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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2021
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _______to_______
Commission File Number: 001-36099

CHERRY HILL MORTGAGE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**46-1315605**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1451 Route 34, Suite 303 **Farmingdale, New Jersey**	**07727**
(Address of principal executive offices)	**(Zip Code)**

(877) 870 – 7005
(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	CHMI	New York Stock Exchange
8.20% Series A Cumulative Redeemable Preferred Stock, $0.01 par value	CHMI-PRA	New York Stock Exchange
8.250% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, $0.01 par value	CHMI-PRB	New York Stock Exchange

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.☒

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 the registrant's common stock, $0.01 par value per share, at June 30, 2021, held by those persons deemed by the registrant to be non-affiliates (based upon the closing sale price of the common stock on the New York Stock Exchange on June 30, 2021) was approximately $167.8 million. Shares of the registrant's common stock held by each executive officer and director and by each entity or person that, to the registrant's knowledge, owned 10% or more of the registrant's outstanding common stock as of June 30, 2021, have been excluded from this number in that these persons may be deemed affiliates of the registrant. The determination of affiliate status for this purpose is not necessarily a conclusive determination for other purposes.

On March 15, 2022, the registrant had a total of 18,261,848 shares of common stock, $0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement on Schedule 14A relating to its 2022 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission by no later than April 30, 2022 are incorporated by reference into Part III, Items 10 through 14, inclusive, of this Annual Report on Form 10-K as indicated herein.

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GLOSSARY

This glossary defines some, but not all, of the terms that we use elsewhere in this Annual Report on Form 10-K. In this Annual Report on Form 10-K, unless specifically stated otherwise or the context otherwise indicates, references to “we,” “us,” “our,” the “Company” or “CHMI” refer to Cherry Hill Mortgage Investment Corporation, a Maryland corporation, together with its consolidated subsidiaries; references to the “Manager” refer to Cherry Hill Mortgage Management, LLC, a Delaware limited liability company; and references to the “Operating Partnership” refer to Cherry Hill Operating Partnership, LP, a Delaware limited partnership.

“Agency” means a U.S. Government agency, such as Ginnie Mae, or a GSE.

“Agency RMBS” means RMBS issued by an Agency or for which an Agency guarantees payments of principal and interest on the securities.

“ASC” means an Accounting Standards Codification.

“ARM” means an adjustable-rate residential mortgage loan.

“CFTC” means the U.S. Commodity Futures Trading Commission.

“CMO” means a collateralized mortgage obligation. CMOs are either loss share securities issued by a GSE or structured debt instruments representing interests in specified pools of mortgage loans subdivided into multiple classes, or tranches, of securities, with each tranche having different maturities or risk profiles.

“credit enhancement” means techniques to improve the credit ratings of securities, including overcollateralization, creating retained spread, creating subordinated tranches and insurance.

“Excess MSR” means an interest in an MSR, representing a portion of the interest payment collected from a pool of mortgage loans, net of a basic servicing fee paid to the mortgage servicer.

“Fannie Mae” means the Federal National Mortgage Association.

“FHA” means the Federal Housing Administration.

“Freddie Mac” means the Federal Home Loan Mortgage Corporation.

“FRM” means a fixed-rate residential mortgage loan.

“GAAP” means U.S. generally accepted accounting principles.

“Ginnie Mae” means the Government National Mortgage Association, a wholly-owned corporate instrumentality of the United States of America within HUD.

“GSE” means a government-sponsored enterprise. When we refer to GSEs, we mean Fannie Mae or Freddie Mac.

“HUD” means the U.S. Department of Housing and Urban Development.

“hybrid ARM” means a residential mortgage loan that has an interest rate that is fixed for a specified period of time (typically three, five, seven or ten years) and thereafter adjusts to an increment over a specified interest rate index.

“inverse IO” means an inverse interest-only security, which is a type of stripped security. These debt securities receive no principal payments and have a coupon rate which has an inverse relationship to its reference index.

“IO” means an interest-only security, which is a type of stripped security. IO strips receive a specified portion of the interest on the underlying assets.

“MBS” means mortgage-backed securities.

“MSR” means a mortgage servicing right. An MSR provides a mortgage servicer with the right to service a mortgage loan or a pool of mortgages in exchange for a portion of the interest payments made on the mortgage or the underlying mortgages. An MSR is made up of two components: a basic servicing fee and an Excess MSR. The basic servicing fee is the amount of compensation for the performance of servicing duties.

“mortgage loan” means a loan secured by real estate together with the right to receive the payment of principal and interest on the loan (including the servicing fee).

“non-Agency RMBS” means CMOs that either are loss share securities issued by a GSE or are not issued or guaranteed by an Agency, including investment grade (AAA through BBB rated) and non-investment grade (BB rated through unrated) classes.

“non-conforming loan” means a residential mortgage loan that does not conform to the Agency underwriting guidelines and does not meet the funding criteria of Fannie Mae and Freddie Mac.

“non-QM loan” means a mortgage loan that does not satisfy the requirements for a qualified mortgage.

“prime mortgage loan” means a mortgage loan that generally conforms to GSE underwriting guidelines or is a non-QM loan with a FICO score generally above 700.

“qualified mortgage” means a mortgage that complies with the ability to repay rule and related requirements in Regulation Z.

“REIT” means a real estate investment trust.

“residential mortgage pass-through certificate” is a MBS that represents an interest in a “pool” of mortgage loans secured by residential real property where payments of both interest and principal (including principal prepayments) on the underlying residential mortgage loans are made monthly to holders of the security, in effect “passing through” monthly payments made by the individual borrowers on the mortgage loans that underlie the security, net of fees paid to the issuer/guarantor and servicer.

“RMBS” means a residential Agency MBS or a non-Agency RMBS.

“Servicing Related Assets” means Excess MSRs and MSRs.

“SIFMA” means the Securities Industry and Financial Markets Association.

"stripped security" is an RMBS structured with two or more classes that receives different distributions of principal or interest on a pool of RMBS. Stripped securities include IOs and inverse IOs.

"TBA" means a forward-settling Agency RMBS where the pool is "to-be-announced." In a TBA, a buyer will agree to purchase, 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.

"TRS" means a taxable REIT subsidiary.

"UPB" means unpaid principal balance.

"U.S. Treasury" means the U.S. Department of Treasury.

"VA" means the Department of Veterans Affairs.

"VA mortgage loan" means a mortgage loan that is partially guaranteed by the VA in accordance with its regulations.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this Annual Report on Form 10-K within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). For these statements, we claim the protections of the safe harbor for forward-looking statements contained in such Sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "could," "would," "may," "potential" or the negative of these terms or other comparable terminology, we intend to identify forward-looking statements. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ materially from our beliefs, expectations, estimates and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Statements regarding the following subjects, among others, may be forward-looking:

- the Company's investment objectives and business strategy;
- the Company's ability to raise capital through the sale of its equity and debt securities and to invest the net proceeds of any such offering in the target assets, if any, identified at the time of the offering;
- the Company's ability to obtain future financing arrangements and refinance existing financing arrangements as they mature;
- the Company's expected leverage;
- the Company's expected investments and the timing thereof;
- the Company's ability to acquire Servicing Related Assets and mortgage and real estate-related securities;
- estimates and statements relating to, and the Company's ability to make, future distributions to holders of the Company's securities;
- the Company's ability to compete in the marketplace;
- market, industry and economic trends;
- recent market developments and actions taken and to be taken by the U.S. Government, the U.S. Treasury and the Board of Governors of the Federal Reserve System, Fannie Mae, Freddie Mac, Ginnie Mae and the U.S. Securities and Exchange Commission ("SEC"), including actions such as forbearance programs and prohibitions on foreclosures taken in response to COVID-19 (as defined below);
- mortgage loan modification programs and future legislative actions;
- the Company's ability and the ability of CHMI Sub-REIT, Inc. (the "Sub-REIT") to qualify and maintain qualifications as REITs under the Internal Revenue Code of 1986, as amended (the "Code"), and limitations on the Company's business due to compliance with requirements for maintaining such qualifications as REITs under the Code;

- the Company’s ability to maintain an exception from the definitions of “investment company” under the Investment Company Act of 1940, as amended (the “Investment Company Act”), or otherwise not fall within those definitions;
- projected capital and operating expenditures;
- availability of qualified personnel; and
- projected prepayment and/or default rates.

