2012, we entered into an equity distribution agreement with JMP Securities LLC as the placement agent, pursuant to which we may sell up to \$25,000,000 of shares of our common stock from time to time through the placement agent. Pursuant to the equity distribution agreement, the shares may be offered and sold through the placement agent in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on The Nasdaq Global Select Market or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from us, in privately negotiated transactions. We have no obligation to sell any of the shares under the equity distribution agreement and may at any time suspend solicitations and offers under the equity distribution agreement. During the year ended December 31, 2013, we issued 827,313 shares under the equity distribution agreement resulting in total net proceeds to the Company of approximately \$5.8 million, after deducting sales commissions and expenses.

#### *Management Agreements*

We have investment management agreements with RiverBanc, Midway and Headlands, pursuant to which we pay these managers a base management and incentive fee quarterly in arrears. See "- Results of Operations - Comparison of the Year Ended December 31, 2013 to Year Ended December 31, 2012 - Comparative Expenses" for more information regarding the management fees paid during the year ended December 31, 2013. In addition, pursuant to the terms of our former advisory relationship with HCS, we also may pay incentive compensation to HCS with respect to those assets of our company that were managed by HCS at the time the advisory relationship with HCS concluded (the “Incentive Tail Assets”) until such time as such Incentive Tail Assets are disposed of by us or mature.

#### *Dividends*

For information regarding the declaration and payment of dividends on our preferred stock, see “Note 14 – Stockholders’ Equity” below. For information regarding the declaration and payment of dividends on our common stock, see “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” above.

We expect to continue to pay quarterly cash dividends on our common stock during the near term. However, our Board of Directors will continue to evaluate our dividend policy each quarter and will make adjustments as necessary, based on a variety of factors, including, among other things, the need to maintain our REIT status, our financial condition, liquidity, earnings projections and business prospects. Our dividend policy does not constitute an obligation to pay dividends.

We intend to make distributions to our stockholders to comply with the various requirements to maintain our REIT status and to minimize or avoid corporate income tax and the nondeductible excise tax. However, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the REIT distribution requirements and to minimize or avoid corporate income tax and the nondeductible excise tax.

*Exposure to European financial counterparties*

We finance the acquisition of a significant portion of our mortgage-backed securities with repurchase agreements. In connection with these financing arrangements, we pledge our securities as collateral to secure the borrowings. The amount of collateral pledged will typically exceed the amount of the financing with the extent of over-collateralization from 4% of the amount borrowed (in the case of Agency ARM and Agency fixed rate RMBS collateral), 25% (in the case of Agency IOs) and up to 35% (in the case of CLO collateral). While our repurchase agreement financing results in us recording a liability to the counterparty in our consolidated balance sheet, we are exposed to the counterparty, if during the term of the repurchase agreement financing, a lender should default on its obligation and we are not able to recover our pledged assets. The amount of this exposure is the difference between the amount loaned to us plus interest due to the counterparty and the fair value of the collateral pledged by us to the lender (including accrued interest receivable on such collateral).

Several large European banks have experienced financial difficulty in recent years, some of whom have required a rescue or assistance from other large European banks or the European Central Bank. Some of these banks have U.S. banking subsidiaries which have provided repurchase agreement financing or interest rate swap agreements to us in connection with the acquisition of various investments, including mortgage-backed securities investments. We have outstanding repurchase agreement borrowings with Credit Suisse First Boston LLC in the amount of \$80.2 million at December 31, 2013 with a net exposure of \$4.5 million. We have outstanding repurchase agreement borrowings with Barclays Capital Inc. in the amount of \$42.1 million at December 31, 2013 with a net exposure of \$3.3 million. We have outstanding interest rate swap agreements with Credit Suisse International as a counterparty in the amount of \$245.0 million notional with a net exposure of \$0.9 million. In addition, certain of our U.S. based counterparties may have significant exposure to the financial and economic turmoil in Europe which could impact their future lending activities or cause them to default under agreements with us. In the event one or more of these counterparties or their affiliates experience liquidity difficulties in the future, our liquidity could be materially adversely affected.

**Inflation**

For the periods presented herein, inflation has been relatively low and we believe that inflation has not had a material effect on our results of operations. The impact of inflation is primarily reflected in the increased costs of our operations. Virtually all our assets and liabilities are financial in nature. Our consolidated financial statements and corresponding notes thereto have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. As a result, interest rates and other factors influence our performance far more than inflation. Inflation affects our operations primarily through its effect on interest rates, since interest rates typically increase during periods of high inflation and decrease during periods of low inflation. During periods of increasing interest rates, demand for mortgages and a borrower's ability to qualify for mortgage financing in a purchase transaction may be adversely affected. During periods of decreasing interest rates, borrowers may prepay their mortgages, which in turn may adversely affect our yield and subsequently the value of our portfolio of mortgage assets.



## Contractual Obligations and Commitments

The Company had the following contractual obligations at December 31, 2013 (dollar amounts in thousands):

	<b>Total</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>4 to 5 years</b>	<b>More than 5 years</b>
Operating leases	\$2,130	\$207	\$414	\$422	\$1,087
Financing arrangements	791,125	791,125	—	—	—
Subordinated debentures <sup>(1)</sup>	85,124	1,864	3,733	3,728	75,799
Securitized debt <sup>(1)(3)</sup>	312,767	14,039	298,728	—	—
Interest rate swaps <sup>(1)</sup>	5,987	1,819	3,138	1,030	—
Management fees <sup>(2)</sup>	13,098	7,322	5,776	—	—
Employment agreements	500	500	—	—	—
Total contractual obligations <sup>(3)</sup>	\$1,210,731	\$816,876	\$311,789	\$5,180	\$76,886

<sup>(1)</sup> Amounts include projected interest payments during the period. Interest based on interest rates in effect on December 31, 2013.

<sup>(2)</sup> Amounts include the base fees for Midway, RiverBanc and Headlands based on the current invested capital. The management fees exclude incentive fees which are based on future performance.

We exclude our Residential CDOs from the contractual obligations disclosed in the table above as this debt is non-recourse and not cross-collateralized and, therefore, must be satisfied exclusively from the proceeds of the residential mortgage loans and real estate owned held in the securitization trusts. See Note 10 in the Notes to

<sup>(3)</sup> Consolidated Financial Statements for further information regarding our Residential CDOs. We also exclude the securitized debt related to our May 2012 re-securitization transaction as this debt is non-recourse to the Company. See Note 7 in the Notes to Consolidated Financial Statements for further information regarding our Securitized Debt. The Company's Multi-Family CDOs, which represent the CDOs issued by the Consolidated K-Series is excluded as this debt is non-recourse to the Company.

## Off-Balance Sheet Arrangements

We did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities.



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

*This section should be read in conjunction with “Item 1A. Risk Factors” in this Annual Report on Form 10-K and our subsequent periodic reports filed with the SEC.*

We seek to manage risks that we believe will impact our business including, interest rates, liquidity, prepayments, credit quality and market value. When managing these risks we consider the impact on our assets, liabilities and derivative positions. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and seek to actively manage that risk, to generate risk-adjusted total returns that we believe compensate us appropriately for those risks and to maintain capital levels consistent with the risks we take.

The following analysis includes forward-looking statements that assume that certain market conditions occur. Actual results may differ materially from these projected results due to changes in our portfolio assets and borrowings mix and due to developments in the domestic and global financial and real estate markets. Developments in the financial markets include the likelihood of changing interest rates and the relationship of various interest rates and their impact on our portfolio yield, cost of funds and cash flows. The analytical methods that we use to assess and mitigate these market risks should not be considered projections of future events or operating performance.

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

Interest rates are sensitive to many factors, including governmental, monetary, tax policies, domestic and international economic conditions, and political or regulatory matters beyond our control. Changes in interest rates affect the value of the financial assets we manage and hold in our investment portfolio and the variable-rate borrowings we use to finance our portfolio. Changes in interest rates also affect the interest rate swaps and caps, Eurodollar and other futures, TBAs and other securities or instruments we use to hedge our portfolio. As a result, our net interest income is particularly affected by changes in interest rates.

For example, we hold RMBS, some of which may have fixed rates or interest rates that adjust on various dates that are not synchronized to the adjustment dates on our repurchase agreements. In general, the re-pricing of our repurchase agreements occurs more quickly than the re-pricing of our variable-interest assets. Thus, it is likely that our floating rate borrowings, such as our repurchase agreements, may react to interest rates before our RMBS because the weighted average next re-pricing dates on the related borrowings may have shorter time periods than that of the RMBS. In addition, the interest rates on our Agency ARMs backed by hybrid ARMs may be limited to a “periodic cap,” or an increase of typically 1% or 2% per adjustment period, while our borrowings do not have comparable limitations. Moreover, changes in interest rates can directly impact prepayment speeds, thereby affecting our net return on RMBS. During a declining interest rate environment, the prepayment of RMBS may accelerate (as borrowers may opt to



refinance at a lower interest rate) causing the amount of liabilities that have been extended by the use of interest rate swaps to increase relative to the amount of RMBS, possibly resulting in a decline in our net return on RMBS, as replacement RMBS may have a lower yield than those being prepaid. Conversely, during an increasing interest rate environment, RMBS may prepay more slowly than expected, requiring us to finance a higher amount of RMBS than originally forecast and at a time when interest rates may be higher, resulting in a decline in our net return on RMBS. Accordingly, each of these scenarios can negatively impact our net interest income.

We seek to manage interest rate risk in our portfolio by utilizing interest rate swaps, swaptions, caps, Eurodollar and other futures, options and U.S. Treasury securities with the goal of optimizing the earnings potential while seeking to maintain long term stable portfolio values. We continually monitor the duration of our mortgage assets and have a policy to hedge the financing of those assets such that the net duration of the assets, our borrowed funds related to such assets, and related hedging instruments, is less than one year. In addition, we utilize TBAs to mitigate the risks on our long Agency RMBS positions associated with our investments in Agency IOs.

We utilize a model-based risk analysis system to assist in projecting portfolio performances over a scenario of different interest rates. The model incorporates shifts in interest rates, changes in prepayments and other factors impacting the valuations of our financial securities and instruments, including mortgage-backed securities, repurchase agreements, interest rate swaps and interest rate caps, TBAs and Eurodollar futures.

Based on the results of the model, the instantaneous changes in interest rates specified below would have had the following effect on net interest income for the next 12 months based on our assets and liabilities as of December 31, 2013 (dollar amounts in thousands):

<b>Changes in Interest Rates</b>	<b>Changes in Net Interest Income</b>
+200	\$(1,940 )
+100	\$790
-100	\$(13,921)

Interest rate changes may also impact our net book value as our financial assets and related hedge derivatives are marked-to-market each quarter. Generally, as interest rates increase, the value of our mortgage assets, other than IOs, decreases, and conversely, as interest rates decrease, the value of such investments will increase. The value of an IO will likely be negatively affected in a declining interest rate environment due to the risk of increasing prepayment rates because the IOs' value is wholly contingent on the underlying mortgage loans having an outstanding balance. In general, we expect that, over time, decreases in the value of our portfolio attributable to interest rate changes will be offset, to the degree we are hedged, by increases in the value of our interest rate swaps or other financial instruments used for hedging purposes, and vice versa. However, the relationship between spreads on securities and spreads on our hedging instruments may vary from time to time, resulting in a net aggregate book value increase or decline. That said, unless there is a material impairment in value that would result in a payment not being received on a security or loan, changes in the book value of our portfolio will not directly affect our recurring earnings or our ability to make a distribution to our stockholders.

### ***Liquidity Risk***

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay dividends to our stockholders and other general business needs. We recognize the need to have funds available to operate our business. It is our policy to have adequate liquidity at all times. We plan to meet liquidity through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

Our principal sources of liquidity are the repurchase agreements on our mortgage-backed securities, the CDOs we have issued to finance our loans held in securitization trusts, securitized debt, trust preferred securities, the principal and interest payments from our assets and cash proceeds from the issuance of equity or debt securities (as market and other conditions permit). We believe our existing cash balances and cash flows from operations will be sufficient for

our liquidity requirements for at least the next 12 months.

We are subject to “margin call” risk under the terms of our repurchase agreements. In the event the value of our assets pledged as collateral suddenly decreases, margin calls relating to our repurchase agreements could increase, causing an adverse change in our liquidity position. Additionally, if one or more of our repurchase agreement counterparties chooses not to provide ongoing funding, we may be unable to replace the financing through other lenders on favorable terms or at all. As such, we provide no assurance that we will be able to roll over our repurchase agreements as they mature from time to time in the future. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" in this Annual Report on Form 10-K for further information about our liquidity and capital resource management.

Derivative financial instruments used to hedge interest rate risk are subject to “margin call” risk. For example, under our interest rate swaps, typically we pay a fixed rate to the counterparties while they pay us a floating rate. If interest rates drop below the fixed rate we are paying on an interest rate swap, we may be required to post cash margin.

### ***Prepayment Risk***

When borrowers repay the principal on their residential mortgage loans before maturity or faster than their scheduled amortization, the effect is to shorten the period over which interest is earned, and therefore, reduce the yield for residential mortgage assets purchased at a premium to their then current balance, as with our portfolio of Agency RMBS. Conversely, residential mortgage assets purchased for less than their then current balance, such as our distressed residential mortgage loans, exhibit higher yields due to faster prepayments. Furthermore, actual prepayment speeds may differ from our modeled prepayment speed projections impacting the effectiveness of any hedges we have in place to mitigate financing and/or fair value risk. Generally, when market interest rates decline, borrowers have a tendency to refinance their mortgages, thereby increasing prepayments. The impact of increasing prepayment rates, whether as a result of declining interest rates, government intervention in the mortgage markets or otherwise, is particularly acute with respect to our Agency IOs. Because the value of an IO security is wholly contingent on the underlying mortgage loans having an outstanding principal balance, an unexpected increase in prepayment rates on the pool of mortgage loans underlying the IOs could significantly negatively impact the performance of our Agency IOs.

Our modeled prepayments will help determine the amount of hedging we use to off-set changes in interest rates. If actual prepayment rates are higher than modeled, the yield will be less than modeled in cases where we paid a premium for the particular residential mortgage asset. Conversely, when we have paid a premium, if actual prepayment rates experienced are slower than modeled, we would amortize the premium over a longer time period, resulting in a higher yield to maturity.

In an environment of increasing prepayment speeds, the timing difference between the actual cash receipt of principal paydowns and the announcement of the principal paydown may result in additional margin requirements from our repurchase agreement counterparties.

We mitigate prepayment risk by constantly evaluating our residential mortgage assets relative to prepayment speeds observed for assets with similar structures, qualities and characteristics. Furthermore, we stress-test the portfolio as to prepayment speeds and interest rate risk in order to further develop or make modifications to our hedge balances. Historically, we have not hedged 100% of our liability costs due to prepayment risk.

### ***Credit Risk***

Credit risk is the risk that we will not fully collect the principal we have invested in our credit sensitive assets, including distressed residential and other mortgage loans, CMBS, and CLOs, due to borrower defaults. In selecting the credit sensitive assets in our portfolio, we seek to identify and invest in assets with characteristics that we believe offset or limit the exposure of borrower defaults to the Company.

We seek to manage credit risk through our pre-acquisition due diligence process, and by factoring projected credit losses into the purchase price we pay for all of our credit sensitive assets. In general, we evaluate relative valuation, supply and demand trends, prepayment rates, delinquency and default rates, vintage of collateral and macroeconomic factors as part of this process. Nevertheless, these procedures do not guarantee unanticipated credit losses which would materially affect our operating results.

With respect to the \$264.4 million of distressed residential loans the Company owned at December 31, 2013, the mortgage loans were purchased at a discount to par reflecting their distressed state or perceived higher risk of default, which may include higher loan to value ratios and, in certain instances, delinquent loan payments. Prior to the acquisition of distressed residential mortgage loans, the Company validates key information provided by the sellers that is necessary to determine the value of the distressed residential mortgage loans. We then seek to maximize the value of the mortgage loans that we acquire either through borrower assisted refinancing, outright loan sale or through foreclosure and resale of the underlying home. We evaluate credit quality on an ongoing basis by reviewing borrower's payment status and current financial and economic condition. Additionally, we look at the carrying value of any

delinquent loan and compare to the current value of the underlying collateral.

As of December 31, 2013, we own \$260.6 million of first loss CMBS comprised primarily of first loss POs that are backed by commercial mortgage loans on multi-family properties at a weighted average amortized purchase price of approximately 28.5% of current par. Prior to the acquisition of each of our first loss CMBS securities, the Company completes an extensive review of the underlying loan collateral, including loan level cash flow re-underwriting, site inspections on selected properties, property specific cash flow and loss modeling, review of appraisals, property condition and environmental reports, and other credit risk analyses. We continue to monitor credit quality on an ongoing basis using updated property level financial reports provided by borrowers and periodic site inspection of selected properties. We also reconcile on a monthly basis the actual bond distributions received against projected distributions to assure proper allocation of cash flow generated by the underlying loan pool. As of December 31, 2013, we own approximately \$33.2 million of notes issued by a CLO at a discounted purchase price equal to 52% of par. The securities are backed by a portfolio of corporate loans. We also own approximately \$21.7 million of first mortgage loan and mezzanine financing at December 31, 2013, backed by residential and multi-family properties.

### ***Fair Value Risk***

Changes in interest rates also expose us to market value (fair value) fluctuation on our assets, liabilities and hedges. While the fair value of the majority of our assets (when excluding all Consolidated K-Series assets other than the securities we actually own) that are measured on a recurring basis are determined using Level 2 fair values, we own certain assets, such as our CMBS, for which fair values may not be readily available if there are no active trading markets for the instruments. In such cases, fair values would only be derived or estimated for these investments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. Minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values. Our fair value estimates and assumptions are indicative of the interest rate environments as of December 31, 2013, and do not take into consideration the effects of subsequent interest rate fluctuations.

We note that the values of our investments in derivative instruments, primarily interest rate hedges on our debt, will be sensitive to changes in market interest rates, interest rate spreads, credit spreads and other market factors. The value of these investments can vary and has varied materially from period to period.

The following describes the methods and assumptions we use in estimating fair values of our financial instruments:

Fair value estimates are made as of a specific point in time based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors.

Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair values, the fair values used by us should not be compared to those of other companies.

The table below presents the sensitivity of the market value and net duration changes of our portfolio as of December 31, 2013, using a discounted cash flow simulation model assuming an instantaneous interest rate shift. Application of this method results in an estimation of the fair market value change of our assets, liabilities and hedging instruments per 100 basis point (“bp”) shift in interest rates.

The use of hedging instruments is a critical part of our interest rate risk management strategies, and the effects of these hedging instruments on the market value of the portfolio are reflected in the model's output. This analysis also takes into consideration the value of options embedded in our mortgage assets including constraints on the re-pricing of the interest rate of assets resulting from periodic and lifetime cap features, as well as prepayment options. Assets and liabilities that are not interest rate-sensitive such as cash, payment receivables, prepaid expenses, payables and accrued expenses are excluded.