The Company’s beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to it or are within its control. If any such change occurs, the Company’s business, financial condition, liquidity and results of operations may vary materially from those expressed in, or implied by, the Company’s forward-looking statements. Important factors, among others, that may cause the Company’s actual results, performance, liquidity or achievements to differ materially from those expressed or implied by the Company’s forward-looking statements include:

- the factors referenced in this Annual Report on Form 10-K, including those set forth under “Item 1. Business” and “Item 1A. Risk Factors” of Part I and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of Part II;
- the uncertainty and economic impact of the ongoing coronavirus (“COVID-19”) pandemic and of responsive measures implemented by various governmental authorities, businesses and other third parties;
- general volatility of the capital markets;
- changes in the Company’s investment objectives and business strategy;
- availability, terms and deployment of capital;
- availability of suitable investment opportunities;
- the Company’s dependence on the Manager and the Company’s ability to find a suitable replacement if the Company or the Manager were to terminate the management agreement the Company has entered into with the Manager;
- changes in the Company’s assets, interest rates or the general economy;
- increased rates of default and/or decreased recovery rates on the Company’s investments, including as a result of the effects of more severe weather and changes in traditional weather patterns;
- the ultimate geographic spread, severity and duration of pandemics, such as the outbreak of the COVID-19 pandemic and the emergence of new variants of the virus, actions that may be taken by governmental authorities to contain or address the impact of such pandemics, and the potential negative impacts of such pandemics on the U.S. and global economy generally and the U.S. residential mortgage market and our financial condition and results of operations specifically;

- changes in interest rates, interest rate spreads, the yield curve, prepayment rates or recapture rates;
- limitations on the Company's business due to compliance with requirements for maintaining its qualification as a REIT under the Code and the Company's exception from the definitions of "investment company" under the Investment Company Act (or of otherwise not falling within those definitions);
- the degree and nature of the Company's competition, including competition for the residential mortgage assets in which the Company invests; and
- other risks associated with acquiring, investing in and managing residential mortgage assets.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements apply only as of the date of this Annual Report on Form 10-K. Except as otherwise may be required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. See "Item 1A. Risk Factors" of this Annual Report on Form 10-K.

SUMMARY OF PRINCIPAL RISK FACTORS

Investing in our securities involves risks. The following is a summary of the principal factors that make an investment in the Company speculative or risky, all of which are more fully described below in Item 1A. "Risk Factors" of this Annual Report on Form 10-K. This summary should be read in conjunction with the "Risk Factors" section and should not be relied upon as an exhaustive summary of the material risks facing our business. In addition to the following summary, you should consider the information set forth in the "Risk Factors" section and the other information contained in this Annual Report on Form 10-K.

Our business of investing in mortgage related assets involves substantial risks, including:

- The values of mortgage related assets have been adversely affected by COVID-19.
- We use third party servicers to directly service the loans underlying our Servicing Related Assets which exposes us to the risk that they fail to comply with applicable law and the requirements of the Agencies that own those loans.
- Relatively high rates of prepayments on residential mortgage loans adversely affect the values of our assets.
- We rely on financial modeling to value our Servicing Related Assets.
- We use leverage to increase returns, but it exposes us to margin calls on our investable assets.

We are externally managed which creates risks, including:

- We are dependent on our Manager to provide qualified personnel.
- The amount of the fee we pay to our Manager is not affected by the performance of our investments.

- The fee payable to our Manager upon termination without cause or non-renewal is a material impediment to changing managers or internalizing management of our Company.

- Certain of our lenders prohibit terminating our Manager without their consent.

Our organizational structure creates risks, including:

- Maintenance of certain exceptions from (or otherwise not falling within) the definitions of “investment company” under the Investment Company Act imposes significant limitations on our operations.

- The REIT rules impose ownership limits which may discourage a possible takeover. Certain provisions of Maryland law have the same effect.

Ownership of our common stock or our preferred stock involves risks, including:

- The trading volume and market prices for shares of our equity securities tend to be volatile due to the relatively small market capitalization of our Company.

- Our preferred stock has not been rated and is junior to our debt and any additional shares of senior stock that we may issue.

- We may not be able to pay dividends on our equity securities.

- Our preferred stock has very limited voting rights which generally do not include voting for directors.

Qualification as a REIT involves risks, including:

- If we fail to satisfy the ongoing REIT qualification tests, we will become subject to taxation which will adversely affect the return on your investment.

- In order to satisfy those requirements, we may be required to forgo or liquidate otherwise attractive investments.

- We could lose our status as a REIT if the IRS successfully challenges our characterization of investments in internally created excess mortgage servicing rights.

- The REIT rules require that our mortgage servicing rights be held by a taxable REIT subsidiary, and the taxes payable by our taxable REIT subsidiary reduce the returns from that investment.

PART I

Item 1. Business

Cherry Hill Mortgage Investment Corporation is a publicly traded residential real estate finance company focused on acquiring, investing in and managing residential mortgage assets in the United States. We were incorporated in Maryland on October 31, 2012, and we commenced operations on October 9, 2013, following the completion of our initial public offering ("IPO"). Our common stock, our 8.20% Series A Cumulative Redeemable Preferred Stock (our "Series A Preferred Stock") and our 8.250% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (our "Series B Preferred Stock") are listed and traded on the New York Stock Exchange ("NYSE") under the symbols "CHMI," "CHMI-PRA" and "CHMI-PRB", respectively. We are externally managed by Cherry Hill Mortgage Management, LLC, an SEC-registered investment adviser established by Stanley Middleman. Our Manager is a party to a services agreement with Freedom Mortgage Corporation ("Freedom Mortgage"), which is owned and controlled by Mr. Middleman. Our Manager is owned by a "blind trust" for the benefit of Mr. Middleman.

We operate so as to continue to qualify to be taxed as a REIT under the Code. To qualify as a REIT, we must distribute annually to our stockholders an amount at least equal to 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. We currently expect to distribute substantially all of our REIT taxable income to our stockholders. We will be subject to income tax on our taxable income that is not distributed and to an excise tax to the extent that certain percentages of our taxable income are not distributed by specified dates. CHMI Solutions, Inc. ("Solutions"), which is our TRS, and, Aurora Financial Group, Inc. ("Aurora"), which is our licensed mortgage servicing subsidiary and a wholly owned subsidiary of Solutions, are subject to regular corporate U.S. federal, state and local income taxes on their taxable income.

Our principal objective is to generate attractive current yields and risk-adjusted total returns for our stockholders over the long term, primarily through dividend distributions and secondarily through capital appreciation. We attempt to attain this objective by selectively constructing and actively managing a portfolio of Servicing Related Assets and RMBS. Subject to market conditions, we may also invest in other cash flowing residential mortgage assets.

We operate our business through the following segments: (i) investments in RMBS; (ii) investments in Servicing Related Assets; and (iii) "All Other." For information regarding the segments in which we operate, see "Item 8. Consolidated Financial Statements and Supplementary Data—Note 3—Segment Reporting."

Our Targeted Asset Classes

Our primary targeted asset classes currently consist of:

- RMBS, including Agency RMBS, residential mortgage pass-through certificates, CMOs and TBAs; and
- Servicing Related Assets consisting of MSRs and Excess MSRs.

Our Strategy

Our strategy, which may change due to the availability and terms of capital and as market conditions warrant, involves:

- allocating a substantial portion of our equity capital to the acquisition of Servicing Related Assets;

- the creation of intercompany Excess MSRs from MSRs acquired by our mortgage servicing subsidiary, Aurora;
- acquiring RMBS on a leveraged basis; and
- opportunistically mitigating our prepayment and interest rate and, to a lesser extent, credit risk by using a variety of hedging instruments and, where applicable and available, recapture agreements.

Servicing Related Asset Strategy. The primary focus of our Servicing Related Asset strategy is the acquisition of MSRs from servicers on a bulk and/or flow purchase basis on terms to be negotiated in the future. We currently expect that our investments in Excess MSRs will be through the creation of intercompany Excess MSRs from the MSRs so acquired.

Our ability to acquire MSRs is subject to the requirements for qualification as a REIT for U.S. federal income tax purposes. We hold our MSRs through Aurora, a wholly owned subsidiary of our TRS. Our TRS and Aurora are subject to corporate income tax. We create Excess MSRs from the MSRs held by Aurora. The Excess MSRs are transferred to one of our subsidiaries which function as qualified REIT subsidiaries. These intercompany transfers are eliminated in consolidation for financial statement purposes. The portion of the interest payments represented by the Excess MSRs are not subject to an entity level tax as long as we comply with the requirements for qualification as a REIT for U.S. federal income tax purposes. The tax liability of Aurora negatively impacts the returns from the MSRs that it holds. In addition, our investments in MSRs expose us to default risk and the potential for credit losses.

We do not directly service the mortgage loans underlying the MSRs we acquire; rather, we contract with third-party subservicers to handle servicing functions for the loans underlying the MSRs.

RMBS Strategy. Our RMBS strategy focuses primarily on the acquisition and ownership of Agency RMBS that are whole-pool, residential mortgage pass-through certificates. However, from time to time, we invest in CMOs, including IOs and inverse IOs, primarily to take advantage of particularly attractive prepayment-related or structural opportunities in the RMBS markets. In addition to investing in specific pools of Agency RMBS, we utilize TBAs. Pursuant to these TBA transactions, we agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. Generally, we do not take delivery of the specified pool but instead enter into an offsetting transaction before the date when we would be required to take delivery. Our ability to engage in TBA transactions is limited by the gross income and asset tests applicable to REITs. From time to time, we enter into TBA dollar rolls which represent transactions where TBA contracts with the same terms but different settlement dates are simultaneously bought and sold. The TBA contract settling in the later month typically prices at a discount to the earlier month contract with the difference in price commonly referred to as the “drop”. The drop is a reflection of the expected net interest income from an investment in similar Agency MBS, net of an implied financing cost, that would be foregone as a result of settling the contract in the later month rather than in the earlier month. The drop between the current settlement month price and the forward settlement month price occurs because in the TBA dollar roll market, the party providing the financing is the party that would retain all principal and interest payments accrued during the financing period. Accordingly, drop income on TBA dollar rolls generally represents the economic equivalent of the net interest income earned on the underlying Agency MBS less an implied financing cost.

Our RMBS strategy includes selective investments in current issue, private label non-Agency RMBS and GSE risk-sharing securities. GSE risk-sharing securities are general obligations of Fannie Mae and Freddie Mac that provide credit protection with respect to defaults on reference pools of loans. The extent of our investments in GSE risk-sharing securities is limited by the gross income and asset tests applicable to REITs. We also may invest opportunistically in legacy non-Agency RMBS issued during or after 2010. Non-Agency RMBS are subject to risk of default, among other risks, and could result in greater losses.

Our overall strategy, and each category of assets within that strategy, is adaptable to changing market environments, subject to compliance with the asset, income and other tests and conditions that we must satisfy to maintain our qualification as a REIT and maintain an exception to the definitions of an "investment company" under the Investment Company Act (or otherwise not fall within those definitions). As a result, our acquisition and management decisions will depend on prevailing market conditions, and our targeted asset classes and strategy may vary over time in response to market conditions and may be limited by such compliance.

Our Manager

We are externally managed by our Manager. With the exception of Aurora, our licensed mortgage servicing subsidiary, which has three leased employees, we have no employees. We have entered into a management agreement with our Manager, pursuant to which our Manager is responsible for our investment strategies and decisions and our day-to-day operations, subject to the supervision and oversight of our board of directors. Our Manager is a Delaware limited liability company originally established by Mr. Middleman. The Manager is party to a services agreement with Freedom Mortgage, which is owned and controlled by Mr. Middleman. The sole member of the Manager is a blind trust for the benefit of Mr. Middleman. We rely on our Manager to provide or obtain on our behalf the personnel and services necessary for us to conduct our business. For additional information regarding the management agreement with our Manager, please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations—Management Agreement."

The principal office and place of business of our Manager is 1451 Route 34, Suite 303, Farmingdale, New Jersey 07727, and the telephone number of our Manager's executive offices is (877) 870-7005.

We have a Risk Committee to monitor our investment policies, portfolio holdings, financing and hedging strategies and compliance with our investment guidelines. Our Risk Committee is made up of personnel provided to CHMI through CHMM and those personnel are as follows: Mr. Lown, our President and Chief Executive Officer; Mr. Evans, our Chief Investment Officer; Mr. Hutchby, our Chief Financial Officer, Treasurer and Secretary; and our MSR portfolio manager.

Our Manager is registered as an investment adviser under the Investment Advisers Act of 1940, as amended, and is subject to the regulatory oversight of the SEC.

Our Investment Guidelines

The investment guidelines for our assets and borrowings are as follows:

- No investment will be made if it causes us to fail to qualify as a REIT under the Code.
- No investment will be made if it causes us to be regulated as an investment company under the Investment Company Act.
- We will not enter into principal transactions or split price executions with Freedom Mortgage or any of its affiliates unless such transaction is otherwise in accordance with our investment guidelines and the management agreement between us and our Manager and the terms of such transaction are at least as favorable to us as to Freedom Mortgage or its affiliate.
- Any proposed material investment that is outside our targeted asset classes must be approved by at least a majority of our independent directors.

Our Manager makes the determinations as to the percentage of assets that are invested in each of our targeted asset classes, consistent with our investment guidelines. Our Manager's acquisition decisions depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. In addition, our investment guidelines may be changed from time to time by our board of directors without the approval of our stockholders. Changes to our investment guidelines may include, without limitation, modification or expansion of the types of assets which we may acquire.

Our board of directors receives a report of our investments each quarter in conjunction with our board's review of our quarterly results. The nominating and corporate governance committee of our board of directors, which is comprised solely of our independent directors, will review the material terms of any transaction between us and Freedom Mortgage or its affiliates, including the pricing terms, to determine if the terms of those transactions are fair and reasonable.

Our Financing Strategies and Use of Leverage

We finance our RMBS with what we believe to be a prudent amount of leverage, which will vary from time to time based upon the particular characteristics of our portfolio, availability of financing and market conditions. Our borrowings for RMBS consist of repurchase transactions under master repurchase agreements. These agreements represent uncommitted financing provided by the counterparties. Our repurchase transactions are collateralized by our RMBS. In a repurchase transaction, we sell an asset to a counterparty at a discounted value, or the loan amount, and simultaneously agree to repurchase the same asset from such counterparty at a price equal to the loan amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, repurchase transactions are generally accounted for as debt secured by the underlying assets. During the term of a repurchase transaction, we generally receive the income and other payments distributed with respect to the underlying assets. While the proceeds of our repurchase financings often will be used to purchase additional RMBS, our repurchase financing arrangements do not restrict our ability to use proceeds from these arrangements to support our other liquidity needs. Our master repurchase agreements are documented under the standard form master repurchase agreement published by SIFMA.

We have entered into repurchase agreements with 33 counterparties as of December 31, 2021. From time to time, we expect to negotiate and enter into additional master repurchase agreements with other counterparties that could produce opportunities to acquire certain RMBS that may not be available from our existing counterparties. 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.

Aurora has two separate MSR financing facilities: (i) the Freddie Mac MSR Revolver, which is revolving credit facility for up to $100.0 million that is secured by all Freddie Mac MSRs owned by Aurora; and (ii) the Fannie Mae MSR Revolving Facility, which is a revolving credit facility for up to $150.0 million, that is secured by all Fannie Mae MSRs owned by Aurora. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 12—Notes Payable."

We may utilize other types of borrowings in the future, including corporate debt, securitization, or other more complex financing structures. Additionally, we may take advantage of available borrowings, if any, under new programs established by the U.S. Government to finance our assets. We also may raise capital by issuing unsecured debt or preferred or common stock.

Interest and Financing Risk Hedging

Subject to maintaining our qualification as a REIT and maintaining an exception from the definitions of "investment company" under the Investment Company Act (or otherwise not fall within those definitions), we use certain derivative financial instruments and other hedging instruments to mitigate interest rate risk and financing pricing risk we expect to arise from our repurchase agreement financings associated with our RMBS and the MSR financing facilities for our MSRs. We also attempt to mitigate duration and basis risk arising from our RMBS portfolio. The hedging instruments that we currently use include interest rate swaps, TBAs, swaptions and Treasury futures. We may also use financial futures, options, interest rate cap agreements, and forward sales. Our overall hedging strategy reflects the natural but limited hedging effect on our RMBS of our Servicing Related Assets, which tend to increase in value as interest rates rise. See "Item 8. Consolidated Financial Statements and Supplementary Data—Note 2—Basis of Presentation and Significant Accounting Policies—Derivatives and Hedging Activities."

Policies with Respect to Certain Other Activities

If our board of directors determines that additional funding is required, we may raise such funds through additional offerings of equity or debt securities, the retention of cash flow and other funds from debt financing, or a combination of these methods. Our board of directors has the authority, without stockholder approval, to issue additional shares of common stock or preferred stock in any manner and on such terms and for such consideration as it deems appropriate, at any time. We may, in the future, offer equity or debt securities in exchange for assets. We have not in the past and will not in the future underwrite the securities of other companies. Our board of directors may change any of these policies without prior notice to, or a vote of, our stockholders.