Changes in assumptions including, but not limited to, volatility, mortgage and financing spreads, prepayment behavior, defaults, as well as the timing and level of interest rate changes will affect the results of the model. Therefore, actual results are likely to vary from modeled results.

**Market Value Changes**  
**Changes in**

**Net**

<b>Interest Rates</b>	<b>Changes in</b>	<b>Duration</b>
	<b>Market Value</b>	
	(Amounts in thousands)	
+200	\$ (81,199 )	2.79
+100	\$ (40,972 )	2.55
<b>Base</b>		1.38
-100	\$ 22,038	0.05

It should be noted that the model is used as a tool to identify potential risk in a changing interest rate environment but does not include any changes in portfolio composition, financing strategies, market spreads or changes in overall market liquidity.

Although market value sensitivity analysis is widely accepted in identifying interest rate risk, it does not take into consideration changes that may occur such as, but not limited to, changes in investment and financing strategies, changes in market spreads and changes in business volumes. Accordingly, we make extensive use of an earnings simulation model to further analyze our level of interest rate risk.

There are a number of key assumptions in our earnings simulation model. These key assumptions include changes in market conditions that affect interest rates, the pricing of ARM products, the availability of investment assets and the availability and the cost of financing for portfolio assets. Other key assumptions made in using the simulation model include prepayment speeds and management's investment, financing and hedging strategies, and the issuance of new equity. We typically run the simulation model under a variety of hypothetical business scenarios that may include different interest rate scenarios, different investment strategies, different prepayment possibilities and other scenarios that provide us with a range of possible earnings outcomes in order to assess potential interest rate risk. The assumptions used represent our estimate of the likely effect of changes in interest rates and do not necessarily reflect actual results. The earnings simulation model takes into account periodic and lifetime caps embedded in our assets in determining the earnings at risk.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our financial statements and the related notes, together with the Report of Independent Registered Public Accounting Firm thereon, as required by this Item 8, are set forth beginning on page F-1 of this Annual Report on Form 10-K and are incorporated herein by reference.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**Item 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures* - We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2013. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

*Management's Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the reliability, preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.



The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Annual Report on Form 10-K and is incorporated by reference herein.

*Changes in Internal Control Over Financial Reporting.* There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Inherent Limitations on Effectiveness of Controls.* Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

## **Item 9B. OTHER INFORMATION**

### **ADDITIONAL MATERIAL FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of additional material federal income tax considerations with respect to the ownership of our stock. This summary supplements and should be read together with the discussion under "Material Federal Income Tax Considerations" in the prospectus dated April 9, 2012 and filed as part of a registration statement on Form S-3 (No. 333-179314).

#### **Recent Legislation**

Pursuant to recently enacted legislation, as of January 1, 2013, (1) the maximum tax rate on "qualified dividend income" received by U.S. stockholders taxed at individual rates is 20%, (2) the maximum tax rate on long-term capital

gain applicable to U.S. stockholders taxed at individual rates is 20%, and (3) the highest marginal individual income tax rate is 39.6%. Pursuant to such legislation, the backup withholding rate remains at 28%. We urge you to consult your tax advisors regarding the impact of this legislation on the purchase, ownership and sale of our stock.

### **Taxation of Taxable U.S. Stockholders**

For payments after June 30, 2014, a U.S. withholding tax at a 30% rate will be imposed on dividends paid on our stock received by U.S. stockholders who own their stock through foreign accounts or foreign intermediaries if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed on proceeds from the sale of our stock received after December 31, 2016 by U.S. stockholders who own their stock through foreign accounts or foreign intermediaries. We will not pay any additional amounts in respect of any amounts withheld.

### **Taxation of Non-U.S. Stockholders**

For payments after June 30, 2014, a U.S. withholding tax at a 30% rate will be imposed on dividends paid on our stock received by certain non-U.S. stockholders if they held our stock through foreign entities that fail to meet certain disclosure requirements related to U.S. persons that either have accounts with such entities or own equity interests in such entities. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed on proceeds from the sale of our stock received after December 31, 2016 by certain non-U.S. stockholders. If payment of withholding taxes is required, non-U.S. stockholders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect of such dividends and proceeds will be required to seek a refund from the Internal Revenue Service to obtain the benefit of such exemption or reduction. We will not pay any additional amounts in respect of any amounts withheld.

## **PART III**

### **Item 10. *DIRECTORS, EXECUTIVE OFFICER AND CORPORATE GOVERNANCE***

The information required by this item is included in our Proxy Statement for our 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013 (the “2014 Proxy Statement”) and is incorporated herein by reference.

### **Item 11. *EXECUTIVE COMPENSATION***

The information required by this item is included in the 2014 Proxy Statement and is incorporated herein by reference.

### **Item 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

Except as set forth below, the information required by this item is included in the 2014 Proxy Statement and is incorporated herein by reference.

The information presented under the heading “Market for the Registrant’s Common Equity and Related Stockholder Matters — Securities Authorized for Issuance Under Equity Compensation Plans” in Item 5 of Part II of this Form 10-K is incorporated herein by reference.

### **Item 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The information required by this item is included in the 2014 Proxy Statement and is incorporated herein by reference.

### **Item 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by this item is included in the 2014 Proxy Statement and is incorporated herein by reference.

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**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements

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(b) Exhibits.

The information set forth under "Exhibit Index" below is incorporated herein by reference.

**SIGNATURES**

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

**NEW YORK MORTGAGE TRUST, INC.**

Date: March 10, 2014 By: /s/ Steven R. Mumma  
 Steven R. Mumma  
 Chief Executive Officer and President  
 (Principal Executive Officer)

Date: March 10, 2014 By: /s/ Fredric S. Starker  
 Fredric S. Starker  
 Chief Financial Officer  
 (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Steven R. Mumma Steven R. Mumma	Chief Executive Officer, President and Director (Principal Executive Officer)	March 10, 2014
/s/ Fredric S. Starker Fredric S. Starker	Chief Financial Officer (Principal Financial and Accounting Officer)	March 10, 2014
/s/ Douglas E. Neal Douglas E. Neal	Chairman of the Board	March 10, 2014
/s/ Alan L. Hainey Alan L. Hainey	Director	March 10, 2014
/s/ Steven G. Norcutt Steven G. Norcutt	Director	March 10, 2014

/s/ David R. Bock      Director  
David R. Bock

March 10, 2014

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**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

For Inclusion in Form 10-K

Filed with

United States Securities and Exchange Commission

December 31, 2013

**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**

**Index to Consolidated Financial Statements**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

New York Mortgage Trust, Inc.

We have audited the accompanying consolidated balance sheets of New York Mortgage Trust, Inc. (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New York Mortgage Trust, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2014 expressed an unqualified opinion.

/s/ Grant Thornton LLP

New York, New York

March 10, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

New York Mortgage Trust, Inc.

We have audited the internal control over financial reporting of New York Mortgage Trust, Inc. (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible 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 Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2013, and our report dated March 10, 2014 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

New York, New York

March 10, 2014

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## NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands)

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Investment securities, available for sale, at fair value (including pledged securities of \$853,223 and \$954,656, respectively)	\$912,443	\$1,034,711
Investment securities, available for sale, at fair value held in securitization trusts	92,578	71,159
Residential mortgage loans held in securitization trusts (net)	163,237	187,229
Distressed residential mortgage loans held in securitization trusts (net)	254,721	60,459
Multi-family loans held in securitization trusts, at fair value	8,111,022	5,442,906
Derivative assets	197,590	246,129
Cash and cash equivalents	31,798	31,777
Receivables and other assets	135,286	86,031
<b>Total Assets</b> <sup>(1)</sup>	<b>\$9,898,675</b>	<b>\$7,160,401</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Financing arrangements, portfolio investments	\$791,125	\$889,134
Residential collateralized debt obligations	158,410	180,979
Multi-family collateralized debt obligations, at fair value	7,871,020	5,319,573
Securitized debt	304,964	117,591
Derivative liabilities	1,432	5,542
Payable for securities purchased	191,592	245,931
Accrued expenses and other liabilities (including \$951 and \$211 to related parties, respectively)	54,466	34,645
Subordinated debentures	45,000	45,000
<b>Total liabilities</b> <sup>(1)</sup>	<b>9,418,009</b>	<b>6,838,395</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.01 par value, 7.75% Series B cumulative redeemable, \$25 liquidation preference per share, 3,450,000 shares authorized, 3,000,000 and 0 shares issued and outstanding as of December 31, 2013 and December 31, 2012, respectively	72,397	—
Common stock, \$0.01 par value, 400,000,000 shares authorized, 64,102,029 and 49,575,331 shares issued and outstanding as of December 31, 2013 and December 31, 2012, respectively	641	496
Additional paid-in capital	404,555	355,006

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Accumulated other comprehensive income	3,073	18,088
Retained earnings (accumulated deficit)	—	(51,584 )
Total stockholders' equity	480,666	322,006
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$9,898,675</b>	<b>\$7,160,401</b>

(1) Our consolidated balance sheets include assets and liabilities of consolidated variable interest entities ("VIEs") as the Company is the primary beneficiary of these VIEs. As of December 31, 2013 and December 31, 2012, assets of consolidated VIEs totaled \$8,665,829 and \$5,786,569, respectively, and the liabilities of consolidated VIEs totaled \$8,365,345 and \$5,636,650, respectively. See Note 7 for further discussion.

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

## NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

	<b>For the Years Ended</b>		
	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>INTEREST INCOME:</b>			
Investment securities and other	\$46,646	\$26,933	\$18,751
Multi-family loans held in securitization trusts	228,631	104,410	—
Residential mortgage loans held in securitization trusts	4,709	5,573	5,540
Distressed residential mortgage loans	11,741	432	—
Total interest income	291,727	137,348	24,291
<b>INTEREST EXPENSE:</b>			
Investment securities and other	6,655	3,645	1,518
Multi-family collateralized debt obligations	210,229	97,032	—
Residential collateralized debt obligations	1,123	1,337	1,428
Securitized debt	11,293	1,945	—
Subordinated debentures	1,878	1,967	1,891
Total interest expense	231,178	105,926	4,837
<b>NET INTEREST INCOME</b>	<b>60,549</b>	<b>31,422</b>	<b>19,454</b>
<b>OTHER INCOME (EXPENSE):</b>			
Provision for loan losses	(1,262 )	(766 )	(1,693 )
Impairment loss on investment securities	(225 )	—	(250 )
Realized gain (loss) on investment securities and related hedges, net	(10,719 )	6,268	5,740
Realized gain on distressed residential mortgage loans	1,600	85	—
Unrealized gain (loss) on investment securities and related hedges, net	5,464	(3,947 )	(9,657 )
Unrealized gain on multi-family loans and debt held in securitization trusts, net	31,495	6,662	—
Other income (including \$306, \$0, and \$0 from related parties, respectively)	2,709	803	2,167
Total other income (expense)	29,062	9,105	(3,693 )
Management fees (including \$3,360, \$892 and \$2,740 to related parties, respectively)	8,133	5,010	5,445
Expenses related to distressed residential mortgage loans	3,868	—	—
Other general and administrative expenses (including \$698, \$652 and \$539 to related parties, respectively)	7,916	6,417	5,073
Total general, administrative and other expenses	19,917	11,427	10,518



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INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	69,694	29,100	5,243
Income tax expense	739	932	433
INCOME FROM CONTINUING OPERATIONS	68,955	28,168	4,810
Income from discontinued operation - net of tax	—	14	63
NET INCOME	68,955	28,182	4,873
Net (loss) income attributable to noncontrolling interest	—	(97 )	97
Preferred stock dividends	(3,568 )	—	—
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$65,387	28,279	\$4,776
Basic income per common share	\$1.11	\$1.08	\$0.46
Diluted income per common share	\$1.11	\$1.08	\$0.46
Weighted average shares outstanding-basic	59,102	26,067	10,495
Weighted average shares outstanding-diluted	59,102	26,067	10,495

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

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**NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Dollar amounts in thousands)**

	<b>For the Years</b>		
	<b>Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$65,387	\$28,279	\$4,776
OTHER COMPREHENSIVE INCOME (LOSS)			
(Decrease) increase in net unrealized gain on available for sale securities	(18,800)	9,310	(3,337)
Reclassification adjustment for net gain included in net income	—	(1,074)	(3,886)
Increase (decrease) in fair value of derivative instruments utilized for cash flow hedges	3,785	(1,440)	783
OTHER COMPREHENSIVE INCOME (LOSS)	(15,015)	6,796	(6,440)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$50,372	\$35,075	\$(1,664)

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

## NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2013, 2012 and 2011

(Dollar amounts in thousands)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Non- controlling Interest	Total
Balance, January 1, 2011	\$ 94	\$ —	\$ 135,300	\$ (84,639 )	\$ 17,732	\$ —	\$ 68,487
Net income	—	—	—	4,776	—	97	4,873
Stock issuance, net	45	—	29,862	—	—	—	29,907
Dividends declared	—	—	(11,452 )	—	—	—	(11,452 )
Increase in non-controlling interests related to consolidation of interest in a limited liability company	—	—	—	—	—	932	932
Reclassification adjustment for net gain included in net income	—	—	—	—	(3,886 )	—	(3,886 )
Decrease in net unrealized gain on available for sale securities	—	—	—	—	(3,337 )	—	(3,337 )
Increase in fair value of derivative instruments utilized for cash flow hedges	—	—	—	—	783	—	783
Balance, December 31, 2011	139	—	153,710	(79,863 )	11,292	1,029	86,307
Net income	—	—	—	28,279	—	(97 )	28,182
Stock issuance, net	357	—	232,105	—	—	—	232,462
Dividends declared	—	—	(30,809 )	—	—	—	(30,809 )
Decrease in noncontrolling interest related to sale of interest in a mortgage loan held for investment	—	—	—	—	—	(932 )	(932 )
Reclassification adjustment for net gain included in net income	—	—	—	—	(1,074 )	—	(1,074 )
Increase in net unrealized gain on available for sale securities	—	—	—	—	9,310	—	9,310
Decrease in fair value of derivative instruments utilized for cash flow hedges	—	—	—	—	(1,440 )	—	(1,440 )
Balance, December 31, 2012	496	—	355,006	(51,584 )	18,088	—	322,006

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Net income	—	—	—	68,955	—	—	68,955
Common Stock issuance, net	145	—	100,959	—	—	—	101,104
Preferred Stock issuance, net	—	72,397	—	—	—	—	72,397
Dividends declared on common stock	—	—	(51,410 )	(13,803 )	—	—	(65,213 )
Dividends declared on preferred stock	—	—	—	(3,568 )	—	—	(3,568 )
Decrease in net unrealized gain on available for sale securities	—	—	—	—	(18,800 )	—	(18,800 )
Increase in fair value of derivative instruments utilized for cash flow hedges	—	—	—	—	3,785	—	3,785
Balance, December 31, 2013	\$ 641	\$ 72,397	\$ 404,555	\$ —	\$ 3,073	\$ —	\$ 480,666

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

## NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollar amounts in thousands)

	<b>For the Years Ended</b>		
	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities:</b>			
Net income	\$68,955	\$28,182	\$4,873
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization	13,424	10,486	5,684
Realized loss (gain) on investment securities and related hedges, net	10,719	(6,268 )	(5,740 )
Realized gain on distressed residential mortgage loans held in securitization trusts	(1,600 )	(85 )	—
Unrealized (gain) loss on investment securities and related hedges, net	(5,464 )	3,947	9,657
Unrealized gain on loans and debt held in multi-family securitization trusts, net	(31,495 )	(6,662 )	—
Impairment loss on investment securities	225	—	250
Net decrease in loans held for sale	341	935	31
Provision for loan losses	1,262	766	1,693
Income from investments in limited partnership and limited liability companies	(2,297 )	(622 )	(2,167 )
Distributions of income from investments in limited partnership and limited liability companies	1,976	148	1,079
Amortization of stock based compensation, net	897	826	210
Changes in operating assets and liabilities:			
Receivables and other assets	(18,097 )	(20,660 )	(2,923 )
Accrued expenses and other liabilities and accrued expenses, related parties	14,457	18,096	767
Net cash provided by operating activities	53,303	29,089	13,414
<b>Cash Flows from Investing Activities:</b>			
Restricted cash	2,467	(20,783 )	(24,326 )
Proceeds from sales of investment securities	1,254	50,578	167,805
Purchases of investment securities	(72,183 )	(1,033,924)	(291,211)
Return of capital from investments in limited partnership and limited liability companies	3,558	9,042	10,909
Purchases of other assets	(996 )	—	(2,520 )
Funding of first mortgage loan	(6,500 )	—	—
Funding of mezzanine loan, preferred equity investments and investments in limited partnership and limited liability companies	(16,788 )	(3,344 )	(5,322 )
Proceeds from mortgage loans held for investment	21	3,344	5,004
	(11,011 )	7,191	4,961

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Net (payments) receipts on other derivative instruments settled during the period			
Principal repayments received on residential mortgage loans held in securitization trusts	22,292	18,498	19,950
Principal repayments received on distressed residential mortgage loans	15,646	—	—
Principal repayments received on multi-family loans held in securitization trusts	73,831	28,034	—
Principal paydowns on investment securities - available for sale	125,913	47,684	19,459
Purchases of distressed residential mortgage loans	(218,166 )	(61,700 )	—
Purchases of investments held in multi-family securitization trusts	(71,625 )	(111,002 )	—
Net cash used in investing activities	(152,287 )	(1,066,382)	(95,291 )

**Cash Flows from Financing Activities:**

(Payments to) proceeds from financing arrangements, net	(98,009 )	776,460	77,042
Common stock issuance	100,551	232,668	30,382
Preferred stock issuance	72,637	—	—
Costs associated with common stock and preferred stock issued	(584 )	(1,032 )	(686 )
Dividends paid on common stock	(61,302 )	(22,304 )	(8,270 )
Dividends paid on preferred stock	(2,115 )	—	—
Payments made on residential collateralized debt obligations	(22,657 )	(18,874 )	(20,312 )
Payments made on multi-family collateralized debt obligations	(73,813 )	(28,034 )	—
Capital (distributed to) contributed by noncontrolling interest	—	(932 )	932
Proceeds from securitized debt	191,705	114,716	—
Payments made on securitized debt	(7,408 )	(184 )	—
Net cash provided by financing activities	99,005	1,052,484	79,088
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	21	15,191	(2,789 )
<b>Cash and Cash Equivalents - Beginning of Year</b>	31,777	16,586	19,375
<b>Cash and Cash Equivalents - End of Year</b>	\$31,798	\$31,777	\$16,586

**Supplemental Disclosures:**

Cash paid for interest	\$268,552	\$115,656	\$4,669
Cash paid for income taxes	\$794	\$1,207	\$232

**Non-Cash Investment Activities:**

Sale of securities not yet settled	\$—	\$—	\$1,133
Purchase of securities not yet settled	\$191,592	\$245,931	\$228,300
Consolidation of multi-family loans held in securitization trusts	\$3,218,301	\$5,305,933	\$—
Consolidation of multi-family collateralized debt obligations	\$3,146,676	\$5,195,166	\$—
Transfer of investment securities from investment in limited liability company	\$—	\$—	\$5,463

**Non-Cash Financing Activities:**

Dividends declared on common stock to be paid in subsequent period	\$17,295	\$13,384	\$4,878
Dividends declared on preferred stock to be paid in subsequent period	\$1,453	\$—	\$—

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



## **NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2013**

#### **1. Organization**

New York Mortgage Trust, Inc., together with its consolidated subsidiaries (“NYMT,” and the “Company”), is a real estate investment trust, or REIT, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and, to a lesser extent, financial assets. Our objective is to manage a portfolio of investments that will deliver stable distributions to our stockholders over diverse economic conditions. We intend to achieve this objective through a combination of income generated by net interest margin and net realized capital gains from our investment portfolio. Our portfolio includes investments in mortgage-related and financial assets, including multi-family CMBS, direct financing to owners of multi-family properties through mezzanine loans and preferred equity investments, residential mortgage loans, including loans sourced from distressed markets, Agency RMBS consisting of fixed-rate, adjustable-rate and hybrid adjustable-rate RMBS and Agency IOs consisting of interest only and inverse interest-only RMBS that represent the right to the interest component of the cash flow from a pool of mortgage loans.