Competition

We compete with other mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies and other entities for investment opportunities in general. See "Item 1A. Risk Factors—We operate in a highly competitive market."

Human Capital Resources

We are externally managed and rely on our Manager to provide the personnel necessary to conduct our investment operations. As of the date of this Annual Report, there are 12 individuals who work in our business. The salary and benefits of three of those individuals are paid by Freedom Mortgage and we reimburse Freedom Mortgage for the cost of those salaries and benefits on a monthly basis. These individuals were hired specifically to manage the operations of Aurora, our licensed mortgage servicing subsidiary. In addition, we reimburse our Manager for the cost of the salary and benefits paid by our Manager to our Chief Financial Officer on a quarterly basis. Prior to January 1, 2022, we also reimbursed our Manager for the cost of the salary and benefits paid by our Manager to our General Counsel on a quarterly basis. Although the management fee we pay to our Manager pursuant to the terms of the management agreement with our Manager is not tied to or calculated based on the salaries and benefits of the other individuals who provide services to us, we believe our Manager uses the base management fee it receives from us for that purpose, among others.

We believe our external management structure imposes some constraints on our ability to use any particular measures or objectives in managing our workforce. The cash compensation of all but three members of our work force is not controlled by us. As a result, we have relied on equity compensation in the form of long-term incentive plan units, which are a special category of limited partnership interests in the Operating Partnership, to incentivize and retain our personnel.

Our Tax Status

We have elected to be taxed as a REIT under the Code. Provided that we maintain our qualification as a REIT, we generally will not be subject to U.S. federal income tax on our REIT taxable income that is currently distributed to our stockholders. REITs are subject to a number of organizational and operational requirements, including a requirement that they distribute at least 90% of their annual REIT taxable income excluding net capital gains. We cannot assure you that we will be able to comply with such requirements in the future. Failure to qualify as a REIT in any taxable year would cause us to be subject to U.S. federal income tax on our taxable income at regular corporate rates (and any applicable state and local taxes). Even if we qualify for taxation as a REIT, we may be subject to certain federal, state, local and non-U.S. taxes on our income. For example, the income generated by our TRS and its subsidiary, Aurora, from the ownership of MSRs is subject to U.S. federal, state and local income tax. See “Item 1A. Risk Factors—U.S. Federal Income Tax Risks” for additional tax status information.

The Investment Company Act

We are organized as a holding company and conduct business primarily through our subsidiaries. We believe we have conducted and we intend to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act.

Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer’s total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis, which we refer to as the “40% test.” Excluded from the term “investment securities,” among other things, are U.S. Government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exclusion from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We believe neither we nor our Operating Partnership is considered an investment company under Section 3(a)(1)(A) of the Investment Company Act because neither we nor our Operating Partnership engage primarily or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through our Operating Partnership’s wholly-owned or majority-owned subsidiaries including CHMI Sub-REIT, Inc., we believe that we and our Operating Partnership are primarily engaged in the non-investment company businesses of these subsidiaries, namely the business of purchasing or otherwise acquiring mortgages and other interests in real estate. We also believe that neither we nor our Operating Partnership is considered an investment company under Section 3(a)(1)(C) of the Investment Company Act because neither we nor our Operating Partnership meets the 40% test under that subsection.

We expect that most of our assets will be held in wholly-owned or majority-owned subsidiaries of our Operating Partnership and that most of these subsidiaries will rely on the exception from the definitions of investment company provided by Section 3(c)(5)(C) of the Investment Company Act, which is available for entities that, among other requirements, are “primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” Section 3(c)(5)(C), as interpreted by the staff of the SEC, generally requires an entity to invest at least 55% of its assets in certain “qualifying real estate interests,” and at least 80% of its assets in qualifying real estate interests plus “real estate-related assets” (with no more than 20% comprised of miscellaneous assets). For purposes of the exception provided by Section 3(c)(5)(C), we classify investments and other assets based in large measure on no-action letters issued by the SEC staff and other SEC interpretive guidance and, in the absence of SEC guidance, on our view of what constitutes a qualifying real estate asset and a real estate related asset.

However, certain subsidiaries might rely on Section 3(c)(7) of the Investment Company Act and, therefore, our Operating Partnership’s interest in each of these subsidiaries would constitute an “investment security” for purposes of determining whether our Operating Partnership passes the 40% test.

In the event that we or our Operating Partnership were to acquire assets that could make either entity fall within the definition of an investment company under Section 3(a)(1)(A) or Section 3(a)(1)(C) of the Investment Company Act, we believe that we and our Operating Partnership would still qualify for an exception from the definitions of “investment company” provided by Section 3(c)(5)(C), Section 3(c)(6) or both.

Qualification for exceptions from the definitions of "investment company" under the Investment Company Act limits our ability to make certain investments. In addition, complying with the tests for such exceptions could restrict the time at which we can acquire and sell assets, or require us to sell assets when we otherwise would not choose to do so. To the extent that the SEC or its staff provides more specific guidance regarding any of the matters bearing upon such exclusions, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC or its staff could further inhibit our ability to pursue the strategies we have chosen.

Website Access to Reports

We maintain a website at *www.chmireit.com*. We are providing the address to our website solely for the information of investors. The information on our website is not a part of, nor is it incorporated by reference, into this report. Through our website, we make available, free of charge, our annual proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains a website that contains these reports at *www.sec.gov*.

Corporate Information

Our principal executive offices are located at 1451 Route 34, Suite 303, Farmingdale, New Jersey 07727. Our telephone number is (877) 870-7005.

Item 1A. Risk Factors

The Company's business and operations are subject to a number of risks and uncertainties, the occurrence of which could adversely affect its business, financial condition, results of operations and ability to make distributions to stockholders and could cause the value of the Company's capital stock to decline. Please refer to the section entitled "Forward-Looking Information."

Risks Related to Our Business

We may not be able to continue to generate sufficient revenue to make or sustain distributions to our stockholders.

We cannot assure you that we will be able to continue to generate sufficient returns to pay our operating expenses and make satisfactory distributions to our stockholders. The results of our operations depend on several factors, including the availability of opportunities for the acquisition of target assets, the level and volatility of interest rates, the availability of adequate short and long-term financing, conditions in the financial markets and general economic conditions.

Difficult conditions in the mortgage and residential real estate markets as well as general market concerns may adversely affect the value of the assets in which we invest, and these conditions may persist for the foreseeable future.

Our business is materially affected by conditions in the residential mortgage market, the residential real estate market, the financial markets and the economy in general. In particular, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions, including defaults, credit losses and liquidity concerns. Certain commercial banks, investment banks and insurance companies incurred extensive losses from exposure to the residential mortgage market as a result of these difficulties and conditions. These factors have impacted investor perception of the risk associated with RMBS, other real estate-related securities and various other asset classes in which we may invest. As a result, values of our target assets have experienced volatility. Deterioration of the mortgage market and investor perception of the risks associated with RMBS and other residential mortgage assets that we acquire could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

The market and economic disruptions caused by the COVID-19 pandemic have negatively impacted, and could further negatively impact, our business, financial condition and results of operations. Any prolonged disruptions could create widespread mortgage loan performance and business continuity and viability issues.

The COVID-19 pandemic is causing significant disruptions to the United States and global economies and has contributed to volatility, illiquidity and negative pressure in the financial markets. Governments and other authorities around the world have imposed, and may continue to impose, measures intended to control the spread of COVID-19, including restrictions on freedom of movement and business operations such as travel bans, border closings, business closures, quarantines and shelter-in-place orders. These measures, among others, have slowed economic activities, and have led to significant volatility in the financial markets, including the markets in which we compete. The mortgage industry also has been negatively impacted by the COVID-19 pandemic. For example, many industry participants have been subject to margin calls, have suspended or reduced dividends or announced the need to raise additional capital.

The market and economic disruptions caused by the COVID-19 pandemic have negatively impacted and could further negatively impact our business. In particular, our ability to operate successfully could be adversely impacted due to, but not limited to, the following:

- Continued volatility in the residential credit market has in the past caused and may continue to cause the market value of loans and securities we own subject to financing to decline, and our financing counterparties may make margin calls. In March 2020 we observed a mark-down of a portion of our mortgage assets by the counterparties to our financing arrangements, resulting in higher than historical levels of margin calls. We cannot assure you that we will not be subject to additional margin calls. Significant margin calls could have a material adverse effect on our results of operations, financial condition, business, liquidity and ability to make distributions to our stockholders, and could cause the value of our securities to decline.

- We could face difficulty accessing debt and equity capital on attractive terms, or at all. In addition, a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may adversely affect the valuation of financial assets and liabilities or cause us to reduce the volume of Servicing Related Assets we acquire, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We expect that the economic and market disruptions caused by the COVID-19 pandemic will adversely impact the financial condition of borrowers of mortgage loans and limit our ability to grow our business.

We are subject to risks related to mortgage loans. We expect that, over the near and long term, the economic and market disruptions caused by the COVID-19 pandemic will continue to adversely impact the financial condition of borrowers of mortgage loans. As a result, and in light of the expected discontinuation of certain government or private borrower relief measures, we anticipate that the number of borrowers who become delinquent or default on their loans may increase significantly. An increase in delinquencies or default would have an adverse impact on the value of our RMBS and Servicing Related Assets, as well as increase the cost to service the loans underlying our MSR assets. Any future period of payment delinquencies, defaults, foreclosures or losses will likely adversely affect our cash flows, business, financial condition and results of operations, and ability to pay dividends to our stockholders. In addition, to the extent current conditions persist or worsen, real estate values may decline, which would likely reduce the level of new mortgage and other real estate-related loan originations. Such a reduction in origination activity would adversely affect our ability to grow our business and fully execute our investment strategy and could decrease our earnings and liquidity.

Our ability to make distributions to our stockholders has and may continue to be adversely affected by the COVID-19 pandemic.

We are generally required to distribute to our stockholders at least 90% of our REIT taxable income (excluding net capital gain and without regard to the deduction for dividends paid) each year for us to qualify as a REIT under the Code, which requirement we have historically satisfied through quarterly distributions of all or substantially all of our REIT taxable income in such year, subject to certain adjustments. In light of the negative impact on our liquidity in the first quarter of 2020 caused by the economic and market turmoil resulting from the COVID-19 pandemic, we decided in March 2020 to pay our previously declared cash dividend for the first quarter of 2020 of $0.40 per share of common stock, in a combination of cash and common stock, and we declared and paid a cash dividend of $0.27 per share for each subsequent quarter. We cannot assure you that similar events impacting our liquidity will not occur in the future. Accordingly, if such events occur and our liquidity is negatively impacted, we may not be able to continue making distributions to our stockholders at any time in the future or that the level of any distributions we do make to our stockholders will achieve a market yield or increase or even be maintained over time.

Market disruptions caused by the COVID-19 pandemic have made it more difficult for us to determine the fair value of our investments.

Market-based inputs are generally the preferred source of values for purposes of measuring the fair value of our assets under GAAP. However, the markets for our assets have experienced and in the future may continue to experience extreme volatility, reduced transaction volume and liquidity, and disruption as a result of the COVID-19 pandemic, which has made it more difficult for us and the providers of third-party valuations that we use to rely on market-based inputs in connection with the valuation of our assets under GAAP. The fair value of certain of our investments may fluctuate over short periods of time, and our determinations of fair value may differ materially from the values that would have been used if a ready market for these investments existed. The value of our common and preferred 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.

We may experience a decline in the fair value of our investments as a result of the COVID-19 pandemic, which could materially and adversely affect us.

A decline in the fair value of our investments as a result of the COVID-19 pandemic may require us to recognize an impairment against such assets under GAAP if we were to determine that we do not have the ability and intent to hold such assets for the foreseeable future or to maturity/payoff. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be impaired. Such impairment charges reflect non-cash losses at the time of recognition. The subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we experience a decline in the fair value of our investments, it could materially and adversely affect us, our financial condition and our results of operations.

We are dependent on mortgage servicers to service the mortgage loans relating to our Servicing Related Assets, and any failure by these mortgage servicers to service the mortgage loans relating to our Servicing Related Assets could have a material and adverse effect on us.

Our investments in Servicing Related Assets are dependent on the entity performing the actual servicing of the mortgage loans, called the mortgage servicer, to perform its servicing obligations. As a result, we could be materially and adversely affected if a mortgage servicer is terminated by the applicable Agency. The duties and obligations of mortgage servicers are defined in part through contractual agreements, which generally provide for the possibility for termination of the mortgage servicer in the absolute discretion of the applicable Agency. In addition, the termination of a mortgage servicer could take effect across all mortgages being serviced by that mortgage servicer.

We could also be materially and adversely affected if a mortgage servicer is unable to adequately service the underlying mortgage loans due to the following reasons, among others:

- its failure to comply with applicable laws and regulations;
- its failure to perform its loss mitigation obligations;
- a downgrade in its servicer rating;
- its failure to perform adequately in its external audits;
- a failure in or poor performance of its operational systems or infrastructure;
- regulatory or legal scrutiny, enforcement proceedings, consent orders or similar actions regarding any aspect of its operations, including, but not limited to, servicing practices and foreclosure processes lengthening foreclosure timelines; or
- the transfer of servicing to another party.

MSRs are subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on the mortgage servicer's business. If any mortgage servicer that we use actually or allegedly fails to comply with applicable laws, rules or regulations, that mortgage servicer could be exposed to fines, penalties or other costs, or the mortgage servicer could be terminated by the applicable Agency. If these laws, regulations and decisions change, we could be exposed to similar fines, penalties or costs. In addition, if a mortgage servicer that we use experiences any of the failures or regulatory scrutiny described above, then we could become subject to heightened regulatory or legal scrutiny by virtue of being a counterparty of these entities. Such scrutiny could result in our incurring meaningful additional costs or fines or being subject to material operational requirements or restrictions, each of which could adversely affect our business and results of operations.

In addition, a bankruptcy by any mortgage servicer that services the mortgage loans for us could result in:

- payments made by such mortgage servicer to us, or obligations incurred by it, being voided by a court under federal or state preference laws or federal or state fraudulent conveyance laws; or
- any agreement between us and the mortgage servicer being rejected in a bankruptcy proceeding.

Because we do not and in the future may not have the employees, servicing platforms, or technical resources necessary to service mortgage loans, upon a discontinuance or bankruptcy of any mortgage servicer that we use, we would need to engage an alternate mortgage servicer, which may not be readily available on acceptable terms or at all.

Any of the foregoing events could have a material and adverse effect on us.

The performance of loans underlying our MSRs may be adversely affected by the performance of the related mortgage servicer.

The performance of the loans underlying our MSRs is subject to risks associated with inadequate or untimely servicing. If our mortgage servicers commit a material breach of their obligations as a servicer, we may be subject to damages if the breach is not cured within a specified period of time following notice. In addition, poor performance by a mortgage servicer may result in greater than expected delinquencies and foreclosures and losses on the mortgage loans underlying our MSRs. A substantial increase in our delinquency or foreclosure rate or the inability to process claims could adversely affect our ability to access the capital and secondary markets for our financing needs.

Our ability to invest in, and dispose of, our investments in Servicing Related Assets is subject to the receipt of third-party consents.

Our acquisition of Servicing Related Assets on underlying loans or securitized by an Agency requires the prior consent of that Agency. The Agencies may require that we submit ourselves to costly or burdensome conditions as a prerequisite to their consent to our investments in Servicing Related Assets. These conditions may diminish or eliminate the investment potential of certain of those assets by making such investments too expensive for us or by severely limiting the potential returns available or otherwise imposing unacceptable conditions. The potential costs, issues or restrictions associated with receiving any such Agency's consent for any such acquisitions or dispositions by us cannot be determined with any certainty. To the extent we are unable to acquire or dispose of Servicing Related Assets when we determine it would be beneficial to do so, our results of operations may be adversely impacted.

The value of our Servicing Related Assets may vary substantially with changes in interest rates.

The values of Servicing Related Assets are highly sensitive to changes in interest rates. The value of Servicing Related Assets typically increases when interest rates rise and decreases when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. Subject to qualifying and maintaining our qualification as a REIT, we may pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us. To the extent we do not utilize derivatives to hedge against changes in the fair value of our Servicing Related Assets, our balance sheet, results of operations and cash flows would be susceptible to significant volatility due to changes in the fair value of, or cash flows from, those assets as interest rates change.

If delinquencies on mortgage loans increase, the value of our Servicing Related Assets may decline significantly.