The Company conducts its business through the parent company, NYMT, and several subsidiaries, including special purpose subsidiaries established for residential loan, distressed residential loan, and CMBS securitization purposes, taxable REIT subsidiaries (“TRSs”) and qualified REIT subsidiaries (“QRSs”). The Company consolidates all of its subsidiaries under generally accepted accounting principles in the United States of America (“GAAP”).

The Company is organized and conducts its operations to qualify as a REIT for U.S. federal income tax purposes. As such, the Company will generally not be subject to federal income taxes on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by the due date of its federal income tax return and complies with various other requirements.

#### **2. Summary of Significant Accounting Policies**

*Definitions* – The following defines certain of the commonly used terms in these financial statements: “RMBS” refers to residential adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only and principal only



mortgage-backed securities; “Agency RMBS” refers to RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by a federally chartered corporation (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. government, such as the Government National Mortgage Association (“Ginnie Mae”); “non-Agency RMBS” refers to RMBS backed by prime jumbo mortgage loans; “IOs” refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans issued or guaranteed by a GSE or an agency of the U.S. government; “POs” refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; “Agency IOs” refers to an IO that represents the right to the interest component of the cash flows from a pool of residential mortgage loans issued or guaranteed by a GSE or an agency of the U.S. government; “ARMs” refers to adjustable-rate residential mortgage loans; “Agency ARMs” refers to Agency RMBS comprised of adjustable-rate and hybrid adjustable-rate RMBS; “multi-family CMBS” refers to commercial mortgage-backed securities backed by commercial mortgage loans on multi-family properties, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans; and “CLO” refers to collateralized loan obligations.

*Basis of Presentation* – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company’s estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could be different than anticipated in those estimates, which could materially impact the Company’s results of operations and its financial condition. Management has made significant estimates in several areas, including valuation of its CMBS investments, multi-family loans held in securitization trusts and multi-family CDOs, as well as, income recognition on distressed residential mortgage loans purchased at a discount.

*Reclassifications* – Certain prior period amounts have been reclassified in the consolidated financial statements to conform to current period presentation.

*Principles of Consolidation and Variable Interest Entities* – The accompanying consolidated financial statements of the Company include the accounts of all its subsidiaries which are majority-owned, controlled by the Company or a variable interest entity (“VIE”) where the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company consolidates a VIE when it is the primary beneficiary of such VIE. As primary beneficiary, it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

*Investment Securities Available for Sale* – The Company's investment securities, where the fair value option has not been elected and which are reported at fair value with unrealized gains and losses reported in Other Comprehensive Income (“OCI”), include Agency RMBS, non-Agency RMBS and CLOs. Our investment securities are classified as available for sale securities. Realized gains and losses recorded on the sale of investment securities available for sale are based on the specific identification method and included in realized gain (loss) on investment securities and related hedges in the accompanying consolidated statements of operations. Purchase premiums or discounts on investment securities are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method. Adjustments to amortization are made for actual prepayment activity.

The Company accounts for debt securities that are of high credit quality (generally those rated AA or better by a Nationally Recognized Statistical Rating Organization, or NRSRO), at date of acquisition in accordance with Accounting Standards Codification (“ASC”) 320-10. The Company accounts for debt securities that are not of high credit quality (i.e., those whose risk of loss is less than remote) or securities that can be contractually prepaid such that we would not recover our initial investment at the date of acquisition in accordance with ASC 325-40. The Company considers credit ratings, the underlying credit risk and other market factors in determining whether the debt securities are of high credit quality; however, securities rated lower than AA or an equivalent rating are not considered of high credit quality and are accounted for in accordance with ASC 325-40. If ratings are inconsistent among NRSROs, the Company uses the lower rating in determining whether the securities are of high credit quality.

The Company assesses its impaired securities on at least a quarterly basis and designates such impairments as either “temporary” or “other-than-temporary” by applying the guidance prescribed in ASC Topic 320-10. When the fair value of an investment security is less than its amortized cost as of the reporting balance sheet date, the security is considered impaired. If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then it must recognize an other-than-temporary impairment through earnings equal to the entire difference between the investment’s amortized cost and its fair value as of the balance sheet date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the other-than-temporary impairment related to credit losses is recognized through earnings with the remainder recognized as a component of other comprehensive income (loss) on the accompanying consolidated balance sheets. Impairments recognized through other comprehensive income (loss) do not impact earnings. Following the recognition of an other-than-temporary impairment through earnings, a new cost basis is established for the security, which may not be adjusted for subsequent recoveries in fair value through earnings. However, other-than-temporary impairments recognized through earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an

other-than-temporary impairment exists and, if so, the amount considered other-than-temporarily impaired is subjective, as such determinations are based on both factual and subjective information available at the time of assessment. As a result, the timing and amount of other-than-temporary impairments constitute material estimates that are susceptible to significant change.

The Company's investment securities classified as available for sale also include its investment in a wholly owned account referred to as the Agency IO portfolio. These investments primarily include Agency IOs. The Company has elected the fair value option for these investment securities, which measures unrealized gains and losses through earnings in the accompanying consolidated statements of operations, as the Company believes this accounting treatment more accurately and consistently reflects its results of operations. The Agency IO portfolio also includes derivative investments not designated as hedging instruments for accounting purposes, with unrealized gains and losses recognized through earnings in the accompanying consolidated statements of operations.

*Investment Securities Available for Sale Held in Securitization Trusts* – The Company's investment securities available for sale held in securitization trusts are comprised of multi-family CMBS consisting of PO securities that represent the first loss tranche of the securitizations from which they were issued, or "first loss tranche", a first loss tranche floating rate security and certain IOs issued from four Freddie Mac-sponsored multi-family K-Series securitizations. These securities are reported at fair value with unrealized gains and losses reported in OCI. Realized gains and losses recorded on the sale of investment securities available for sale held in securitization trusts are based on the specific identification method and included in realized gain (loss) on sale of securities and related hedges in the accompanying consolidated statements of operations. Purchase premiums or discounts are amortized or accreted to interest income over the estimated life of the investment securities using the effective yield method.

*Residential Mortgage Loans Held in Securitization Trusts* – Residential mortgage loans held in securitization trusts are comprised of certain ARM loans transferred to Consolidated VIEs that have been securitized into sequentially rated classes of beneficial interests. The Company accounted for these securitization trusts as financings which are consolidated into the Company's financial statements. Residential mortgage loans held in securitization trusts are carried at their unpaid principal balances, net of unamortized premium or discount, unamortized loan origination costs and allowance for loan losses. Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management's opinion, the interest is not collectible in the normal course of business, but in no case when payment becomes greater than 90 days delinquent. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

We establish an allowance for loan losses based on management's judgment and estimate of credit losses inherent in our portfolio of residential mortgage loans held in securitization trusts. Estimation involves the consideration of various credit-related factors, including but not limited to, macro-economic conditions, current housing market conditions, loan-to-value ratios, delinquency status, historical credit loss severity rates, purchased mortgage insurance, the borrower's current economic condition and other factors deemed to warrant consideration. Additionally, we look at the balance of any delinquent loan and compare that to the current value of the collateralizing property. We utilize various home valuation methodologies including appraisals, broker pricing opinions, internet-based property data services to review comparable properties in the same area or consult with a realtor in the property's area.

*Acquired Distressed Residential Mortgage Loans* – Distressed residential mortgage loans held in securitization trusts are comprised of pools of fixed and adjustable rate residential mortgage loans acquired by the Company at a discount (that is due, in part, to credit quality of the borrower). Distressed residential mortgage loans held in securitization trusts are distressed residential mortgage loans transferred to Consolidated VIEs that have been securitized into beneficial interests. The Company accounted for these securitization trusts as financings which are consolidated into the Company's financial statements.

The Company considers the purchase price for the acquired distressed residential mortgage loans to be at fair value at the date of acquisition. These acquired distressed residential mortgage loans were initially recorded at fair value with no allowance for loan losses.

Acquired distressed residential mortgage loans that have evidence of deteriorated credit quality at acquisition are accounted for under ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"). Under ASC 310-30, the acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Once a pool is assembled, it is treated as if it was one loan for purposes of applying the accounting guidance. The Company applied pool accounting on distressed residential mortgage loans acquired in 2013; distressed residential mortgage loans acquired prior to 2013 are accounted for individually (i.e., not in pools).

Under ASC 310-30, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the “accretable yield,” is accreted into interest income over the life of the loans in each pool or individually using a level yield methodology. Accordingly, our acquired distressed residential mortgage loans accounted for under ASC 310-30 are not subject to classification as nonaccrual classification in the same manner as our residential mortgage loans that were not distressed when acquired by us. Rather, interest income on acquired distressed residential mortgage loans relates to the accretable yield recognized at the pool level or on an individual loan basis, and not to contractual interest payments received at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the “nonaccretable difference,” includes estimates of both the impact of prepayments and expected credit losses over the life of the individual loan, or the pool (for loans grouped into a pool).

The Company monitors actual cash collections against its expectations, and revised cash flow expectations are prepared as necessary. A decrease in expected cash flows in subsequent periods may indicate that the loan pool or individual loan, as applicable, is impaired thus requiring the establishment of an allowance for loan losses by a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield for the loan pool. The adjustment of accretable yield due to a significant increase in expected cash flows is accounted for prospectively as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool or individual loan, as applicable.

An acquired distressed residential mortgage loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, or foreclosure of the collateral. For acquired distressed residential mortgage loans held in pools, in the event of a sale of the loan, a gain or loss on sale is recognized and reported based on the difference between the sales proceeds and the carrying amount of the acquired distressed residential mortgage loan. In the case of a foreclosure, an individual loan is removed from the pool at the fair value of the underlying collateral less costs to sell. For loans satisfied by payment in full, the loan is removed from the pool. The Company uses the specific allocation method for the removal of loans as the estimated cash flows and related carrying amount for each individual loan are known. In these cases, the remaining accretable yield is unaffected and any material change in remaining effective yield caused by the removal of the loan from the pool is addressed by the re-assessment of the estimate of cash flows for the pool prospectively. Acquired distressed residential mortgage loans subject to modification are not removed from the pool even if those loans would otherwise be considered troubled debt restructurings because the pool, and not the individual loan, represents the unit of account.

For individual loans not accounted for in pools that are sold or satisfied by payment in full, a gain or loss on sale is recognized and reported based on the difference between the sales proceeds and the carrying amount of the acquired distressed residential mortgage loan. In the case of a foreclosure, the loss is recognized if the carrying value exceeds the fair value of the collateral (less costs to sell). A gain is not recognized if the fair value of collateral (less costs to sell) exceeds the carrying value.

*Multi-Family Loans Held in Securitization Trusts* – Multi-family loans held in securitization trusts are comprised of multi-family mortgage loans held in six Freddie Mac-sponsored multi-family K-Series securitizations (the “Consolidated K-Series”) as of December 31, 2013 and four Freddie Mac-sponsored multi-family K-Series securitizations as of December 31, 2012. Based on a number of factors, we determined that we were the primary beneficiary of each VIE within the Consolidated K-Series, met the criteria for consolidation and, accordingly, have consolidated these Freddie Mac-sponsored multi-family K-Series securitizations, including their assets, liabilities, income and expenses in our financial statements. The Company has elected the fair value option on each of the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series be reflected in the Company's accompanying consolidated statement of operations, as the Company believes this accounting treatment more accurately and consistently reflects its results of operations.

Interest income is accrued and recognized as revenue when earned according to the terms of the mortgage loans and when, in the opinion of management, it is collectible. The accrual of interest on loans is discontinued when, in management's opinion, the interest is not collectible in the normal course of business, but in no case when payment becomes greater than 90 days delinquent. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.

*Mezzanine Loan and Preferred Equity Investments* - The Company invests in mezzanine loans and preferred equity of entities that have significant real estate assets. The mezzanine loan is secured by a pledge of the borrower's equity ownership in the property. Unlike a mortgage, this loan does not represent a lien on the property. Therefore, it is always junior and subordinate to any first-lien as well as second liens, if applicable, on the property. These loans are senior to any preferred equity or common equity interests. Purchasers of mezzanine loans benefit from a right to foreclose on the ownership equity in a more efficient manner than senior mortgage debt.

A preferred equity investment is an equity investment in the entity that owns the underlying property. Preferred equity is not secured by the underlying property, but holders have priority relative to common equity holders on cash flow distributions and proceeds from capital events. In addition, preferred equity holders may be able to enhance their position and protect their equity position with covenants that limit the entity's activities and grant the holder the exclusive right to control the property after an event of default.

Mezzanine loans and preferred equity investments, where the risks and payment characteristics are equivalent to mezzanine loans, are accounted for as loans held for investment and are stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, net of valuation allowances, and are included in receivables and other assets. We accrete or amortize any discounts or premiums over the life of the related loan receivable utilizing the effective interest method or straight line-method, if the result is not materially different. We evaluate the collectibility of both interest and principal of each of our loans, if circumstances warrant, to determine whether they are impaired. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated by comparing the carrying amount of the investment to the estimated fair value of the loan or, as a practical expedient, to the value of the collateral if the loan is collateral dependent.

Mezzanine loans and preferred equity investments where the risks and payment characteristics are equivalent to an equity investment are accounted for using the equity method of accounting. See “*Investment in Limited Partnership and Limited Liability Companies*” for a description of our accounting policy for Investments in Limited Partnerships and Limited Liability Companies. The preferred equity investments are included in receivables and other assets.

*Mortgage Loans Held for Investment* – Mortgage loans held for investment are stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, net of valuation allowances, and are included in receivables and other assets. Interest income is accrued on the principal amount of the loan based on the loan’s contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in interest income. A loan is considered to be impaired when it is probable that based upon current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Based on the facts and circumstances of the individual loans being impaired, loan specific valuation allowances are established for the excess carrying value of the loan over either: (i) the present value of expected future cash flows discounted at the loan’s original effective interest rate, (ii) the estimated fair value of the loan’s underlying collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or (iii) the loan’s observable market price.

*Investments in Limited Partnership and Limited Liability Companies* – In circumstances where the Company has a non-controlling interest but either owns a significant interest or is able to exert influence over the affairs of the enterprise, the Company utilizes the equity method of accounting. Under the equity method of accounting, the initial investment is increased each period for additional capital contributions and a proportionate share of the entity's earnings or preferred return and decreased for cash distributions and a proportionate share of the entity's losses. Where the Company is not required to fund additional losses, the Company does not continue to record its proportionate share of the entity's losses such that its investment balance would go below zero.

Management periodically reviews its investments for impairment based on projected cash flows from the entity over the holding period. When any impairment is identified, the investments are written down to recoverable amounts.

*Cash and Cash Equivalents* – Cash and cash equivalents include cash on hand, amounts due from banks and overnight deposits, all of which have original maturities of 90 days or less. The Company maintains its cash and cash equivalents in highly rated financial institutions, and at times these balances exceed insurable amounts.

*Receivables and Other Assets* – Receivables and other assets as of December 31, 2013 and 2012 include restricted cash held by third parties of \$44.1 million and \$46.5 million, respectively. Included in restricted cash is \$30.4 million and \$25.8 million held in our Agency IO portfolio to be used for trading purposes and \$10.2 million and \$19.8 million held by counterparties as collateral for hedging instruments as of December 31, 2013 and 2012, respectively. Interest receivable on multi-family loans held in securitization trusts is also included in receivables and other assets in the amounts of \$30.2 million and \$18.3 million as of December 31, 2013 and 2012, respectively.

*Financing Arrangements, Portfolio Investments* – The Company finances the majority of its Agency RMBS purchases using repurchase agreements. Under a repurchase agreement, an asset is sold to a counterparty to be repurchased at a future date at a predetermined price, which represents the original sales price plus interest. The Company accounts for these repurchase agreements as financings under ASC 860, *Transfers and Servicing*. Under ASC 860, for these transactions to be treated as financings, they must be separate transactions and not linked. If the Company finances the purchase of its securities with repurchase agreements with the same counterparty from which the securities are purchased and both transactions are entered into contemporaneously or in contemplation of each other, the transactions are presumed under GAAP to be part of the same arrangement, or a "Linked Transaction," unless certain criteria are met. None of the Company's repurchase agreements are accounted for as linked transactions because they met the applicable criteria in accordance with ASC 860-10-40.

*Residential Collateralized Debt Obligations ("Residential CDOs")* – We use Residential CDOs to permanently finance our residential mortgage loans held in securitization trusts. For financial reporting purposes, the ARM loans held as collateral are recorded as assets of the Company and the Residential CDOs are recorded as the Company's debt. The Company has completed four securitizations since inception. The first three were accounted for as a permanent financing while the fourth was accounted for as a sale and accordingly, is not included in the Company's



accompanying consolidated financial statements

*Multi-Family Collateralized Debt Obligations (“Multi-Family CDOs”)* – We consolidated the Consolidated K-Series including their debt, referred to as Multi-Family CDOs, in our financial statements. The Multi-Family CDOs permanently finance the multi-family mortgage loans held in the Consolidated K-Series securitizations. For financial reporting purposes, the loans held as collateral are recorded as assets of the Company and the Multi-Family CDOs are recorded as the Company’s debt. We refer to both the Residential CDOs and Multi-Family CDOs as CDOs in this report.