Delinquency rates have a significant impact on the value of our Servicing Related Assets. An increase in delinquencies on the mortgage loans underlying the Servicing Related Assets will generally result in lower revenue because, typically, servicers will only collect servicing fees from GSEs or mortgage owners for performing loans. Our expectation of delinquencies is a significant assumption underlying the cash flow projections on the related pools of mortgage loans. If delinquencies are significantly greater than expected, the actual fair value of the Servicing Related Assets could be diminished. As a result, we could suffer a loss.

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

The frequency at which prepayments (including voluntary prepayments by borrowers, loan buyouts and liquidations due to defaults and foreclosures) occur on mortgage loans is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Generally, borrowers tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. If borrowers prepay their mortgage loans at rates that are faster or slower than expected, it may adversely affect our results.

We record our Servicing Related Assets on our balance sheet at fair value, and changes in their fair value are reflected in our consolidated results of operations. The determination of the fair value of Servicing Related Assets requires our management to make numerous estimates and assumptions that could materially differ from actual results. Such estimates and assumptions include, among other things, prepayment rates, as well as estimates of the future cash flows from the Servicing Related Assets, interest rates, delinquencies and foreclosure rates of the underlying mortgage loans. The ultimate realization of the value of the Servicing Related Assets, which are measured at fair value on a recurring basis, may be materially different than the fair values of such assets as may be reflected in our consolidated financial statements as of any particular date. The use of different estimates or assumptions in connection with the valuation of these assets could produce materially different fair values for such assets. Our failure to make accurate assumptions regarding prepayment rates or the other factors examined in determining fair value could cause the fair value of our Servicing Related Assets to vary materially, which could have a material adverse effect on our financial position, results of operations and cash flows. If the fair value of our Servicing Related Assets decreases, we would be required to record a non-cash charge, which would have a negative impact on our financial results. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from the Servicing Related Assets, and we could ultimately receive substantially less than what we paid for such assets.

Prepayment rates also affect the fair values of our RMBS. Voluntary prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict as changes may occur faster or slower than changes in the market interest rates. Prepayments can also occur when borrowers sell the property and use the sale proceeds to prepay the mortgage as part of a physical relocation or when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property. Fannie Mae and Freddie Mac will generally purchase mortgages that are 120 days or more delinquent from mortgage-backed securities trusts when the cost of guaranteed payments to security holders, including advances of interest at the security coupon rate, exceeds the cost of holding the nonperforming loans in their portfolios. Changes in the GSEs decisions as to when to repurchase delinquent loans can materially impact prepayment rates.

Interest rate mismatches between our assets and any borrowings used to fund purchases of our assets may reduce our income during periods of changing interest rates.

Some of our assets will be fixed-rate securities or have a fixed rate component (such as RMBS backed by hybrid ARMs). This means that the interest we earn on these assets will not vary over time based upon changes in a short-term interest rate index. Although the interest we would earn on any RMBS backed by ARMs generally will adjust for changing interest rates, such interest rate adjustments may not occur as quickly as the interest rate adjustments to any related borrowings, and such interest rate adjustments will generally be subject to interest rate caps, which potentially could cause such RMBS to acquire many of the characteristics of fixed-rate securities if interest rates were to rise above the cap levels. We generally fund our fixed-rate target assets with short-term borrowings. Therefore, there will be an interest rate mismatch between our assets and liabilities. Although we hedge to minimize interest rate exposure, the use of interest rate hedges also introduces the risk of other interest rate mismatches and exposures. During periods of changing interest rates, these mismatches could materially and adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Ordinarily, short-term interest rates are lower than long-term interest rates. If short-term interest rates rise disproportionately relative to long-term interest rates (a flattening of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on our assets. Because we expect that our investments in RMBS, on average, will bear interest based on longer-term rates than our borrowings, a flattening of the yield curve would tend to decrease our net income and the market value of our assets. Additionally, to the extent cash flows from RMBS are reinvested in new RMBS, the spread between the yields of the new RMBS and available borrowing rates may decline, which could reduce our net interest margin or result in losses. Any one of the foregoing outcomes could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders. It is also possible that short-term interest rates may exceed long-term interest rates, in which event our borrowing costs may exceed our interest income and we could incur losses.

We cannot predict the impact future actions by the U.S. Federal Reserve ("Federal Reserve") will have on our business, and any such actions may negatively impact us.

On January 26, 2022, the Federal Reserve announced that it expects to end its monthly asset purchases, including its purchases of Agency RMBS, and has signaled that it is likely to begin increasing the federal funds rate. This announcement indicates that the Federal Reserve will likely be reversing the policies it adopted in 2020 in response to the macro-economic effects of the COVID-19 pandemic. In response to the COVID-19 pandemic, the Federal Reserve adopted a policy of quantitative easing whereby it purchased each month significant amounts of U.S. Treasury securities and Agency RMBS. The Federal Reserve also reduced the federal funds rate target to 0 to 0.25 percent, established a series of emergency lending programs, reduced the discount rate and encouraged depository institutions to borrow from the discount window, and took regulatory actions to ease capital and liquidity requirements at depository institutions. The purpose of these actions was to stabilize financial markets and reduce interest rates and volatility. The Federal Reserve's balance sheet increased by more than $4.5 trillion to nearly $9 trillion, including $2.5 trillion in Agency RMBS. Due to the reduction in interest rates, prepayment speeds and mortgage refinancing activity increased. The Federal Reserve took similar actions during the 2008 financial crisis.

A shift in the Federal Reserve's policies is likely to result in higher interest rates, including for Agency RMBS. The Federal Reserve has already begun to reduce its asset purchases and has stated that it intends to hold, in the longer run, primarily U.S. Treasury securities on its balance sheet. These actions may decrease spreads on interest rates, reducing our net interest income. They may also negatively impact our results as we have certain assets and liabilities that are sensitive to changes in interest rates. In addition, increases in interest rates may result in lower refinancing activity and therefore decrease the rate of prepayment on loans underlying our assets, which could have a material adverse effect on our result of operations.

We cannot predict or control the impact future actions by the Federal Reserve will have on our business. Accordingly, future actions by the Federal Reserve could have a material and adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Interest rate caps on the ARMs and hybrid ARMs that may back our RMBS may reduce our net interest margin during periods of rising interest rates.

ARMs and hybrid ARMs are typically 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 through the maturity of the loan. We generally fund our RMBS with borrowings that typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, our financing costs could increase without limitation while caps could limit the interest we earn on the ARMs and hybrid ARMs that will back our RMBS. This problem is magnified for ARMs and hybrid ARMs that are not fully indexed because such periodic interest rate caps prevent the coupon on the security from fully reaching the specified rate in one reset. Further, some 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, we may receive less cash income on RMBS backed by ARMs and hybrid ARMs than necessary to pay interest on our related borrowings. Interest rate caps on RMBS backed by ARMs and hybrid ARMs could reduce our net interest margin if interest rates were to increase beyond the level of the caps, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Our Manager relies on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. These models are based on assumptions and actual results may differ significantly from the modeled expectations.

Our Manager relies on analytical models and information and data supplied by third parties. These models and data may be used to value assets or potential asset acquisitions and dispositions and to conduct our asset management activities. If these models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon could expose us to potential risks. In addition, models are only as accurate as the assumptions that go into building the models. Our Manager’s use of models and data may induce it to purchase certain assets at prices that are too high, sell certain other assets at prices that are too low or miss favorable opportunities altogether. Similarly, any hedging activities that are based on faulty models and data may prove to be unsuccessful.

Some models, such as prepayment models or mortgage default models, may be predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses. In addition, the predictive models used by our Manager may differ substantially from those models used by other market participants, with the result that valuations based on these predictive models may be substantially higher or lower for certain assets than actual market prices. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data, and, in the case of predicting performance in scenarios with little or no historical precedent (such as extreme broad-based declines in home prices, or deep economic recessions or depressions), such models must employ greater degrees of extrapolation, and are therefore more speculative and of more limited reliability.

All valuation models rely on correct market data inputs. If incorrect market data is entered into even a well-founded valuation model, the resulting valuations will be incorrect. However, even if market data is input correctly, “model prices” will often differ substantially from market prices, especially for securities with complex characteristics or whose values are particularly sensitive to various factors. If our market data inputs are incorrect or our model prices differ substantially from market prices, our business, financial condition and results of operations and our ability to make distributions to our stockholders could be materially adversely affected.

Valuations of some of our assets will be inherently uncertain, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed.