*Securitized Debt* – Securitized Debt represents third-party liabilities of Consolidated VIEs and excludes liabilities of the VIEs acquired by the Company that are eliminated on consolidation. The Company has entered into several financing transactions that resulted in the Company consolidating as VIEs the special purpose entities (the “SPEs”) that were created to facilitate the transactions and to which underlying assets in connection with the financing were transferred. The Company engaged in these transactions primarily to obtain permanent or longer term financing on a portion of its multi-family CMBS and acquired distressed residential mortgage loans.

Costs related to issuance of securitized debt which include underwriting, rating agency, legal, accounting and other fees are reflected as deferred charges. Such costs are included on the Company’s accompanying consolidated balance sheets in receivables and other assets in the amount of \$4.1 million and \$2.6 million as of December 31, 2013 and December 31, 2012, respectively. These deferred charges are amortized as an adjustment to interest expense using the effective interest method, or straight line-method, if the result is not materially different.

*Derivative Financial Instruments* – The Company has developed risk management programs and processes, which include investments in derivative financial instruments designed to manage interest rate and prepayment risk associated with its securities investment activities.

Derivative instruments contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Company minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks and investment banks who meet established credit and capital guidelines.

The Company invests in To-Be-Announced securities (“TBAs”) through its Agency IO portfolio. TBAs are forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are “To-Be-Announced.” Pursuant to these TBA transactions, we agree to purchase or sell, for future settlement, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. For TBA contracts that we have entered into, we have not asserted that physical settlement is probable, therefore we have not designated these forward commitments as hedging instruments. Realized and unrealized gains and losses associated with these TBAs are recognized through earnings as part of the other income (expense) category in the consolidated statements of operations.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instruments in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change.

For instruments that are not designated or qualify as a cash flow hedge, such as our use of U.S. Treasury securities or financial futures and options on financial futures contracts, any realized and unrealized gains and losses associated with these instruments are recognized through earnings as other income (expense) in the consolidated statements of operations.

*Termination of Hedging Relationships* – The Company employs risk management monitoring procedures to ensure that the designated hedging relationships are demonstrating, and are expected to continue to demonstrate, a high level of effectiveness. Hedge accounting is discontinued on a prospective basis if it is determined that the hedging relationship is no longer highly effective or expected to be highly effective in offsetting changes in fair value of the hedged item.

Additionally, the Company may elect to un-designate a hedge relationship during an interim period and re-designate upon the rebalancing of a hedge profile and the corresponding hedge relationship. When hedge accounting is

discontinued, the Company continues to carry the derivative instruments at fair value with changes recorded in earnings.

*Revenue Recognition* – Interest income on our investment securities and on our residential mortgage loans held in securitization trusts is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with investment securities and mortgage loans at the time of purchase or origination are amortized into interest income over the life of such securities using the effective yield method. Adjustments to amortization are made for actual prepayment activity.

Interest income on our credit sensitive securities, such as our CLOs and certain of our CMBS that were purchased at a discount to par value, is recognized based on the security's effective interest rate. The effective interest rate on these securities is based on management's estimate from each security of the projected cash flows, which are estimated based on the Company's assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on these securities.

Based on the projected cash flows from the Company's first loss tranche PO multi-family CMBS purchased at a discount to par value, a portion of the purchase discount is designated as non-accretable purchase discount or credit reserve, which partially mitigates the Company's risk of loss on the mortgages collateralizing such multi-family CMBS, and is not expected to be accreted into interest income. The amount designated as a credit reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a credit reserve is more favorable than forecasted, a portion of the amount designated as credit reserve may be accreted into interest income over time. Conversely, if the performance of a security with a credit reserve is less favorable than forecasted, the amount designated as credit reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could result.

With respect to interest rate swaps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps will be recognized in earnings.

See “*Acquired Distressed Residential Mortgage Loans*” for a description of our revenue recognition policy for acquired distressed residential mortgage loans.

*Other Comprehensive Income (Loss)* – The Company’s comprehensive income/(loss) available to common stockholders includes net income, the change in net unrealized gains/(losses) on its available for sale securities and its derivative hedging instruments, currently comprised of interest rate swaps, (to the extent that such changes are not recorded in earnings), adjusted by realized net gains/(losses) reclassified out of accumulated other comprehensive income/(loss) for available for sale securities and is reduced by dividends declared on the Company’s preferred stock.

*Employee Benefits Plans* – The Company sponsors a defined contribution plan (the “Plan”) for all eligible domestic employees. The Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). The Company made no contributions to the Plan for the years ended December 31, 2013 and 2012.

*Stock Based Compensation* – Compensation expense for equity based awards and stock issued for services are recognized over the vesting period of such awards and services based upon the fair value of the stock at the grant date.

*Income Taxes* – The Company operates in such a manner so as to qualify as a REIT under the requirements of the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of the Company’s stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders, of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. Distribution of the remaining balance may extend until timely filing of the Company’s tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

Certain activities of the Company are conducted through TRSs and therefore are subject to federal and various state and local income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the

enactment date.

ASC 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. In situations involving uncertain tax positions related to income tax matters, we do not recognize benefits unless it is more likely than not that they will be sustained. ASC 740 was applied to all open taxable years as of the effective date. Management's determinations regarding ASC 740 may be subject to review and adjustment at a later date based on factors including, but not limited to, an ongoing analysis of tax laws, regulations and interpretations thereof. The Company will recognize interest and penalties, if any, related to uncertain tax positions as income tax expense.

*Earnings Per Share* – Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

*Segment Reporting* – ASC 280, *Segment Reporting*, is the authoritative guidance for the way public entities report information about operating segments in their annual financial statements. We are a REIT focused on the business of acquiring, investing in, financing and managing primarily mortgage-related assets, and to a lesser extent, financial assets, and currently operate in only one reportable segment.

*Summary of Recent Accounting Pronouncements*

*Balance Sheet (ASC 210)*

In January 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (ASC 210), Balance Sheet*. The update addresses implementation issues about ASU 2011-11 and applies to derivatives accounted for in accordance with ASC 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC 210 or ASC 815 or subject to an enforceable master netting arrangement or similar agreement. The guidance was effective January 1, 2013 and was applied retrospectively. The adoption of ASU 2013-01 had an effect on our disclosures but did not have an effect on our accompanying consolidated financial statements.

*Comprehensive Income (ASC 220)*

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU No. 2013-02 requires registrants to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income (“AOCI”) by component. In addition, an entity is required to present significant amounts reclassified out of AOCI by the respective line items of net income. ASU No. 2013-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The impact of these amendments are reflected beginning with the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2013. As the new standard does not change the current requirements for reporting net income or other comprehensive income in the accompanying consolidated financial statements, our consolidated financial position and results of operations were not impacted.

*Derivatives and Hedging (ASC 815)*

In July 2013, the FASB issued ASU 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes* (a consensus of the FASB Emerging Issues Task Force) (“ASU 2013-10”). The amendments of this ASU apply to all entities that elect to apply hedge accounting of the benchmark interest rate under Derivatives and Hedging (FASB Accounting Standards Codification Topic 815). ASU 2013-10 permits the Federal Funds Effective Rate (also referred to as the Overnight Index Swap Rate, or OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes in addition to the interest rates on direct Treasury obligations of the U.S. government and London Interbank Offered Rate (“LIBOR”). ASU 2013-10 was effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company's adoption of ASU 2013-10 did not have a material impact on the Company's consolidated financial

statements.

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### 3. Investment Securities Available For Sale

Investment securities available for sale consist of the following as of December 31, 2013 and December 31, 2012 (dollar amounts in thousands):

	December 31, 2013				December 31, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Agency RMBS:								
Agency ARMs								
Freddie Mac	\$67,121	\$37	\$(2,101 )	\$65,057	\$80,106	\$341	\$(83 )	\$80,364
Fannie Mae	130,487	58	(3,128 )	127,417	169,020	659	(118 )	169,561
Ginnie Mae	17,049	—	(201 )	16,848	24,127	—	(129 )	23,998
Total Agency ARMs	214,657	95	(5,430 )	209,322	273,253	1,000	(330 )	273,923
Agency Fixed Rate								
Freddie Mac	43,920	—	(1,714 )	42,206	49,899	24	(162 )	49,761
Fannie Mae	518,598	—	(24,861 )	493,737	578,300	1,166	(1,283 )	578,183
Total Agency Fixed Rate	562,518	—	(26,575 )	535,943	628,199	1,190	(1,445 )	627,944
Agency IOs <sup>(1)</sup>								
Freddie Mac	43,468	252	(5,187 )	38,533	38,025	92	(3,217 )	34,900
Fannie Mae	60,813	1,300	(5,007 )	57,106	40,858	656	(5,266 )	36,248
Ginnie Mae	37,660	706	(2,396 )	35,970	30,530	738	(3,044 )	28,224
Total Agency IOs	141,941	2,258	(12,590 )	131,609	109,413	1,486	(11,527 )	99,372
Total Agency RMBS	919,116	2,353	(44,595 )	876,874	1,010,865	3,676	(13,302 )	1,001,239
Non-Agency RMBS	2,413	136	(188 )	2,361	3,291	—	(604 )	2,687
CLOs	18,478	14,730	—	33,208	13,495	17,290	—	30,785
Total investment securities available for sale	\$940,007	\$17,219	\$(44,783 )	\$912,443	\$1,027,651	\$20,966	\$(13,906 )	\$1,034,711
CMBS	\$74,314	\$18,264	\$—	\$92,578	\$68,426	\$3,006	\$(273 )	\$71,159
Total investment securities available for sale held in securitization trusts	\$74,314	\$18,264	\$—	\$92,578	\$68,426	\$3,006	\$(273 )	\$71,159

<sup>(1)</sup> Included in investment securities available for sale as of December 31, 2013 and 2012 are Agency IOs. Agency IOs are measured at fair value through earnings.



During the year ended December 31, 2013, the Company received total proceeds of approximately \$1.3 million, realizing approximately \$0.1 million of net gains from the sale of investment securities available for sale. During the year ended December 31, 2012, the Company received total proceeds of approximately \$50.6 million, realizing approximately \$0.5 million of net gains from the sale of investment securities available for sale. During the year ended December 31, 2011, the Company received total proceeds of approximately \$20.8 million, realizing approximately \$5.0 million of net gains from the sale of investment securities available for sale.

Actual maturities of our available for sale securities are generally shorter than stated contractual maturities (which range up to 30 years), as they are affected by the contractual lives of the underlying mortgages, periodic payments and prepayments of principal. As of December 31, 2013 and 2012, based on management's estimates, the weighted average life of the Company's available for sale securities portfolio was approximately 7.03 years and 4.83 years, respectively.

The following tables set forth the stated reset periods of our investment securities available for sale and investment securities available for sale held in securitization trusts at December 31, 2013 and December 31, 2012 at carrying value (dollar amounts in thousands):

	December 31, 2013				December 31, 2012			
	Less than 6 months	6 to 24 months	More than 24 months	Total	Less than 6 months	6 to 24 months	More than 24 months	Total
Agency RMBS	\$97,385	\$14,823	\$764,666	\$876,874	\$91,633	\$15,559	\$894,047	\$1,001,239
Non-Agency RMBS	2,361	—	—	2,361	2,687	—	—	2,687
CLOs	33,208	—	—	33,208	30,785	—	—	30,785
Total investment securities available for sale	\$132,954	\$14,823	\$764,666	\$912,443	\$125,105	\$15,559	\$894,047	\$1,034,711
CMBS	\$28,232	\$—	\$64,346	\$92,578	\$22,215	\$—	\$48,944	\$71,159
Total investment securities available for sale held in securitization trusts	\$28,232	\$—	\$64,346	\$92,578	\$22,215	\$—	\$48,944	\$71,159

The following tables present the Company's investment securities available for sale and investment securities available for sale held in securitization trusts in an unrealized loss position reported through OCI, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013 (dollar amounts in thousands):

December 31, 2013	Less than 12 Months		Greater than 12 months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Agency RMBS	\$332,519	\$(11,423)	\$398,325	\$(20,582)	\$730,844	\$(32,005)
Non-Agency RMBS	—	—	1,104	(188)	1,104	(188)
Total investment securities available for sale	\$332,519	\$(11,423)	\$399,429	\$(20,770)	\$731,948	\$(32,193)
CMBS	\$—	\$—	\$—	\$—	\$—	\$—
Total investment securities available for sale held in securitization trusts	\$—	\$—	\$—	\$—	\$—	\$—

The following tables present the Company's investment securities available for sale and investment securities available for sale held in securitization trusts in an unrealized loss position reported through OCI, aggregated by

investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2012 (dollar amounts in thousands):

December 31, 2012	Less than 12 Months		Greater than 12 months		Total	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Agency RMBS	\$513,731	\$ (1,749 )	\$6,158	\$ (26 )	\$519,889	\$ (1,775 )
Non-Agency RMBS	—	—	2,687	(604 )	2,687	(604 )
Total investment securities available for sale	\$513,731	\$ (1,749 )	\$8,845	\$ (630 )	\$522,576	\$ (2,379 )
CMBS	\$16,357	\$ (273 )	\$—	\$ —	\$16,357	\$ (273 )
Total investment securities available for sale held in securitization trusts	\$16,357	\$ (273 )	\$—	\$ —	\$16,357	\$ (273 )

For the year ended December 31, 2013 and December 31, 2011, the Company recognized \$0.2 million and \$0.3 million in other-than-temporary impairment through earnings, respectively. For the year ended December 31, 2012, the Company did not have unrealized losses in investment securities that were deemed other-than-temporary.

#### 4. Residential Mortgage Loans Held in Securitization Trusts (Net) and Real Estate Owned

Residential mortgage loans held in securitization trusts (net) consist of the following at December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Unpaid principal balance	\$ 165,173	189,009
Deferred origination costs – net	1,053	1,198
Reserve for loan losses	(2,989 )	(2,978 )
Total	\$ 163,237	187,229

*Allowance for Loan Losses* - The following table presents the activity in the Company's allowance for loan losses on residential mortgage loans held in securitization trusts for the years ended December 31, 2013, 2012 and 2011, respectively (dollar amounts in thousands):

	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance at beginning of period	\$2,978	\$3,331	\$2,589
Provisions for loan losses	701	675	1,380
Transfer to real estate owned	(407 )	(899 )	(192 )
Charge-offs	(283 )	(129 )	(446 )
Balance at the end of period	\$2,989	\$2,978	\$3,331

On an ongoing basis, the Company evaluates the adequacy of its allowance for loan losses. The Company's allowance for loan losses at December 31, 2013 was \$3.0 million, representing 181 basis points of the outstanding principal balance of residential loans held in securitization trusts as of December 31, 2013, as compared to 158 basis points as of December 31, 2012. As part of the Company's allowance for loan adequacy analysis, management will assess an overall level of allowances while also assessing credit losses inherent in each non-performing residential mortgage

loan held in securitization trusts. These estimates involve the consideration of various credit related factors, including but not limited to, current housing market conditions, current loan to value ratios, delinquency status, the borrower's current economic and credit status and other relevant factors.

*Real Estate Owned* – The following table presents the activity in the Company's real estate owned held in residential securitization trusts for the years ended December 31, 2013, 2012 and 2011, respectively (dollar amounts in thousands):

	<b>December 31,</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance at beginning of period	\$ 732	\$ 454	\$ 740
Write downs	(433 )	(124 )	(87 )
Transfer from mortgage loans held in securitization trusts	1,184	1,569	698
Disposal	(375 )	(1,167 )	(897 )
Balance at the end of period	\$ 1,108	\$ 732	\$ 454

Real estate owned held in residential securitization trusts are included in receivables and other assets on the balance sheet and write downs are included in provision for loan losses in the statement of operations for reporting purposes.

All of the Company's mortgage loans and real estate owned held in residential securitization trusts are pledged as collateral for the Residential CDOs issued by the Company. As of December 31, 2013 and 2012, the Company's net investment in the residential securitization trusts, which is the maximum amount of the Company's investment that is at risk to loss and represents the difference between the carrying amount of the mortgage loans and real estate owned held in residential securitization trusts and the amount of Residential CDOs outstanding, was \$6.6 million and \$7.0 million, respectively.

**Delinquency Status of Our Residential Mortgage Loans Held in Securitization Trusts**

As of December 31, 2013, we had 34 delinquent loans with an aggregate principal amount outstanding of approximately \$18.9 million categorized as Residential Mortgage Loans Held in Securitization Trusts (net). Of the \$18.9 million in delinquent loans, \$9.1 million, or 48%, are under some form of modified payment plan. The table below shows delinquencies in our portfolio of residential mortgage loans held in securitization trusts, including real estate owned through foreclosure (REO), as of December 31, 2013 (dollar amounts in thousands):

**December 31, 2013**

Days Late	Number of Delinquent	Total	% of Loan	
	Loans	Unpaid Principal	Portfolio	
30 - 60	3	601	0.36	%
61 - 90	1	239	0.14	%
90 +	30	18,036	10.76	%
Real estate owned through foreclosure	5	2,381	1.42	%

As of December 31, 2012, we had 35 delinquent loans with an aggregate principal amount outstanding of approximately \$19.5 million categorized as Residential Mortgage Loans Held in Securitization Trusts (net). Of the \$19.5 million in delinquent loans, \$15.2 million, or 78%, were under some form of modified payment plan. The table below shows delinquencies in our portfolio of residential mortgage loans held in securitization trusts, including REO through foreclosure, as of December 31, 2012 (dollar amounts in thousands):

**December 31, 2012**

Days Late	Number of Delinquent	Total	% of Loan	
	Loans	Unpaid Principal	Portfolio	
30 - 60	3	\$ 751	0.39	%
61 - 90	—	\$ —	—	%
90 +	32	\$ 18,762	9.85	%
Real estate owned through foreclosure	4	\$ 1,421	0.75	%

The geographic concentrations of credit risk exceeding 5% of the total loan balances in our residential mortgage loans held in securitization trusts and real estate owned held in residential securitization trusts at December 31, 2013 and 2012 are as follows:

	<b>December 31, 2013</b>		<b>December 31, 2012</b>	
New York	35.9	%	37.8	%
Massachusetts	24.6	%	25.2	%
New Jersey	10.4	%	9.5	%
Florida	5.8	%	5.1	%
Connecticut	5.6	%	5.0	%

## **5. Distressed Residential Mortgage Loans**

As of December 31, 2013 and December 31, 2012, the carrying value of the Company's acquired distressed residential mortgage loans, including distressed residential mortgage loans held in securitization trusts amounts to approximately \$254.7 million and \$60.5 million, respectively. Distressed residential mortgage loans with a carrying value amounting to approximately \$9.7 million are included in receivables and other assets in the accompanying consolidated balance sheets at December 31, 2013.

The Company considers its purchase price for the acquired distressed residential mortgage loans, including distressed residential mortgage loans held in securitization trusts, to be at fair value at the date of acquisition. The Company only establishes an allowance for loan losses subsequent to acquisition.