While in many cases our determination of the fair value of our assets is based on valuations provided by third-party dealers and pricing services, we value assets based upon our judgment, and such valuations may differ from those provided by third-party dealers and pricing services. Valuations of certain assets are often difficult to obtain or unreliable. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. In the past, the valuation process for certain of our assets has been particularly difficult due to market events resulting from the COVID-19 pandemic, the valuation of such assets was unpredictable, and the disparity of valuations provided to by third-party dealers has widened. We expect these factors and others that are beyond our control to continue having an impact on the valuation process for certain of our assets. Our business, financial condition and results of operations and our ability to make distributions to our stockholders could be materially adversely affected if our fair value determinations of these assets are materially higher than actual market values.

An increase in interest rates may cause a decrease in the volume of certain of our target assets, which could adversely affect our ability to acquire target assets that satisfy our investment objectives and to make distributions to our stockholders.

Rising interest rates generally reduce the demand for mortgage loans due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the volume of target assets available to us, which could adversely affect our ability to acquire assets that satisfy our investment objectives. Rising interest rates may also cause our target assets that were issued prior to an interest rate increase to provide yields that are below prevailing market interest rates. If rising interest rates cause us to be unable to acquire a sufficient volume of our target assets with a yield that is above our borrowing cost, our ability to satisfy our investment objectives and to make distributions to our stockholders could be materially adversely affected.

We are highly dependent on information systems and third parties, and systems failures or cybersecurity incidents could significantly disrupt our business, which may, in turn, negatively affect the market price of our securities and our ability to operate our business.

Our business is highly dependent on communications and information systems. Any failure or interruption of those systems or cyber-attacks or security breaches of our networks or systems could cause delays or other problems in our securities trading activities, including MBS trading activities. A disruption or breach could also lead to unauthorized access to and release, misuse, loss or destruction of our confidential information or personal or confidential information of third parties, which could lead to regulatory fines, costs associated with remediating the breach, reputational harm, financial losses, litigation. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securities transactions, if their respective systems experience failure, interruption, cyber-attacks or security breaches. The costs and losses associated with these risks are difficult to predict and quantify but could have a significant adverse effect on our operating results. Additionally, the legal and regulatory environment surrounding information privacy and security in the U.S. and international jurisdictions is constantly evolving.

Computer malware, viruses, computer hacking, and phishing attacks have become more prevalent in our industry. Although we have not detected a material cybersecurity breach of our networks or systems to date, other financial services institutions have reported material breaches of their systems, some of which have been significant. For example, on March 5, 2021, one of the Company's subservicers informed the Company that a third-party vendor, Accellion, used by the subservicer experienced an information security breach. As a consequence of that breach, the personally identifiable information of certain mortgage loan borrowers underlying the Company's mortgage servicing rights portfolio was accessed by an unauthorized third party. The subservicer has notified all impacted individuals in accordance with state and federal regulations and has offered those individuals impacted free credit monitoring services for an extended period of time. The subservicer has represented to the Company that the breach does not have a material impact on its ability to perform under its contract with the Company. The breach did not have an operational impact on the Company's systems or network environment.

Even with all reasonable security efforts, not every breach can be prevented or even detected. There is no assurance that we, or the third parties that facilitate our business activities, have not or will not experience a breach. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of the networks or systems of third parties that facilitate our business activities, including the breach of the Accellion platform used by one of our subservicers but such computer malware, viruses, and computer hacking and phishing attacks may disrupt our business and negatively affect our financial condition, results of operations, the market value of our common or preferred stock, and our ability to make distributions to our stockholders.

The lack of liquidity of our assets may adversely affect our business, including our ability to sell our assets.

Mortgage-related assets generally experience periods of illiquidity, including the period of delinquencies and defaults with respect to residential and commercial mortgage loans during the financial crisis. In addition, validating third-party pricing for illiquid assets may be more subjective than with respect to more liquid assets. Any illiquidity of our assets makes 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 previously recorded our assets. Assets that are illiquid are more difficult to finance, and to the extent that we use leverage to finance assets that become illiquid we may lose that leverage or have it reduced. Assets tend to become less liquid during times of financial stress, which is often the time that liquidity is most needed. As a result, our ability to sell assets or vary our portfolio in response to changes in economic and other conditions may be limited by liquidity constraints, which could adversely affect our results of operations and financial condition.

We use leverage in executing our business strategy, which may adversely affect the return on our assets and may reduce cash available for distribution to our stockholders, as well as increase losses when economic conditions are unfavorable. A sudden, precipitous drop in value of our financed assets could quickly and seriously reduce our available cash due to margin calls.

We use leverage to finance our investments in certain of our target assets and to enhance our financial returns. Our primary source of leverage is short-term borrowings under master repurchase agreements collateralized by our RMBS assets ("repo financing"). Other sources of leverage include MSR financings and, in the future, may include other credit facilities.

Through the use of leverage, we acquire positions with market exposure significantly greater than the amount of capital committed to the transaction. Although we generally are not required to maintain any particular minimum or maximum target debt-to-equity leverage ratio with respect to our RMBS assets, the amount of leverage we may employ for this asset class will depend upon the availability of particular types of financing and our Manager's assessment of the credit, liquidity, price volatility, financing counterparty risk and other factors. Our Manager has discretion, without the need for further approval by our board of directors, to change the amount of leverage we utilize for our RMBS. A change in our leverage strategy may increase our exposure to interest rate and real estate market fluctuations or require us to sell a portion of our existing investments, which could result in gains or losses and therefore increase our earnings volatility. Decisions to employ additional leverage in executing our RMBS investment strategies could increase the risk inherent in our RMBS acquisition strategy.

Although we do not have a targeted debt-to-equity ratio for our RMBS, we are subject to margin calls as a result of our repo financing activity. We use leverage for the primary purpose of financing our RMBS portfolio and not for the purpose of speculating on changes in interest rates. We are restricted in the amount of leverage we may employ by the terms and provisions of some of our financing agreements and the terms of agreements that we may enter into in the future may include limits on leverage.

Our ability to achieve our investment and leverage objectives depends on our ability to borrow money in sufficient amounts and on favorable terms. In particular, our ability to build a significant servicing portfolio is dependent on obtaining sufficient financing on attractive terms. In addition, we must be able to renew or replace our maturing borrowings on a continuous basis. In recent years, investors and financial institutions that lend in the securities repurchase market have tightened lending standards in response to the difficulties and changed economic conditions that have materially adversely affected the RMBS market. These market disruptions have been most pronounced in the non-Agency RMBS market, but the impact has also extended to Agency RMBS, which has made the value of these assets unstable and relatively illiquid compared to prior periods. More recently, the repo financing market has experienced a severe liquidity issue resulting in the infusion of additional liquidity by the U.S. Federal Reserve. These market disruptions and liquidity issues could potentially increase our financing costs and reduce our liquidity. In addition, because we rely on short-term financing, we are exposed to changes in the availability of financing which may make it more difficult for us to secure continued financing.

Leverage magnifies both the gains and the losses of our positions. Leverage increases our returns as long as we earn a greater return on investments purchased with borrowed funds than our cost of borrowing such funds. However, if we use leverage to acquire an asset and the value of the asset decreases, the leverage may increase our loss. Even if the asset increases in value, if the asset fails to earn a return that equals or exceeds our cost of borrowing, the leverage will decrease our returns.

We are required to post large amounts of cash as collateral or margin to secure our leveraged RMBS positions. In the event of a sudden, precipitous drop in value of our financed assets, we might not be able to liquidate assets quickly enough to repay our borrowings, further magnifying losses. Even a small decrease in the value of a leveraged asset may require us to post additional margin or cash collateral. Our debt service payments and posting of margin or cash collateral will reduce cash flow available for distribution to stockholders. We may not be able to meet our debt service obligations. To the extent that we cannot meet our debt service obligations, we risk the loss of some or all of our assets to sale to satisfy our debt obligations.

To the extent we might be compelled to liquidate qualifying real estate assets to meet margin calls or otherwise repay debts, our compliance with the REIT rules regarding our assets and our sources of income could be negatively affected, which could jeopardize our qualification as a REIT. Failing to qualify as a REIT would cause us to be subject to U.S. federal income tax (and any applicable state and local taxes) on all of our income and decrease profitability and cash available for distributions to stockholders.

Adverse market developments generally will cause our lenders to require us to pledge cash as additional collateral. If our assets were insufficient to meet these collateral requirements, we might be compelled to liquidate particular assets at inopportune times and at unfavorable prices.