The following table presents information regarding the estimates of the contractually required payments, the cash flows expected to be collected, and the estimated fair value of the distressed residential mortgage loans acquired during the years ended December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

	<b>December 31, 2013</b>	<b>December 31 2012</b>
Contractually required principal and interest	\$368,571	\$174,746
Non-accretable yield	(47,453 )	(21,614 )
Expected cash flows to be collected	321,118	153,132
Accretable yield	(102,952)	(91,737 )
Fair value at the date of acquisition	\$218,166	\$61,395

The following table details activity in accretable yield for the distressed residential mortgage loans, including distressed residential mortgage loans held in securitization trusts, for the years ended December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Balance at beginning of period	\$91,252	\$ —
Additions	102,952	91,737
Disposals	(11,223 )	(53 )
Accretion	(11,741 )	(432 )
Allowance for loan losses	(128 )	—
Balance at end of period <sup>(1)</sup>	\$171,112	\$91,252

Accretable yield is the excess of the distressed residential mortgage loans' cash flows expected to be collected over (1) the purchase price. The cash flows expected to be collected represents the Company's estimate, of the amount and timing of undiscounted principal and interest cash flows.

The geographic concentrations of credit risk exceeding 5% of the unpaid principal balance in our distressed residential mortgage loans, including distressed residential mortgage loans held in securitization trusts, as of December 31, 2013 and December 31, 2012, respectively, are as follows:

<b>December 31,</b>	<b>December 31,</b>
-------------------------	-------------------------



	<b>2013</b>		<b>2012</b>	
California	14.4	%	24.1	%
Florida	8.3	%	6.5	%
New York	8.1	%	3.9	%
Texas	6.6	%	7.0	%
Maryland	3.1	%	5.5	%

The Company's distressed residential mortgage loans held in securitization trusts are pledged as collateral for certain of the Securitized Debt issued by the Company (*see Note 7*).

## **6. Consolidated K-Series**

The Company has elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series be reflected in the Company's statements of operations. Our investment in the Consolidated K-Series is limited to the multi-family CMBS comprised of first loss tranche PO securities and/or certain IOs issued by certain K-Series securitizations with an aggregate net carrying value of \$240.0 million and \$123.3 million at December 31, 2013 and 2012, respectively (*see Note 7*).

During the year ended December 31, 2013, the Company consolidated two additional Freddie Mac K-Series securitizations. The condensed consolidated balance sheets of the Consolidated K-Series at December 31, 2013 and December 31, 2012, respectively, are as follows (dollar amounts in thousands):

<b>Balance Sheets</b>	<b>December</b>	<b>December</b>
	<b>31,</b>	<b>31,</b>
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Multi-family loans held in securitization trusts	\$8,111,022	\$5,442,906
Receivables	30,222	18,342
Total Assets	\$8,141,244	\$5,461,248
<b>Liabilities and Equity</b>		
Multi-family CDOs	\$7,871,020	\$5,319,573
Accrued expenses	29,766	18,022
Total Liabilities	7,900,786	5,337,595
Equity	240,458	123,653
Total Liabilities and Equity	\$8,141,244	\$5,461,248

The multi-family loans held in securitization trusts had unpaid principal balance of approximately \$8.0 billion and \$4.9 billion at December 31, 2013 and December 31, 2012, respectively. The multi-family CDOs had unpaid principal balance of approximately \$8.0 billion and \$4.9 billion at December 31, 2013 and December 31, 2012, respectively. As of December 31, 2013 and 2012, respectively, the current weighted average interest rate on these Multi-Family CDOs was 4.16% and 4.59%.

The condensed consolidated statements of operations of the Consolidated K-Series for the years ended December 31, 2013, 2012, and 2011 respectively, are as follows (dollar amounts in thousands):

<b>Statements of Operations</b>	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Interest income	\$228,631	\$104,410	\$ —
Interest expense	210,229	97,032	—
Net interest income	18,402	7,378	—
Unrealized gain on multi-family loans and debt held in securitization trusts	31,495	6,662	—
Net Income	\$49,897	\$14,040	\$ —

The geographic concentrations of credit risk exceeding 5% of the total loan balances related to our CMBS investments included in investment securities available for sale and multi-family loans held in securitization trusts as of December 31, 2013 and December 31, 2012, respectively, are as follows:

	<b>December 31, 2013</b>		<b>December 31, 2012</b>	
Texas	14.0	%	14.0	%
California	13.7	%	13.6	%
New York	7.2	%	6.8	%
Florida	6.5	%	7.4	%
Washington	5.3	%	5.0	%
Georgia	4.4	%	5.4	%

## 7. Use of Special Purpose Entities and Variable Interest Entities

A Special Purpose Entity (“SPE”) is an entity designed to fulfill a specific limited need of the company that organized it. SPEs are often used to facilitate transactions that involve securitizing financial assets or re-securitizing previously securitized financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity or refinancing the underlying securitized financial assets on improved terms. Securitization involves transferring assets to an 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.

The Company has evaluated its CMBS investments in Freddie Mac-sponsored K-Series securitizations to determine whether they are VIEs. In addition, the Company also evaluated its financings transactions, such as its Residential CDOs completed in 2005, its multi-family CMBS re-securitization transaction completed in May 2012, its collateralized recourse financing transactions completed in November 2012 and November 2013 and its distressed residential mortgage loan securitization transactions completed in December 2012, July 2013 and September 2013 (each a “Financing VIE” and collectively, the “Financing VIEs”) and concluded that the entities created to facilitate each of the transactions are VIEs.

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

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

The Company has determined that it has a variable interest in the Consolidated K-Series for which it is the primary beneficiary and has a controlling financial interest and, accordingly, has consolidated their assets, liabilities, income and expenses in the accompanying consolidated financial statements (*see Notes 2 and 6*).

Also, based on its evaluation of the factors discussed above, including its involvement in the purpose and design of the entity, the Company determined that the Financing VIEs met the criteria for consolidation and, accordingly, consolidated the Financing VIEs created to facilitate these transactions.

The following table presents a summary of the assets and liabilities of these consolidated Financing VIEs. Intercompany balances have been eliminated for purposes of this presentation.

Assets and Liabilities of consolidated Financing VIEs as of December 31, 2013 (dollar amounts in thousands):

	Financing VIEs		Distressed Residential Mortgage Loan Securitization	Residential Mortgage Loan Securitizations	Total
	Multi-family CMBS re-securitization	Collateralized Recourse Financings <sup>(2)</sup>			
Investment securities available for sale, at fair value held in securitization trusts	\$29,289	\$ 63,289	\$ —	\$ —	\$92,578
Residential mortgage loans held in securitization trusts (net)	—	—	—	163,237	163,237
Distressed residential mortgage loans held in securitization trusts (net)	—	—	254,721	—	254,721
Multi-family loans held in securitization trusts, at fair value	1,234,084	6,876,938	—	—	8,111,022
Receivables and other assets	5,241	27,198	10,072	1,760	44,271
Total assets	\$1,268,614	\$ 6,967,425	\$ 264,793	\$ 164,997	\$8,665,829
Residential collateralized debt obligations	\$—	\$—	\$ —	\$ 158,410	\$158,410
Multi-family collateralized debt obligations, at fair value	1,195,637	6,675,383	—	—	7,871,020
Securitized debt	27,240	107,853	169,871	—	304,964
Accrued expenses and other liabilities	4,640	25,315	981	15	30,951
Total liabilities	\$1,227,517	\$ 6,808,551	\$ 170,852	\$ 158,425	\$8,365,345

The Company classified the multi-family CMBS issued by two K-Series securitizations and held by this Financing VIE as available for sale securities as the purpose is not to trade these securities. The Financing VIE consolidated one K-Series securitization that issued certain of the multi-family CMBS owned by the Company, including its assets, liabilities, income and expenses, in its financial statements, as based on a number of factors, the Company determined that it was the primary beneficiary and has a controlling financial interest in this particular K-Series securitization (*see Note 6*).

<sup>(2)</sup>The multi-family CMBS serving as collateral under the collateralized recourse financings are comprised of securities issued from seven separate Freddie Mac-sponsored multi-family K-Series securitizations. The Financing VIE classified the multi-family CMBS issued by the two K-Series securitizations and held by the Financing VIE as available for sale securities as the purpose is not to trade these securities. The Financing VIE consolidated five of

the K-Series securitizations, including their assets, liabilities, income and expenses, in its financial statements as based on a number of factors, the Company determined that it was the primary beneficiary and has a controlling financial interest in such K-Series securitizations (*see Note 6*).

Assets and Liabilities of Consolidated VIEs as of December 31, 2012 (dollar amounts in thousands):

	Financing VIEs			Non-financing VIEs		Total
	Multi-family CMBS re-securitization <sup>(1)</sup>	Collateralized Recourse Financing <sup>(2)</sup>	Distressed Residential Mortgage Loan Securitization	Residential Mortgage Loan Securitizations	Multi-family CMBS <sup>(3)</sup>	
Investment securities available for sale, at fair value held in securitization trusts	\$22,611	\$48,548	\$—	\$—	\$—	\$71,159
Residential mortgage loans held in securitization trusts (net)	—	—	—	187,229	—	187,229
Distressed residential mortgage loans held in securitization trust (net)	—	—	60,459	—	—	60,459
Multi-family loans held in securitization trusts, at fair value	1,335,862	2,610,276	—	—	1,496,768	5,442,906
Receivables and other assets	5,372	11,797	3,187	1,425	3,035	24,816
Total assets	\$1,363,845	\$2,670,621	\$63,646	\$188,654	\$1,499,803	\$5,786,569
Residential collateralized debt obligations	\$—	\$—	\$—	\$180,979	\$—	\$180,979
Multi-family collateralized debt obligations, at fair value	1,306,760	2,547,015	—	—	1,465,798	5,319,573
Securitized debt	26,891	52,000	38,700	—	—	117,591
Accrued expenses and other liabilities	4,706	10,609	259	15	2,918	18,507
Total liabilities	\$1,338,357	\$2,609,624	\$38,959	\$180,994	\$1,468,716	\$5,636,650

The Company classified the multi-family CMBS issued by two K-Series securitizations and held by the Financing VIE as available for sale securities as the purpose is not to trade these securities. The Financing VIE consolidated one K-Series securitization that issued certain of the multi-family CMBS owned by the Company, including its assets, liabilities, income and expenses, in its financial statements, as based on a number of factors, the Company determined that it was the primary beneficiary and has a controlling financial interest in this particular K-Series securitization (*see Note 6*).

<sup>(2)</sup>The multi-family CMBS serving as collateral under the collateralized recourse financing are comprised of securities issued from four separate Freddie Mac-sponsored multifamily K-Series securitizations. The Financing VIE classified the multi-family CMBS issued by two K-Series securitizations and held by the Financing VIE as

available for sale securities as the purpose is not to trade these securities. The Financing VIE consolidated two of the K-Series securitizations, including their assets, liabilities, income and expenses, in its financial statements as based on a number of factors, the Company determined that it was the primary beneficiary and has a controlling financial interest in such K-Series securitizations (*see Note 6*).

- (3) One of the four Freddie Mac-sponsored multi-family K-Series securitizations included in the Consolidated K-Series was not subject to any Financing VIE as of December 31, 2012.



The following table summarizes the Company's securitized debt collateralized by multi-family CMBS and distressed residential mortgage loans (dollar amounts in thousands):

	<b>Multi-family CMBS Re-securitization (1)</b>	<b>Collateralized Residential Mortgage Recourse Financings (2)</b>	<b>Distressed Residential Mortgage Loan Securizations (3)</b>
Original Face amount of Notes issued by the VIE and purchased by 3rd party investors	\$ 35,000	\$ 107,853	\$ 176,970
Principal Amount at December 31, 2013	\$ 34,508	\$ 107,853	\$ 169,871
Principal Amount at December 31, 2012	\$ 35,000	\$ 52,000	\$ 38,700
Carrying Value at December 31, 2013 <sup>(4)</sup>	\$ 27,240	\$ 107,853	\$ 169,871
Carrying Value at December 31, 2012 <sup>(4)</sup>	\$ 26,891	\$ 52,000	\$ 38,700
Pass-through rate of Notes issued	5.35	One-month LIBOR plus 5.25% - 6.50%	4.25% - 4.85%

The Company engaged in the re-securitization transaction primarily for the purpose of obtaining non-recourse financing on a portion of its multi-family CMBS portfolio. As a result of engaging in this transaction, the Company remains economically exposed to the first loss position on the underlying multi-family CMBS transferred to the (1) Consolidated VIE. The holders of the Note have no recourse to the general credit of the Company, but the Company does have the obligation, under certain circumstances, to repurchase assets upon the breach of certain representations and warranties. The Company will receive all remaining cash flow, if any, through its retained ownership.

The Company entered into CMBS Master Repurchase Agreements with a three-year term for the purpose of (2) financing a portion of its multi-family CMBS portfolio. In connection with these transactions, the Company agreed to guarantee the due and punctual payment of its wholly-owned subsidiary's obligations under the CMBS Master Repurchase Agreements.

The Company engaged in these transactions for the purpose of financing distressed residential mortgage loans (3) acquired by the Company. The distressed residential mortgage loans serving as collateral for the financings are comprised of performing, re-performing and to a lesser extent non-performing, fixed and adjustable-rate, fully-amortizing, interest only and balloon, seasoned mortgage loans secured by first liens on one to four family properties. Two of the four securitization transactions provide for a revolving period of one to two years from the date of the respective financing ("Revolving Period") where no principal payments will be made on the note. All cash proceeds generated by the distressed residential mortgage loans and received by the respective securitization trust during the Revolving Period, after payment of interest on the note, reserve amounts and certain other transaction expenses, will be available for the purchase by the trust of additional mortgage loans that satisfy certain eligibility criteria.

(4) Classified as securitized debt in the liability section of the Company's accompanying consolidated balance sheets.

The following table presents contractual maturity information about the Financing VIEs' securitized debt as of December 31, 2013 and December 31, 2012, respectively:

<b>Scheduled Maturity (principal amount)</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<i>(Dollar amount in thousands)</i>		
Within 24 months	\$ 90,700	\$ —
Over 24 months to 36 months	187,024	90,700
Over 36 months	34,507	35,000
Total	312,231	125,700
Discount	(7,267 )	(8,109 )
Carrying value	\$ 304,964	\$ 117,591

There is no guarantee that the Company will receive any cash flows from these securitization trusts.

#### *Residential Mortgage Loan Securitization Transaction*

The Company has completed four residential mortgage loan securitizations (other than the distressed residential mortgage loan securitizations discussed above) since inception; the first three were accounted for as permanent financings and have been included in the Company's accompanying consolidated financial statements.

*Unconsolidated VIEs*

The Company has evaluated its Multi-family CMBS investments in four Freddie Mac-sponsored K-Series securitizations and its mezzanine loan, preferred equity and other equity investments to determine whether they are VIEs and should be consolidated by the Company. Based on a number of factors, the Company determined that it does not have a controlling financial interest and is not the primary beneficiary of these VIEs. The following table presents the classification and carrying value of unconsolidated VIEs as of December 31, 2013 and 2012 (dollar amounts in thousands):

	<b>December 31, 2013</b>			<b>December 31, 2012</b>		
	<b>Investment</b>			<b>Investment</b>		
	<b>securities available for sale, at fair value, held</b>	<b>Receivables and other Assets</b>	<b>Total</b>	<b>securities available for sale, at fair value, held</b>	<b>Receivables and other Assets</b>	<b>Total</b>
	<b>in securitization</b>			<b>in securitization</b>		
	<b>trusts</b>			<b>trusts</b>		
Multi-Family CMBS	\$92,578	\$ 183	\$92,761	\$71,159	\$ 188	\$71,347
Mezzanine loan and equity investments	—	28,058	28,058	—	3,522	3,522
Total assets	\$92,578	\$ 28,241	\$120,819	\$71,159	\$ 3,710	\$74,869

Our maximum loss exposure on the Multi-Family CMBS investments, mezzanine loan and equity investments is approximately \$120.8 million and \$74.9 million at December 31, 2013 and December 31, 2012, respectively. The Company's maximum exposure does not exceed the carrying value of its investments.

## **8. Derivative Instruments and Hedging Activities**

The Company enters into derivative instruments to manage its interest rate risk exposure. These derivative instruments include interest rate swaps, swaptions and futures. The Company may also purchase or sell short TBAs and U.S. Treasury securities, purchase put or call options on U.S. Treasury futures or invest in other types of mortgage derivative securities.

The following table presents the fair value of derivative instruments that were not designated as hedging instruments and their location in our consolidated balance sheets at December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

<b>Derivatives Not Designated as Hedging Instruments</b>	<b>Balance Sheet Location</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
TBA securities <sup>(1)</sup>	Derivative assets	\$ 190,742	\$ 244,789
U.S. Treasury futures	Derivative assets	3,257	676
Swaptions	Derivative assets	1,305	597
Interest rate swap futures	Derivative assets	238	8
Options on U.S. Treasury futures	Derivative assets	7	59
Eurodollar futures	Derivative liabilities	1,432	3,798

Open TBA purchases and sales involving the same counterparty, same underlying deliverable and the same settlement date are reflected in our accompanying consolidated financial statements on a net basis. TBA sales <sup>(1)</sup> amounting to \$0 million and \$245.6 million have been netted against TBA purchases and are included in payable for securities purchased in the accompanying consolidated balance sheets at December 31, 2013 and December 31, 2012, respectively.

The tables below summarize the activity of derivative instruments not designated as hedges for the years ended December 31, 2013 and 2012, respectively (dollar amounts in thousands).

Derivatives Not Designated as Hedging Instruments	Notional Amount For the Year Ended December 31, 2013			
	December 31, 2012	Additions	Settlement, Expiration or Exercise	December 31, 2013
TBA securities	\$234,000	\$2,563,000	\$(2,609,000)	\$188,000
U.S. Treasury futures	(172,100 )	875,600	(715,400 )	(11,900 )
Interest rate swap futures	(13,000 )	542,700	(772,400 )	(242,700 )
Eurodollar futures	(2,852,000)	3,492,000	(4,000,000)	(3,360,000)
Options on U.S. Treasury futures	70,000	310,000	(340,000 )	40,000
Swaptions	100,000	—	—	100,000

Derivatives Not Designated as Hedging Instruments	Notional Amount For the Year Ended December 31, 2012			
	December 31, 2011	Additions	Settlement, Expiration or Exercise	December 31, 2012
TBA securities	\$202,000	\$3,088,000	\$(3,056,000)	\$234,000
U.S. Treasury futures	(92,800 )	1,142,100	(1,221,400)	(172,100 )
Interest rate swap futures	—	6,000	(19,000 )	(13,000 )
Eurodollar futures	(2,422,000)	1,531,000	(1,961,000)	(2,852,000)
Options on U.S. Treasury futures	199,500	1,181,500	(1,311,000)	70,000
Swaptions	—	100,000	—	100,000

The following table presents the components of realized and unrealized gains and losses related to our derivative instruments that were not designated as hedging instruments included in other income (expense) in our consolidated statements of operations for the years ended December 31, 2013, 2012 and 2011:

	Years Ended December 31,					
	2013		2012		2011	
	Realized Gains (Losses)	Unrealized Gains (Losses)	Realized Gains (Losses)	Unrealized Gains (Losses)	Realized Gains (Losses)	Unrealized Gains (Losses)
TBA	\$(12,393)	\$ (629 )	\$16,397	\$(1,347 )	\$2,886	\$ 1,363
Eurodollar Futures <sup>(1)</sup>	(3,591 )	2,366	(1,042 )	(2,049 )	(1,986)	(1,749 )
Swaptions	—	1,153	—	(268 )	—	—
	5,418	2,866	(9,548 )	1,300	(197 )	(740 )

U.S. Treasury and Interest rate swap futures  
and options

Total	\$(10,566)	\$ 5,756	\$5,807	\$ (2,364 )	\$703	\$ (1,126 )
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(1) At December 31, 2013, the Eurodollar futures consist of 3,360 contracts with expiration dates ranging between March 2014 and September 2017.

The use of TBAs exposes the Company to market value risk, as the market value of the securities that the Company is required to purchase pursuant to a TBA transaction may decline below the agreed-upon purchase price. Conversely, the market value of the securities that the Company is required to sell pursuant to a TBA transaction may increase above the agreed upon sale price. At December 31, 2013 and 2012, our consolidated balance sheets include TBA-related liabilities of \$191.6 million and \$245.9 million included in payable for securities purchased, respectively. Open TBA purchases and sales involving the same counterparty, same underlying deliverable and the same settlement date are reflected in our consolidated financial statements on a net basis.

The following table presents the fair value of derivative instruments designated as hedging instruments and their location in the Company's consolidated balance sheets at December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	December	December
		31, 2013	31, 2012
Interest Rate Swaps	Derivative assets	\$ 2,041	\$ —
Interest Rate Swaps	Derivative liabilities	\$ —	\$ 1,744

The Company has netting arrangements by counterparty with respect to its interest rate swaps. Contracts in a liability position of \$0.3 million have been netted against the asset position of \$2.3 million and contracts in an asset position of \$0.1 million have been netted against the liability position of \$1.8 million in the accompanying consolidated balance sheets at December 31, 2013 and December 31, 2012, respectively.

The following table presents the impact of the Company's derivative instruments on the Company's accumulated other comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011 (dollar amounts in thousands):

<b>Derivatives Designated as Hedging Instruments</b>	<b>Years Ended December</b>		
	<b>31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Accumulated other comprehensive income (loss) for derivative instruments:			
Balance at beginning of the period	\$(1,744)	\$(304 )	\$(1,087)
Unrealized (loss) gain on interest rate swaps	3,785	(1,440)	783
Balance at end of the period	\$2,041	\$(1,744)	\$(304 )

The Company estimates that over the next 12 months, approximately \$1.6 million of the net unrealized gains on the interest rate swaps will be reclassified from accumulated other comprehensive income (loss) into earnings.

The following table details the impact of the Company's interest rate swaps included in interest expense for the years ended December 31, 2013, 2012 and 2011, respectively (dollar amounts in thousands):

	<b>Years Ended</b>		
	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Interest Rate Swaps:			
Interest expense-investment securities	\$1,737	\$810	\$893

The Company's interest rate swaps are designated as cash flow hedges against the benchmark interest rate risk associated with its short term repurchase agreements. There were no costs incurred at the inception of our interest rate swaps, under which the Company agrees to pay a fixed rate of interest and receive a variable interest rate based on one month LIBOR, on the notional amount of the interest rate swaps.

The Company documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities, and upon entering into hedging transactions, documents the relationship between the hedging

instrument and the hedged liability contemporaneously. The Company assesses, both at inception of a hedge and on an on-going basis, whether or not the hedge is “highly effective” when using the matched term basis.

The Company discontinues hedge accounting on a prospective basis and recognizes changes in the fair value through earnings when: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a hedge is no longer appropriate. The Company’s derivative instruments are carried on the Company’s balance sheets at fair value, as assets, if their fair value is positive, or as liabilities, if their fair value is negative. For the Company’s derivative instruments that are designated as “cash flow hedges,” changes in their fair value are recorded in accumulated other comprehensive income (loss), provided that the hedges are effective. A change in fair value for any ineffective amount of the Company’s derivative instruments would be recognized in earnings. The Company has not recognized any change in the value of its existing derivative instruments designated as cash flow hedges through earnings as a result of ineffectiveness of any of its hedges.



The following table presents information about the Company's interest rate swaps as of December 31, 2013 and December 31, 2012, respectively (dollar amounts in thousands):

Maturity <sup>(1)</sup>	December 31, 2013			December 31, 2012		
	Notional Amount	Fixed Pay	Weighted Average Interest Rate	Notional Amount	Fixed Pay	Weighted Average Interest Rate
Within 30 Days	\$—	—	%	\$8,380	2.93	%
Over 30 days to 3 months	—	—		—	—	
Over 3 months to 6 months	—	—		—	—	
Over 6 months to 12 months	—	—		—	—	
Over 12 months to 24 months	135,000	0.45		—	—	
Over 24 months to 36 months	—	—		135,000	0.45	
Over 36 months to 48 months	215,000	0.83		—	—	
Over 48 months to 60 months	—	—		215,000	0.83	
Total	\$350,000	0.69	%	\$358,380	0.74	%

<sup>(1)</sup> The Company enters into interest rate swap transactions whereby the Company pays a fixed rate of interest and receives one month LIBOR.

The use of derivatives exposes the Company to counterparty credit risks in the event of a default by a counterparty. If a counterparty defaults under the applicable derivative agreement, the Company may be unable to collect payments to which it is entitled under its derivative agreements, and may have difficulty collecting the assets it pledged as collateral against such derivatives. The Company currently has in place with all counterparties bi-lateral margin agreements requiring a party to post collateral to the Company for any valuation deficit. This arrangement is intended to limit the Company's exposure to losses in the event of a counterparty default.

The Company is required to pledge assets under a bi-lateral margin arrangement, including either cash or Agency RMBS, as collateral for its interest rate swaps, futures contracts and TBAs, whose collateral requirements vary by counterparty and change over time based on the market value, notional amount, and remaining term of the agreement. In the event the Company is unable to meet a margin call under one of its agreements, thereby causing an event of default or triggering an early termination event under one of its agreements, the counterparty to such agreement may have the option to terminate all of such counterparty's outstanding transactions with the Company. In addition, under this scenario, any close-out amount due to the counterparty upon termination of the counterparty's transactions would be immediately payable by the Company pursuant to the applicable agreement. The Company believes it was in compliance with all margin requirements under its agreements as of December 31, 2013 and 2012. The Company had \$10.2 million and \$19.8 million of restricted cash related to margin posted for its agreements

as of December 31, 2013 and 2012, respectively. The restricted cash held by third parties is included in receivables and other assets in the accompanying consolidated balance sheets.

**9. Financing Arrangements, Portfolio Investments**

The Company has entered into repurchase agreements with third party financial institutions to finance its investment portfolio. The repurchase agreements are short-term borrowings that bear interest rates typically based on a spread to LIBOR, and are secured by the securities which they finance. At December 31, 2013, the Company had repurchase agreements with an outstanding balance of \$791.1 million and a weighted average interest rate of 0.49%. At December 31, 2012, the Company had repurchase agreements with an outstanding balance of \$889.1 million and a weighted average interest rate of 0.54%. As of December 31, 2013 and 2012, the average days to maturity for all repurchase agreements are 31 days and 39 days, respectively. The Company's accrued interest payable on outstanding repurchase agreements at December 31, 2013 and 2012 amounts to \$0.6 million and \$0.2 million, respectively, and is included in accrued expenses and other liabilities on the Company's consolidated balance sheets.

The following table presents detailed information about the Company's borrowings under repurchase agreements and associated assets pledged as collateral at December 31, 2013 and December 31, 2012 (dollar amounts in thousands):

	2013		2012			
	Outstanding of Repurchase Agreements	Fair Value of Collateral Pledged	Amortized Cost of Collateral Pledged	Outstanding of Repurchase Agreements	Fair Value of Collateral Pledged	Amortized Cost of Collateral Pledged
Agency RMBS						
Agency ARMs	\$ 197,974	\$ 208,703	\$ 214,039	\$ 240,440	\$ 253,841	\$ 253,281
Agency Fixed Rate	489,953	516,010	541,580	566,037	597,620	597,769
Agency IOs	94,698	113,721	122,878	74,707	90,250	100,076
CLOs	8,500	14,789	8,947	7,950	12,945	6,877
Balance at end of the period	\$ 791,125	\$ 853,223	\$ 887,444	\$ 889,134	\$ 954,656	\$ 958,003

The following table presents contractual maturity information about the Company's outstanding repurchase agreements at December 31, 2013 and 2012 (dollar amounts in thousands):

Contractual Maturity	December 31,	December 31,
	2013	2012
Within 30 days	\$ 509,564	\$ 765,593
Over 30 days to 90 days	281,561	123,541
<b>Total</b>	<b>\$ 791,125</b>	<b>\$ 889,134</b>

As of December 31, 2013, the outstanding balance under our repurchase agreements was funded at an advance rate of 92.2% that implies an average haircut of 7.8%. The weighted average "haircut" related to our repurchase agreement financing for our Agency RMBS (excluding Agency IOs), Agency IOs and CLOs was approximately 5%, 25% and 35%, respectively, for a total weighted average "haircut" of 7.8%.

In the event we are unable to obtain sufficient short-term financing through repurchase agreements or otherwise, or our lenders start to require additional collateral, we may have to liquidate our investment securities at a disadvantageous time, which could result in losses. Any losses resulting from the disposition of our investment securities in this manner could have a material adverse effect on our operating results and net profitability. At December 31, 2013 and December 31, 2012, the Company had repurchase agreements with 11 counterparties. As of December 31, 2013, we had no counterparties where the amount at risk was in excess of 5% of Stockholders' Equity.

As of December 31, 2012, the Company's only exposure where the amount at risk in excess of 5% of Stockholders' Equity was to JPMorgan Chase Bank N.A. at 5.7%. The amount at risk is defined as the fair value of securities pledged as collateral to the repurchase agreement in excess of the repurchase agreement liability.

As of December 31, 2013, the Company had \$31.8 million in cash and \$59.2 million in unencumbered investment securities to meet additional haircut or market valuation requirements, including \$40.8 million of RMBS, of which \$38.4 million are Agency RMBS. The \$31.8 million of cash, the \$40.8 million in RMBS, and \$30.4 million held in overnight deposits in our Agency IO portfolio included in restricted cash (that is available to meet margin calls as it relates to our Agency IO portfolio repurchase agreements), which collectively represent 13.0% of our Financing arrangements, portfolio investments, are liquid and could be monetized to pay down or collateralize the liability immediately.

#### **10. Residential Collateralized Debt Obligations**

The Company's Residential CDOs, which are recorded as liabilities on the Company's consolidated balance sheets, are secured by ARM loans pledged as collateral, which are recorded as assets of the Company. As of December 31, 2013 and 2012, the Company had Residential CDOs outstanding of \$158.4 million and \$181.0 million, respectively. As of December 31, 2013 and 2012, the current weighted average interest rate on these CDOs was 0.55% and 0.59%, respectively. The Residential CDOs are collateralized by ARM loans with a principal balance of \$165.2 million and \$189.0 million at December 31, 2013 and 2012, respectively. The Company retained the owner trust certificates, or residual interest for three securitizations, and, as of December 31, 2013 and 2012, had a net investment in the residential securitization trusts of \$6.6 million and \$7.0 million, respectively.

**11. Subordinated Debentures**

Subordinated debentures are trust preferred securities that are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. The following table summarizes the key details of the Company's subordinated debentures as of December 31, 2013 and December 31, 2012 (dollar amounts in thousands):

	<b>NYM Preferred Trust I</b>	<b>NYM Preferred Trust II</b>
Principal value of trust preferred securities	\$ 25,000	\$ 20,000
	Three month LIBOR	Three month LIBOR
Interest Rate	plus 3.75%, resetting quarterly	plus 3.95%, resetting quarterly
Scheduled maturity	March 15, 2035	October 30, 2035

As of March 10, 2014 the Company has not been notified, and is not aware, of any event of default under the covenants for the subordinated debentures.

**12. Commitments and Contingencies**

*Loans Sold to Third Parties* – The Company sold its discontinued mortgage lending business in March 2007. In the normal course of business, the Company is obligated to repurchase loans based on violations of representations and warranties in the loan sale agreements. The Company did not repurchase any loans during the three years ended December 31, 2013.

*Outstanding Litigation* – The Company is at times subject to various legal proceedings arising in the ordinary course of business. As of December 31, 2013, the Company does not believe that any of its current legal proceedings, individually or in the aggregate, will have a material adverse effect on its operations, financial condition or cash flows.

*Leases* – In December 2012, the Company entered into a ten year lease agreement with GP 275 Owner, L.L.C. where the Company relocated its corporate office in March 2013. The lease is accounted for as a non-cancelable operating lease. Total property lease expense on this lease amounted to \$0.2 million for the year ended December 31, 2013. The lease is secured by a \$0.2 million cash deposit.

The prior corporate office lease with Vanderbilt Associates I, L.L.C. expired in March 2013. Total property lease expense on this lease amounted to \$0.1 million, \$0.2 million and \$0.2 million for each of the years ended December 31, 2013, 2012 and 2011.

As of December 31, 2012, obligations under non-cancelable operating leases are as follows (dollar amounts in thousands):

<b>Year Ending December 31,</b>	<b>Total</b>
2014	\$207
2015	207
2016	207
2017	207
2018	215
Thereafter	1,087
	\$2,130

### 13. Fair Value of Financial Instruments

The Company has established and documented processes for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, then fair value is based upon internally developed models that primarily use inputs that are market-based or independently-sourced market parameters, including interest rate yield curves.

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

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

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

*Level 3* - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

*Investment Securities Available for Sale (RMBS and CLOs)* – Fair value for the RMBS in our portfolio are valued using a third-party pricing service or are based on quoted prices provided by dealers who make markets in similar financial instruments. The dealers will incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. If quoted prices for a security are not reasonably available from a dealer, the security will be re-classified<sup>a</sup> as a Level 3 security and, as a result, management will determine the fair value based on characteristics of the security that the Company receives from the issuer and based on available market information. Management reviews all prices used in determining valuation to ensure they represent current market conditions. This review includes surveying similar market transactions, comparisons to interest pricing models as well as offerings of like securities by dealers. The Company's investment securities that are comprised of RMBS and CLOs are valued based upon readily observable market parameters and are classified as Level 2 fair values.

*Investment Securities Available for Sale Held in Securitization Trusts (CMBS)* – As the Company’s CMBS investments are comprised of securities for which there are not substantially similar securities that trade frequently, the Company classifies these securities as Level 3 fair values. Fair value of the Company’s CMBS investments is based on an internal valuation model that considers expected cash flows from the underlying loans and yields required by market participants. The significant unobservable inputs used in the measurement of these investments are projected losses of certain identified loans within the pool of loans and a discount rate. The discount rate used in determining fair value incorporates default rate, loss severity and current market interest rates. The discount rate ranges from 4.2% to 16.1%. Significant increases or decreases in these inputs would result in a significantly lower or higher fair value measurement.

*Multi-Family Loans Held in Securitization Trusts* – Multi-family loans held in securitization trusts are recorded at fair value and classified as Level 3 fair values. Fair value is based on an internal valuation model that considers expected cash flows from the underlying loans and yields required by market participants. The significant unobservable inputs used in the measurement of these investments are discount rates. The discount rate used in determining fair value incorporates default rate, loss severity and current market interest rates. The discount rate ranges from 3.4% to 6.5%. Significant increases or decreases in these inputs would result in a significantly lower or higher fair value measurement.

*Derivative Instruments* – The fair value of interest rate swaps, swaptions, options and TBAs are based on dealer quotes. The fair value of futures are based on exchange-traded prices. The Company’s derivatives are classified as Level 1 or Level 2 fair values.

*Multi-Family CDOs* – The fair value of Multi-Family CDOs is determined using a third party pricing service or are based on quoted prices provided by dealers who make markets in similar financial instruments. The dealers will consider contractual cash payments and yields expected by market participants. Dealers also incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security.



The following table presents the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2013 and 2012, respectively, on the Company's consolidated balance sheets (dollar amounts in thousands):

	Measured at Fair Value on a Recurring Basis at December 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets carried at fair value</b>								
Investment securities available for sale:								
Agency RMBS	\$—	\$876,874	\$—	\$876,874	\$—	\$1,001,239	\$—	\$1,001,239
Non-Agency RMBS	—	2,361	—	2,361	—	2,687	—	2,687
CLOs	—	33,208	—	33,208	—	30,785	—	30,785
Investment securities available for sale held in securitization trusts:								
CMBS	—	—	92,578	92,578	—	—	71,159	71,159
Multi-family loans held in securitization trusts	—	—	8,111,022	8,111,022	—	—	5,442,906	5,442,906
Derivative Assets:								
TBA Securities	—	190,742	—	190,742	—	244,789	—	244,789
Options on U.S. Treasury futures	7	—	—	7	—	59	—	59
U.S. Treasury futures	3,257	—	—	3,257	676	—	—	676
Interest rate swap futures	238	—	—	238	8	—	—	8
Interest rate swaps	—	2,041	—	2,041	—	—	—	—
Swaptions	—	1,305	—	1,305	—	597	—	597
<b>Total</b>	<b>\$3,502</b>	<b>\$1,106,531</b>	<b>\$8,203,600</b>	<b>\$9,313,633</b>	<b>\$684</b>	<b>\$1,280,156</b>	<b>\$5,514,065</b>	<b>\$6,794,905</b>
<b>Liabilities carried at fair value</b>								
Multi-family collateralized debt obligations	\$—	\$—	\$7,871,020	\$7,871,020	\$—	\$—	\$5,319,573	\$5,319,573
Derivative liabilities:								
Interest rate swaps	—	—	—	—	—	1,744	—	1,744
Eurodollar futures	1,432	—	—	1,432	3,798	—	—	3,798
<b>Total</b>	<b>\$1,432</b>	<b>\$—</b>	<b>\$7,871,020</b>	<b>\$7,872,452</b>	<b>\$3,798</b>	<b>\$1,744</b>	<b>\$5,319,573</b>	<b>\$5,325,115</b>

The following table details changes in valuation for the Level 3 assets for the years ended December 31, 2013, 2012 and 2011, respectively (amounts in thousands):

**Level 3 Assets:**

	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance at beginning of period	\$5,514,065	\$41,185	\$—
Total gains (realized/unrealized)			
Included in earnings <sup>(1)</sup>	(470,467 )	167,094	—
Included in other comprehensive income	15,532	3,768	(1,036 )
Purchases	3,218,301	4,212,009	42,221
Paydowns	(73,831 )	(28,034 )	—
Transfers <sup>(2)</sup>	—	1,118,043	—
Balance at the end of period	\$8,203,600	\$5,514,065	\$41,185

<sup>(1)</sup> Amounts included in interest income from multi-family loans held in securitization trusts and unrealized gain on multi-family loans and debt held in securitization trusts, net.

Based on a number of factors, we determined that we were the primary beneficiary of one K-Series securitization as <sup>(2)</sup>of January 4, 2012 and have consolidated its assets, liabilities, income and expenses in our consolidated financial statements.

The following table details changes in valuation for the Level 3 liabilities for the years ended December 31, 2013, 2012 and 2011, respectively (amounts in thousands):

**Level 3 Liabilities:**

	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance at beginning of period	\$5,319,573	\$—	\$ —
Total gains (realized/unrealized)			
Included in earnings <sup>(1)</sup>	(521,416 )	152,440	—
Included in other comprehensive income	—	—	—
Purchases	3,146,676	4,077,276	—
Paydowns	(73,813 )	(28,034 )	—
Transfers <sup>(2)</sup>	—	1,117,891	—
Balance at the end of period	\$7,871,020	\$5,319,573	\$ —

<sup>(1)</sup> Amounts included in interest income from multi-family loans held in securitization trusts and unrealized gain on multi-family loans and debt held in securitization trusts, net.

<sup>(2)</sup> Based on a number of factors, we determined that we were the primary beneficiary of one K-Series securitization as of January 4, 2012 and have consolidated its assets, liabilities, income and expenses in our consolidated financial statements.

The following table details the changes in unrealized gains (losses) included in earnings for our Level 3 assets and liabilities for the years ended December 31, 2013, 2012 and 2011, respectively (dollar amounts in thousands):

	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Change in unrealized gains (losses) – assets	\$(423,949)	\$194,363	\$ —
Change in unrealized gains (losses) – liabilities	455,444	(187,701)	—
Net change in unrealized gains included in earnings for assets and liabilities	\$31,495	\$6,662	\$ —

Any changes to the valuation methodology are reviewed by management to ensure the changes are appropriate. As markets and products develop and the pricing for certain products becomes more transparent, the Company continues to refine its valuation methodologies. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of each reporting date, which may include periods of market dislocation, during which time price transparency may be reduced. This condition could cause the Company's financial instruments to be reclassified from Level 2 to Level 3 in future periods.

The following table presents assets measured at fair value on a non-recurring basis as of December 31, 2013 and 2012, respectively, on the consolidated balance sheets (dollar amounts in thousands):

	<b>Assets Measured at Fair Value on a Non-Recurring Basis at</b>							
	<b>December 31, 2013</b>				<b>December 31, 2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Residential Mortgage loans held in securitization trusts – impaired loans (net)	\$	\$	\$6,591	\$6,591	\$—	\$—	\$5,059	\$5,059
Real estate owned held in residential securitization trusts			1,108	1,108	—	—	732	732

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The following table presents losses incurred for assets measured at fair value on a non-recurring basis for the years ended December 31, 2013, 2012 and 2011, respectively, on the Company's consolidated statements of operations (dollar amounts in thousands):

	<b>Years Ended</b>		
	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Residential mortgage loans held in securitization trusts – impaired loans (net)	\$701	\$707	\$1,380
Real estate owned held in residential securitization trusts	433	45	87

*Residential Mortgage Loans Held in Securitization Trusts – Impaired Loans (net)* – Impaired residential mortgage loans held in securitization trusts are recorded at amortized cost less specific loan loss reserves. Impaired loan value is based on management's estimate of the net realizable value taking into consideration local market conditions of the property, updated appraisal values of the property and estimated expenses required to remediate the impaired loan.

*Real Estate Owned Held in Residential Securitization Trusts* – Real estate owned held in the residential securitization trusts are recorded at net realizable value. Any subsequent adjustment will result in the reduction in carrying value with the corresponding amount charged to earnings. Net realizable value based on an estimate of disposal taking into consideration local market conditions of the property, updated appraisal values of the property and estimated expenses required to sell the property.

The following table presents the carrying value and estimated fair value of the Company's financial instruments at December 31, 2013 and 2012, respectively, (dollar amounts in thousands):

	<b>Fair Value</b>	<b>December 31, 2013</b>		<b>December 31, 2012</b>	
		<b>Carrying</b>	<b>Estimated</b>	<b>Carrying</b>	<b>Estimated</b>
	<b>Hierarchy</b>	<b>Value</b>	<b>Fair Value</b>	<b>Value</b>	<b>Fair Value</b>
	<b>Level</b>				
<b>Financial Assets:</b>					
Cash and cash equivalents	Level 1	\$31,798	\$31,798	\$31,777	\$31,777
Investment securities available for sale	Level 2	912,443	912,443	1,034,711	1,034,711
Investment securities available for sale, at fair value held in securitization trusts	Level 3	92,578	92,578	71,159	71,159
Residential mortgage loans held in securitization trusts (net)	Level 3	163,237	152,104	187,229	165,919
Distressed residential mortgage loans (net) <sup>(1)</sup>	Level 3	264,434	254,543	60,459	60,459
Multi-family loans held in securitization trusts	Level 3	8,111,022	8,111,022	5,442,906	5,442,906

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Derivative assets	Level 1 or 2	197,590	197,590	246,129	246,129
Mortgage loans held for sale (net) <sup>(2)</sup>	Level 3	2,496	2,595	2,837	2,837
First mortgage loans <sup>(2)</sup>	Level 3	8,249	8,318	1,755	1,775
Mezzanine loan and equity investments <sup>(2)</sup>	Level 3	21,568	21,812	3,522	3,522
<b>Financial Liabilities:</b>					
Financing arrangements, portfolio investments	Level 2	\$791,125	\$791,125	\$889,134	\$889,134
Residential collateralized debt obligations	Level 3	158,410	151,910	180,979	160,506
Multi-family collateralized debt obligations	Level 3	7,871,020	7,871,020	5,319,573	5,319,573
Securitized debt	Level 3	304,964	311,535	117,591	118,402
Derivative liabilities	Level 1 or 2	1,432	1,432	5,542	5,542
Payable for securities purchased	Level 1	191,592	191,592	245,931	245,931
Subordinated debentures	Level 3	45,000	39,310	45,000	34,108

- Includes distressed residential mortgage loans held in securitization trusts with a carrying value amounting to approximately \$254.7 million and \$60.5 million at December 31, 2013 and December 31, 2012, respectively.
- (1) Distressed residential mortgage loans with a carrying value amounting to approximately \$9.7 million are included in receivables and other assets in the accompanying consolidated balance sheets at December 31, 2013.
- (2) Included in receivables and other assets in the accompanying consolidated balance sheets.

In addition to the methodology to determine the fair value of the Company's financial assets and liabilities reported at fair value on a recurring basis and non-recurring basis, as previously described, the following methods and assumptions were used by the Company in arriving at the fair value of the Company's other financial instruments in the table immediately above:

*a. Cash and cash equivalents* – Estimated fair value approximates the carrying value of such assets.

*b. Residential mortgage loans held in securitization trusts (net)* – Residential mortgage loans held in the securitization trusts are recorded at amortized cost. Fair value is based on an internal valuation model that considers the aggregated characteristics of groups of loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed-rate period, life cap, periodic cap, underwriting standards, age and credit estimated using the estimated market prices for similar types of loans.

*c. Distressed residential mortgage loans (net)* – Fair value is estimated using pricing models taking into consideration current interest rates, loan amount, payment status and property type, and forecasts of future interest rates, home prices and property values, prepayment speeds, default, loss severities, and actual purchases and sales of similar loans.

*d. Mortgage loans held for sale (net)* – The fair value of mortgage loans held for sale (net) are estimated by the Company based on the price that would be received if the loans were sold as whole loans taking into consideration the aggregated characteristics of the loans such as, but not limited to, collateral type, index, interest rate, margin, length of fixed interest rate period, life time cap, periodic cap, underwriting standards, age and credit.

*e. First mortgage loan and mezzanine loan and equity investments* – Estimated fair value is determined by both market comparable pricing and discounted cash flows. The discounted cash flows are based on the underlying contractual cash flows and estimated changes in market yields. The fair value also reflects consideration of changes in credit risk since the origination or time of initial investment.

*f. Financing arrangements* – The fair value of these financing arrangements approximates cost as they are short term in nature.

*g. Residential collateralized debt obligations* – The fair value of these CDOs is based on discounted cash flows as well as market pricing on comparable obligations.

*h. Securitized debt* – The fair value of securitized debt is based on discounted cash flows using management's estimate for market yields.

*i. Payable for securities purchased* – Estimated fair value approximates the carrying value of such liabilities.

*Subordinated debentures* – The fair value of these subordinated debentures is based on discounted cash flows using management’s estimate for market yields.

#### **14. Stockholders’ Equity**

##### *(a) Dividends on Preferred Stock*

The Company had 200,000,000 authorized shares of preferred stock, par value \$0.01 per share, with 3,000,000 shares issued and outstanding as of December 31, 2013. There was no preferred stock outstanding at December 31, 2012. During the year ended December 31, 2013, the Company issued 3,000,000 shares of 7.75% Series B Cumulative Redeemable Preferred Stock (“Series B Preferred Stock”), with a par value of \$0.01 per share and a liquidation preference of \$25 per share, 3,450,000 shares authorized, in an underwritten public offering, for net proceeds of approximately \$72.4 million, after deducting underwriting discounts and offering expenses. The Series B Preferred Stock is entitled to receive a dividend at a rate of 7.75% per year on the \$25 liquidation preference and is senior to the common stock with respect to distributions upon liquidation, dissolution or winding up. The Series B Preferred Stock generally does not have any voting rights, subject to an exception in the event the Company fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series B Preferred Stock will be entitled to vote to elect two additional directors to the Company’s Board of Directors (the “Board”) designating the Series B Preferred Stock until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series B Preferred Stock cannot be made without the affirmative vote of holders of at least two-thirds of the outstanding shares of Series B Preferred Stock.



The Series B Preferred Stock is not redeemable by the Company prior to June 4, 2018, except under circumstances intended to preserve the Company's qualification as a REIT and except upon the occurrence of a Change of Control (as defined in the Articles Supplementary designating the Series B Preferred Stock). On and after June 4, 2018, the Company may, at its option, redeem the Series B Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price equal to \$25.00 per share, plus any accumulated and unpaid dividends.

In addition, upon the occurrence of a Change of Control, the Company may, at its option, redeem the Series B Preferred Stock, in whole or in part, within 120 days after the first date, on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends.

The Series B Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless repurchased or redeemed by the Company or converted into the Company's common stock in connection with a Change of Control by the holders of the Series B Preferred Stock.

Upon the occurrence of a Change of Control, each holder of Series B Preferred Stock will have the right (unless the Company has exercised its right to redeem the Series B Preferred Stock) to convert some or all of the Series B Preferred Stock held by such holder into a number of shares of our common stock per share of Series B Preferred Stock determined by a formula, in each case, on the terms and subject to the conditions described in the Articles Supplementary.

From the time of original issuance of the Series B Preferred Stock through December 31, 2013, the Company has declared and paid all required quarterly dividends on such stock. The following table presents the relevant dates with respect to such quarterly cash dividends on the Series B Preferred Stock from issuance through December 31, 2013:

<b>Cash</b>			
<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend</b>
			<b>Per Share</b>
June 18, 2013	July 1, 2013	July 15, 2013	\$0.220660
September 12, 2013	October 1, 2013	October 15, 2013	\$0.484375
December 10, 2013	January 1, 2014	January 15, 2014	\$0.484375

*(b) Dividends on Common Stock*

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The following table presents cash dividends declared by the Company on its common stock with respect to each of the quarterly periods commencing January 1, 2011 and ended December 31, 2013:

Period	Declaration Date	Record Date	Payment Date	Cash	
				Dividend	
				Per	
				Share	
Fourth Quarter 2013	December 10, 2013	December 20, 2013	January 27, 2014	\$ 0.27	
Third Quarter 2013	September 12, 2013	September 23, 2013	October 25, 2013	0.27	
Second Quarter 2013	June 18, 2013	June 28, 2013	July 25, 2013	0.27	
First Quarter 2013	March 18, 2013	March 28, 2013	April 25, 2013	0.27	
Fourth Quarter 2012	December 14, 2012	December 24, 2012	January 25, 2013	0.27	
Third Quarter 2012	September 18, 2012	September 28, 2012	October 25, 2012	0.27	
Second Quarter 2012	June 15, 2012	June 25, 2012	July 25, 2012	0.27	
First Quarter 2012	March 19, 2012	March 29, 2012	April 25, 2012	0.25	
Fourth Quarter 2011	December 15, 2011	December 27, 2011	January 25, 2012	0.35	(1)
Third Quarter 2011	September 20, 2011	September 30, 2011	October 25, 2011	0.25	
Second Quarter 2011	May 31, 2011	June 10, 2011	June 27, 2011	0.22	
First Quarter 2011	March 18, 2011	March 31, 2011	April 26, 2011	0.18	

(1) Includes a \$0.10 per share special dividend.

During 2013, dividends for our common stock were \$1.08 per share. For tax reporting purposes, the 2013 dividends were classified as ordinary income and return of capital in the amounts of \$0.81 and \$0.27, respectively per share. During 2012, dividends for our common stock were \$1.06 per share. For tax reporting purposes, the 2012 dividends were classified as ordinary income and return of capital in the amounts of \$0.92 and \$0.14, respectively per share. During 2011, dividends for our common stock were \$1.00 per share. For tax reporting purposes, the dividends were classified as ordinary income.

*(c) Public Offering of Common Stock*

The table below presents information with respect to shares of the Company's common stock issued through public offerings during the three years ended December 31, 2013:

<b>Share Issue Date</b>	<b>Shares Issued</b>	<b>Net Proceeds (1)</b>
(Amounts in Thousands)		
May 3, 2013	13,600	\$ 94,434
October 9, 2012	15,525	\$ 104,144
September 4, 2012	1,500	\$ 9,765
August 21, 2012	10,000	\$ 64,892
July 17, 2012	5,175	\$ 33,150
May 31, 2012	3,163	\$ 20,031
December 16, 2011	360	\$ 2,360
December 6, 2011	2,400	\$ 15,422
July 14, 2011	225	\$ 1,603
July 1, 2011	1,500	\$ 10,325

(1) Proceeds are net of underwriting costs and offering expenses paid by the Company.

*(d) Equity Distribution Agreement*

On June 11, 2012, we entered into an equity distribution agreement with JMP Securities LLC ("JMP") as the placement agent, pursuant to which we may sell up to \$25,000,000 worth of shares of our common stock from time to time through JMP. We have no obligation to sell any of the shares under the equity distribution agreement and may at any time suspend solicitations and offers under the equity distribution agreement. As of December 31, 2013, we have issued 827,313 shares under the equity distribution agreement resulting in total net proceeds to the Company of \$5.8 million, after deducting the placement fees.

**15. Earnings Per Share**

The Company calculates basic net income per share by dividing net income for the period by weighted-average shares of common stock outstanding for that period. Diluted net income per share takes into account the effect of dilutive instruments, such as convertible preferred stock, stock options and unvested restricted or performance stock, 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. There were no dilutive instruments for the years ended December 31,

2013, 2012 and 2011.

The following table presents the computation of basic and dilutive net income per share for the periods indicated (dollar amounts in thousands, except per share amounts):

	<b>For the Years Ended</b>		
	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Numerator:</b>			
Net income attributable to common stockholders – Basic	\$65,387	\$28,279	\$4,776
Net income from continuing operations	65,387	28,265	4,713
Net income from discontinued operations (net of tax)	—	14	63
Net income attributable to common stockholders– Dilutive	65,387	28,279	4,776
Net income from continuing operations	65,387	27,265	4,713
Net income from discontinued operations (net of tax)	\$—	\$14	\$63
<b>Denominator:</b>			
Weighted average basic and dilutive shares outstanding	59,102	26,067	10,495
<b>EPS:</b>			
Basic EPS	\$1.11	\$1.08	\$0.46
Basic EPS from continuing operations	1.11	1.08	0.45
Basic EPS from discontinued operations (net of tax)	—	—	0.01
Dilutive EPS	\$1.11	\$1.08	\$0.46
Dilutive EPS from continuing operations	1.11	1.08	0.45
Dilutive EPS from discontinued operations (net of tax)	—	—	0.01

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## 16. Stock Incentive Plan

In May 2010, the Company's stockholders approved the Company's 2010 Stock Incentive Plan (the "2010 Plan"), with such stockholder action resulting in the termination of the Company's 2005 Stock Incentive Plan (the "2005 Plan"). The terms of the 2010 Plan are substantially the same as the 2005 Plan. Pursuant to the 2010 Plan, eligible employees, officers and directors of the Company have the opportunity to acquire the Company's common stock through the award of restricted stock and other equity awards under the 2010 Plan. The maximum number of shares that may be issued under the 2010 Plan is 1,190,000.

Of the common stock authorized at December 31, 2013 and 2012, 995,029 shares and 1,094,414 shares, respectively, were reserved for issuance under the Company's 2010 Stock Incentive Plan. At December 31, 2013 and 2012, there were 94,873 and 31,580 shares of unvested restricted stock outstanding under the 2010 Plan. The Company's directors have been issued 83,311 and 59,311 shares under the 2010 Plan as of December 31, 2013 and 2012, respectively. The Company's officers have been issued 111,660 and 36,275 shares under the 2010 Plan as of December 31, 2013 and 2012, respectively.

During the years ended December 31, 2013, 2012 and 2011, the Company recognized non-cash compensation expense of \$0.2 million, \$0.1 million and \$0.1 million, respectively. Dividends are paid on all restricted stock issued, whether those shares have vested or not. In general, non-vested restricted stock is forfeited upon the recipient's termination of employment. There were no forfeitures during the years ended December 31, 2013, 2012 and 2011.

A summary of the activity of the Company's non-vested restricted stock under the 2010 Plan for the years ended December 31, 2013, 2012 and 2011, respectively, is presented below:

	2013		2012		2011	
	Number	Weighted	Number	Weighted	Number	Weighted
	of	Average	of	Average	of	Average
	Non-vested	Per	Non-vested	Per	Non-vested	Per
	Restricted	Share	Restricted	Share	Restricted	Share
	Date	Grant	Date	Grant	Date	Grant
	Shares	Fair	Shares	Fair	Shares	Fair
		Value		Value		Value
		(1)		(1)		(1)
Non-vested shares at January 1	31,580	\$ 6.58	14,084	\$ 7.10	28,999	\$ 5.43

Granted	75,385	7.13	22,191	6.36	14,084	7.10
Forfeited	—	—	—	—	—	—
Vested	(12,092)	6.65	(4,695 )	7.10	(28,999)	5.43
Non-vested shares as of December 31	94,873	\$ 7.01	31,580	\$ 6.58	14,084	\$ 7.10
Weighted-average restricted stock granted during the period	75,385	\$ 7.13	22,191	\$ 6.36	14,084	\$ 7.10

(1) The grant date fair value of restricted stock awards is based on the closing market price of the Company's common stock at the grant date.

At each of December 31, 2013 and 2012, the Company had unrecognized compensation expense of \$0.4 million and \$0.1 million, respectively, related to the non-vested shares of restricted common stock under the 2010 Plan. The unrecognized compensation expense at December 31, 2013 is expected to be recognized over a weighted average period of 2.0 years. The total fair value of restricted shares vested during the years ended December 31, 2013, 2012 and 2011 was \$86,000, \$33,000 and \$0.2 million, respectively. The requisite service period for restricted shares at issuance is three years.

## 17. Income Taxes

At December 31, 2013, one of the Company's wholly owned TRSs had approximately \$59 million of net operating loss carryforwards which the Company does not expect to be able to utilize to offset future taxable income, other than taxable income arising from certain "built in gains" on its CLOs. The carryforwards will expire between 2024 through 2028. The Internal Revenue Code places certain limitations on the annual amount of net operating loss carryforwards that can be utilized if certain changes in the Company's ownership occur. The Company determined during 2012 that it had undergone ownership changes within the meaning of Internal Revenue Code Section 382 that the Company believes will substantially eliminate utilization of these net operating loss carryforwards to offset future taxable income. In general, if a company incurs an ownership change under Section 382, the company's ability to utilize a NOL carryforward to offset its taxable income becomes limited to a certain amount per year. In 2013, the Company, through its wholly owned TRSs, incurred net operating losses in the aggregate amount of approximately \$2.5 million. The Company's carryforward net operating losses will expire by 2033 if they are not offset by future taxable income. Additionally, during 2013, the Company, through one of its wholly owned TRSs, also incurred approximately \$3.5 million in capital losses. The Company's carryforward capital losses will expire by 2018 if they are not offset by future capital gains. The Company has recorded a full valuation allowance against its net deferred tax assets at December 31, 2013 as management does not believe that it is more likely than not that the net deferred tax assets will be realized.

The Company files income tax returns with the U.S. federal government and various state and local jurisdictions. The Company is no longer subject to tax examinations by tax authorities for years prior to 2010. The Company has assessed its tax positions for all open years, which includes 2010 to 2013 and concluded that there are no material uncertainties to be recognized.

During the years ended December 31, 2013, 2012 and 2011, the Company's TRSs recorded approximately \$0.7 million, \$0.9 million, and \$0.4 million, respectively of income tax expense. The Company's estimated taxable income differs from the statutory U.S. federal rate as a result of state and local taxes, non-taxable REIT income, valuation allowance and other differences.

A reconciliation of the statutory income tax provision to the effective income tax provision for the years ended December 31, 2013, 2012 and 2011, respectively, are as follows (dollar amounts in thousands).

	<b>December 31,</b>				<b>2011</b>	
	<b>2013</b>		<b>2012</b>			
Provision at statutory rate	\$24,393	35.0 %	\$10,190	35.0 %	\$1,857	35.0 %
Non-taxable REIT income	(26,215)	(37.6)	(9,774)	(33.6)	(1,088)	(20.5)
State and local tax provision	348	0.5	129	0.4	239	4.5
Other	(853)	(1.2)	331	1.1	(1,810)	(34.1)
Valuation allowance	3,066	4.4	56	0.2	1,235	23.3
Total provision	\$739	1.1 %	\$932	3.1 %	\$433	8.2 %

The income tax provision for the years ended December 31, 2013, 2012 and 2011 is comprised of the following components (dollar amounts in thousands):

	<b>Years Ended</b>		
	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Current income tax expense	\$739	\$932	\$433
Deferred income tax expense	—	—	—
Total provision	\$739	\$932	\$433

The gross deferred tax asset at December 31, 2013 and 2012 is \$30.3 million and \$27.2 million, respectively. The major sources of temporary differences included in the deferred tax assets and their deferred tax effect as of December 31, 2013 and 2012 are as follows (dollar amounts in thousands):

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<b>Deferred tax assets</b>		
Net operating loss carryforward	\$ 28,250	\$ 27,078
Net capital loss carryforward	1,594	—
GAAP/Tax basis differences	489	135
Total deferred tax assets <sup>(1)</sup>	30,333	27,213
<b>Deferred tax liabilities</b>		
Deferred tax liabilities	55	—
Total deferred tax liabilities <sup>(2)</sup>	55	—
Valuation allowance	(30,278 )	(27,213 )
<b>Total net deferred tax asset</b>	<b>\$—</b>	<b>\$—</b>

(1)Included in receivables and other assets in the accompanying consolidated balance sheets.

(2)Included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.



## 18. Related Party Transactions

### *Management Agreement*

On April 5, 2011, the Company entered into a management agreement with RiverBanc LLC (“RiverBanc”), pursuant to which RiverBanc provides investment management services to the Company. On March 13, 2013, the Company entered into an amended and restated management agreement with RiverBanc (as amended, the “RiverBanc Management Agreement”). The RiverBanc Management Agreement replaces the prior management agreement between RiverBanc and the Company, dated as of April 5, 2011. The amended and restated agreement has an effective date of January 1, 2013 and has a term that will expire on December 31, 2014, subject to automatic annual one-year renewals thereof.

As of December 31, 2013 and December 31, 2012, the Company owned a 20% and 15% membership interest, respectively, in RiverBanc. For the year ended December 31, 2013, the Company recognized \$0.3 million in income related to its investment in RiverBanc.

For the years ended December 31, 2013, 2012 and 2011, the Company expensed \$3.4 million, \$0.9 million and \$0.1 million in fees to RiverBanc, respectively. As of December 31, 2013 and December 31, 2012, the Company had management fees payable to RiverBanc of \$1.0 million and \$0.1 million, respectively, included in accrued expenses and other liabilities.

### *Accounting Outsourcing Agreement*

The Company entered into an outsourcing agreement with Real Estate Systems Implementation Group, LLC (“RESIG”) effective May 1, 2010, pursuant to which RESIG, among other things, (a) performs day-to-day accounting services for the Company and (b) effective October 4, 2010, provided a Chief Financial Officer to the Company. During the years ended December 31, 2013, 2012 and 2011, respectively, RESIG earned \$0.7 million, \$0.7 million and \$0.5 million in fees. As of December 31, 2013 and 2012, the Company had fees payable to RESIG in the amount of approximately \$0.1 million and \$0.1 million, respectively, included in accrued expenses and other liabilities.

### *Termination of Advisory Agreement*

On December 30, 2011, the Company and Harvest Capital Strategies LLC (“HCS”) agreed to terminate the HCS Advisory Agreement effective on December 31, 2011, with HCS agreeing to waive the 180-day advance notice requirement provided in the HCS Advisory Agreement. In addition, the Company and HCS agreed that, in consideration of the termination of the HCS Advisory Agreement, the Company would pay to HCS a termination fee equal to \$2,235,000 (the “Agreed Fee”), which fee is the sum of (a) the termination fee provided in the HCS Advisory Agreement and (b) \$500,000, which represents the fees that otherwise would have been payable through the end of the term of the HCS Advisory Agreement. The Agreed Fee was paid to HCS by the Company in three separate installments with the first installment of \$1,735,000 paid on December 30, 2011, and the final two installments of \$250,000 was paid on May 9, 2012.

Pursuant to the terms of the HCS Advisory Agreement, following the termination date of December 31, 2011, the Company will continue to pay incentive compensation to HCS with respect to all assets of the Company that were, as of the effective termination date, managed pursuant to the HCS Advisory Agreement (the “Incentive Tail Assets”) until such time as such Incentive Tail Assets are disposed of by the Company or mature. The Company expensed \$40,000 and \$2.2 million in 2012 and 2011, respectively, relating to the termination of the HCS Advisory Agreement.

**19. Quarterly Financial Data (unaudited)**

The following table is a comparative breakdown of our unaudited quarterly results for the immediately preceding eight quarters (dollar amounts in thousands, except per share data):

	<b>Three Months Ended</b>			
	<b>Mar. 31, 2013</b>	<b>Jun. 30, 2013</b>	<b>Sep. 30, 2013</b>	<b>Dec. 31, 2013</b>
Interest income	\$59,129	\$68,816	\$77,024	\$86,758
Interest expense	46,145	54,917	61,532	68,584
Net interest income	12,984	13,899	15,492	18,174
Other Income:				
Provision for loan losses	(283 )	(384 )	(238 )	(357 )
Impairment loss on investment securities	—	—	(225 )	—
Realized gain (loss) on investment securities and related hedges, net	(3,162 )	(8,490 )	3,319	(2,386 )
Realized gain on distressed residential mortgage loans	136	435	486	543
Unrealized (loss) gain on investment securities and related hedges, net	2,456	2,057	(1,498 )	2,449
Unrealized gain on multi-family loans and debt held in securitization trusts, net	7,051	8,981	6,338	9,125
Other Income (loss)	268	235	5	2,201
Total other income	6,466	2,834	8,187	11,575
General, administrative and other expenses	3,936	4,644	5,082	6,255
Income from operations before income taxes	15,514	12,089	18,597	23,494
Income tax expense	131	189	211	208
Net income	15,383	11,900	18,386	23,286
Preferred Stock Dividends	—	(662 )	(1,453 )	(1,453 )
Net income attributable to common stockholders	\$15,383	\$11,238	\$16,933	\$21,833
Per share basic income	\$0.31	\$0.19	\$0.27	\$0.34
Per share diluted income	\$0.31	\$0.19	\$0.27	\$0.34
Dividends declared per common share	\$0.27	\$0.27	\$0.27	\$0.27
Weighted average shares outstanding-basic	49,611	58,959	63,755	63,875
Weighted average shares outstanding-diluted	49,611	58,959	63,755	63,875

	<b>Three Months Ended</b>			
	<b>Mar. 31,</b>	<b>Jun. 30,</b>	<b>Sep. 30,</b>	<b>Dec. 31,</b>
	<b>2012</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>
Interest income	\$19,091	\$24,991	\$43,837	\$49,429
Interest expense	12,884	19,150	35,748	38,144
Net interest income	6,207	5,841	8,089	11,285
Other Income:				
Provision for loan losses	(230 )	(59 )	(247 )	(230 )
Realized gain (loss) on investment securities and related hedges, net	1,057	(456 )	5,037	630
Realized gain on distressed residential mortgage loans held in securitization trusts	—	—	—	85
Unrealized (loss) gain on investment securities and related hedges, net	(872 )	171	(1,875 )	(1,371 )
Unrealized gain on multi-family loans and debt held in securitization trusts, net	2,023	2,204	762	1,673
Other Income (loss)	375	358	(65 )	135
Total other income	2,353	2,218	3,612	922
General, administrative and other expenses	2,661	2,645	3,189	2,932
Income from continuing operations before income taxes	5,899	5,414	8,512	9,275
Income tax expense (benefit)	—	467	598	(133 )
Income from continuing operations	5,899	4,947	7,914	9,408
(Loss) income from discontinued operation - net of tax	(9 )	42	(1 )	(18 )
Net income	5,890	4,989	7,913	9,390
Net income (loss) attributable to noncontrolling interest	51	(148 )	—	—
Net income attributable to common stockholders	\$5,839	\$5,137	\$7,913	\$9,390
Per share basic income	\$0.42	\$0.34	\$0.30	\$0.19
Per share diluted income	\$0.42	\$0.34	\$0.30	\$0.19
Dividends declared per common share	\$0.25	\$0.27	\$0.27	\$0.27
Weighted average shares outstanding-basic	13,998	15,262	26,541	48,219
Weighted average shares outstanding-diluted	13,998	15,262	26,541	48,219

## 20. Subsequent Events

On January 10, 2014, we closed on the issuance of 11,500,000 shares of common stock to the underwriters (including the 1,500,000 shares issuable pursuant to the option granted to the underwriters), resulting in net proceeds to the Company of approximately \$75.8 million, after deducting estimated offering expenses.

In January 2014, the Company sold a pool of distressed residential mortgage loans with a carrying value of approximately \$29.4 million for aggregate proceeds of approximately \$36.9 million. This resulted in approximately \$7.5 million net realized gain, before income taxes, to the Company.

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**Exhibits:** The exhibits required by Item 601 of Regulation S-K are listed below. Management contracts or compensatory plans are filed as Exhibits 10.11 through 10.15.

**Exhibit Description**

- 3.1 Articles of Amendment and Restatement of New York Mortgage Trust, Inc. (as amended)\*
  - 3.2 Bylaws of New York Mortgage Trust, Inc., as amended (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on March 4, 2011).
  - 3.3 Articles Supplementary designating the Company's 7.75% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock") (Incorporated by reference to Exhibit 3.3 of the Company's Registration Statement on Form 8-A filed on May 31, 2013).
  - 4.1 Form of Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 333-111668), effective June 23, 2004).
  - 4.2 Form of certificate representing the Series B Cumulative Redeemable Convertible Preferred Stock Certificate (Incorporated by reference to Exhibit 3.4 to the Company's Registration Statement on Form 8-A filed on May 31, 2013).
  - 4.3(a) Junior Subordinated Indenture between The New York Mortgage Company, LLC and JPMorgan Chase Bank, National Association, as trustee, dated December 1, 2005. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 6, 2005).
  - 4.3(b) Amended and Restated Trust Agreement among The New York Mortgage Company, LLC, JPMorgan Chase Bank, National Association, Chase Bank USA, National Association and the Administrative Trustees named therein, dated December 1, 2005. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 6, 2005).
  - 4.4(a) Junior Subordinated Indenture between The New York Mortgage Company, LLC and JPMorgan Chase Bank, National Association, as trustee, dated March 15, 2005 (Incorporated by reference to Exhibit 4.3(a) to the Company's Quarterly Report on Form 10-Q filed on August 9, 2012 (File No. 001-32216)).
  - 4.4(b) Parent Guarantee Agreement between New York Mortgage Trust, Inc. and JPMorgan Chase Bank, National Association, as guarantee trustee, dated March 15, 2005. (Incorporated by reference to Exhibit 4.3(b) to the Company's Quarterly Report on Form 10-Q filed on August 9, 2012 (File No. 001-32216)).
- Certain instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.*
- 10.1 Form of Registration Rights Agreement, by and among New York Mortgage Trust, Inc. and the Investors listed on Schedule A thereto, dated as of February 14, 2008 (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 19, 2008 (File No. 001-32216)).

10.2 Investment Management Agreement, by and between New York Mortgage Trust, Inc. and The Midway Group, LP dated as of February 11, 2011 (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2011 (File No. 001-32216)).

10.3 First Amendment to Investment Management Agreement by and between New York Mortgage Trust, Inc. and The Midway Group, L.P., dated March 9, 2012 (Incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed on March 12, 2012 (File No. 001-32216)).

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- 10.4 Management Agreement, by and between RB Commercial Mortgage LLC and RiverBanc LLC, dated as of April 5, 2011 (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2011 (File No. 001-32216)).
- 10.5 Amended and Restated Management Agreement, by and between RB Commercial Mortgage LLC, New York Mortgage Trust, Inc. and RiverBanc, LLC, dated as of March 13, 2013. (Incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-32216)).
- 10.6 Underwriting Agreement among New York Mortgage Trust, Inc. and the several underwriters listed therein, dated as of May 25, 2012 (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on May 31, 2012 (File No. 001-32216)).
- 10.7 Equity Distribution Agreement, dated June 11, 2012, by and between New York Mortgage Trust, Inc. and JMP Securities LLC (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 11, 2012 (File No. 001-32216)).
- 10.8 Underwriting Agreement, dated as of July 12, 2012, between New York Mortgage Trust, Inc. and Ladenburg Thalmann & Co., Inc. (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on July 17, 2012 (File No. 001-32216)).
- 10.9 Underwriting Agreement, dated August 16, 2012, by and between New York Mortgage Trust, Inc. and Deutsche Bank Securities Inc. (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K as filed August 21, 2012 (File No. 001-32216)).
- 10.10 Underwriting Agreement, dated as of October 3, 2012, between the Company and Deutsche Bank Securities Inc. (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K as filed October 9, 2012 (File No. 001-32216)).
- 10.11 New York Mortgage Trust, Inc. 2005 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-3/A (File No. 333-127400) as filed with the Securities and Exchange Commission on December 9, 2005).
- 10.12 New York Mortgage Trust, Inc. 2010 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 17, 2010 (File No. 001-32216)).
- 10.13 Form of Restricted Stock Award Agreement for Officers (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 14, 2009 (File No. 001-32216)).
- 10.14 Form of Restricted Stock Award Agreement for Directors (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 14, 2009 (File No. 001-32216)).
- 10.15 Amended and Restated Employment Agreement, by and between New York Mortgage Trust, Inc. and Steven R. Mumma dated as of November 22, 2011 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 23, 2011 (File No. 001-32216)).



10.16 Underwriting Agreement, by and among New York Mortgage Trust, Inc., Deutsche Bank Securities Inc. and Credit Suisse Securities (USA) LLC, dated as of April 29, 2013. (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on May 2, 2013 (File No. 001-32216)).

10.17 Underwriting Agreement, dated May 28, 2013, by and among New York Mortgage Trust, Inc., Citigroup Global Markets Inc. and Keefe, Bruyette & Woods, Inc. (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May, 31, 2013 (File No. 001-32216)).

10.18 Underwriting Agreement, dated as of January 7, 2014, by and among the Company, UBS Securities LLC, Barclays Capital Inc. and Credit Suisse Securities (USA) LLC (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on January 10, 2014 (File No. 001-32216)).

12.1 Statement re: Computation of Ratios.\*

21.1 List of Subsidiaries of the Registrant.\*

- 23.1 Consent of Independent Registered Public Accounting Firm (Grant Thornton LLP).\*
- 31.1 Section 302 Certification of Chief Executive Officer.\*
- 31.2 Section 302 Certification of Chief Financial Officer.\*
- 32.1 Section 906 Certification of Chief Executive Officer and Chief Financial Officer.\*\*
- 101.INS XBRL Instance Document \*\*\*
- 101.SCH Taxonomy Extension Schema Document \*\*\*
- 101.CAL Taxonomy Extension Calculation Linkbase Document \*\*\*
- 101.DEF Taxonomy Extension Definition Linkbase Document \*\*\*
- 101.LAB Taxonomy Extension Label Linkbase Document \*\*\*
- 101.PRE Taxonomy Extension Presentation Linkbase Document \*\*\*

\*Filed herewith.

\*\*Furnished herewith. Such certification shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2013 and 2012; (ii) Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011; \*\*\* (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011; (iv) Consolidated Statements of Equity for the years ended December 31, 2013, 2012 and 2011; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011; and (vi) Notes to Consolidated Financial Statements.