Adverse market developments, including a sharp or prolonged rise in interest rates, a change in prepayment rates or increasing market concern about the value or liquidity of one or more types of our target assets, might reduce the market value of our portfolio, which generally will cause our lenders to initiate margin calls. A margin call means that the lender requires us to pledge cash as additional collateral to re-establish the ratio of the value of the collateral to the amount of the borrowing. If we are unable to satisfy margin calls, our lenders may foreclose on our collateral. The liquidation of collateral may jeopardize our ability to qualify as a REIT. Our failure to qualify as a REIT would cause us to be subject to U.S. federal income tax (and any applicable state and local taxes) on all of our income and decrease profitability and cash available for distribution to our stockholders.

Our use of repurchase transactions gives our lenders greater rights in the event that we file for bankruptcy, which may make it difficult for us to recover our collateral in the event of a bankruptcy filing.

Our borrowings under master repurchase agreements are intended to qualify for special treatment under the bankruptcy code, giving our lenders the ability to void the automatic stay provisions of the bankruptcy code and take possession of and liquidate collateral pledged in our repurchase transactions without delay if 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 any of our lenders files for bankruptcy. Thus, the use of repurchase transactions exposes our pledged assets to risk in the event of a bankruptcy filing by either our lenders or us. Any resulting loss of our pledged assets could have a material adverse effect on our business, financial condition and results of operations.

If our lenders default on their obligations to resell the RMBS back to us at the end of the repurchase transaction term, the value of the RMBS has declined by the end of the repurchase transaction term or we default on our obligations under the repurchase transaction, we will lose money on these transactions. Any such losses may materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

When we engage in a repurchase transaction, we initially sell securities to the financial institution in exchange for cash, and our counterparty is obligated to resell the securities to us at the end of the term of the transaction, which is typically from 30 to 180 days, but which may be up to 364 days or more. The cash we receive when we initially sell the securities is less than the value of those securities. This difference is referred to as the haircut. If these haircuts are increased, we will be required to post additional cash collateral for our RMBS. If our counterparty defaults on its obligation to resell the securities 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 securities). See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” for information regarding borrowings under the Company’s repurchase agreements.

If we default on one of our obligations under a repurchase transaction, the counterparty can terminate the transaction and cease entering into any other repurchase transactions with us. Such a default also would constitute a default under many of our financing agreements with other counterparties. In that case, there is no assurance we would be able to establish a suitable replacement facility on acceptable terms or at all.

Hedging against 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 maintaining our qualification as a REIT and applicable exceptions from the definition of "investment company" under the Investment Company Act (as applicable), we pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates. Our hedging activity varies in scope based on the level and volatility of interest rates, the types of liabilities and assets held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related assets or liabilities being hedged;
- to the extent hedging transactions do not satisfy certain provisions of the Code, and are not made through a TRS, the amount of income that a REIT may earn from hedging transactions to offset interest rate losses is limited by U.S. federal tax provisions governing REITs;
- the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value. Downward adjustments or "mark-to-market losses" would reduce our total stockholders' equity;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

Our hedging transactions, which are intended to limit losses, may actually adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

Changes in regulations relating to swaps activities may cause us to limit our swaps activity or subject us and our Manager to additional disclosure, recordkeeping, and other regulatory requirements.

The enforceability of agreements underlying hedging transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. Recently, new regulations have been promulgated by U.S. and foreign regulators attempting to strengthen oversight of derivative contracts. Any actions taken by regulators could constrain our strategy and could increase our costs, either of which could materially and adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act requires most derivatives to be executed on a regulated market and cleared through a central counterparty, which has resulted in increased margin requirements and costs. On December 7, 2012, the CFTC issued a no-action letter that provides mortgage REITs relief from such registration, or the MREIT No-Action Letter, if they meet certain conditions and submit a claim for such no-action relief. We believe we meet the conditions set forth in the MREIT No-Action Letter, and we have filed our claim with the CFTC to perfect the use of the no-action relief from registration. However, if in the future we do not meet the conditions set forth in the MREIT No-Action Letter or the relief provided by the MREIT No-Action Letter becomes unavailable for any other reason, we may need to seek to obtain another exemption from registration or we may be required to register as a "commodity pool operator" with the CFTC. If we are required to register with the CFTC as a commodity pool operator, we would become subject to additional disclosure, recordkeeping and reporting requirements, which may increase our expenses or otherwise limit our ability to conduct our business as contemplated.

We may change our investment strategy, investment guidelines and asset allocation without notice or stockholder consent, which may result in riskier investments. In addition, our charter provides that our board of directors may authorize us to revoke or otherwise terminate our REIT election, without the approval of our stockholders.

Our board of directors has the authority to change our investment strategy or asset allocation at any time without notice to or consent from our stockholders. To the extent that our investment strategy changes in the future, we may make investments that are different from, and possibly riskier than, the investments described in this Annual Report on Form 10-K and the other documents we file with the SEC from time to time. A change in our investments may increase our exposure to interest rate and real estate market fluctuations or require us to sell a portion of our existing investments, which could result in gains or losses and therefore increase our earnings volatility. Furthermore, a change in our asset allocation could result in our allocating assets in a different manner than as described in this Annual Report on Form 10-K.

In addition, our charter provides that our board of directors may authorize us to revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to qualify as a REIT. These changes could adversely affect our financial condition, results of operations, the market value of our common or preferred stock, and our ability to make distributions to our stockholders.

We operate in a highly competitive market.

Our profitability depends, in large part, on our ability to acquire targeted assets at favorable prices. We compete with a number of entities when acquiring our targeted assets, including other mortgage REITs, financial companies, public and private funds, commercial and investment banks and residential and commercial finance companies. We may also compete with the U.S. Federal Reserve and the U.S. Treasury to the extent they purchase assets in our targeted asset classes. Many of our competitors are substantially larger and have considerably greater access to capital and other resources than we do. Furthermore, new companies with significant amounts of capital have recently been formed or have raised additional capital and may continue to be formed and raise additional capital in the future, and these companies may have objectives that overlap with ours, which may create competition for assets we wish to acquire. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of assets to acquire and establish more relationships than us. We also may have different operating constraints from those of our competitors including, among others, (i) tax-driven constraints such as those arising from our qualification as a REIT, (ii) restraints imposed on us by our efforts to comply with certain exceptions from (otherwise avoid falling within) the definitions of an “investment company” under the Investment Company Act and (iii) restraints and additional costs arising from our status as a public company. Furthermore, competition for assets in our targeted asset classes may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

Our ability to make distributions to our stockholders depends on our operating results, our financial condition and other factors, and we may not be able to make regular cash distributions at a fixed rate or at all under certain circumstances.

We intend to continue to distribute to our stockholders all or substantially all of our REIT taxable income in each year (subject to certain adjustments) and may distribute more than our REIT taxable income. This distribution policy enables us to avoid being subject to U.S. federal income tax on our taxable income that we distribute to our stockholders. However, our ability to make distributions will depend on our earnings, applicable law, our financial condition and such other factors as our board of directors may deem relevant from time to time. We will declare and make distributions to our stockholders only to the extent approved by our board of directors.

Risks Related to Our Relationship with our Manager

We are dependent on our Manager and certain key personnel that are provided to us through our Manager and may not find a suitable replacement if our Manager terminates or elects not to renew the management agreement or such key personnel are no longer available to us.

We do not have any employees of our own other than three leased employees of our licensed mortgage servicing subsidiary, Aurora. We are completely reliant on our Manager, which has significant discretion as to the implementation of our operating policies and execution of our business strategies and risk management practices. The departure of any of our senior officers could have a material adverse effect on our ability to achieve our objectives.

We can offer no assurance that our Manager will remain our manager or that we will continue to have access to our senior management. We are subject to the risk that our Manager will terminate or elect not to renew the management agreement or that we may deem it necessary to terminate or elect not to renew the management agreement or prevent certain individuals from performing services for us and that no suitable replacement will be found to manage us.

If our management agreement is terminated or not renewed and no suitable replacement is found to manage us or we are unable to find a suitable replacement on a timely basis, we may not be able to continue to execute our business strategy. No assurances can be given that our Manager will act in our best interests with respect to the allocation of personnel, services and resources to our business. The failure of any of the key personnel provided to us through our Manager to service our business with the requisite time and dedication could materially and adversely affect our ability to execute our business strategy.

The management fee payable to our Manager is payable regardless of the performance of our portfolio, which may reduce our Manager’s incentive to devote the time and effort to seeking profitable opportunities for our portfolio.

We pay our Manager a management fee, which may be substantial, based on our stockholders’ equity (as defined in the management agreement) regardless of the performance of our portfolio. The management fee takes into account the net issuance proceeds of both common and preferred stock offerings, as well as issuances of equity securities by our Operating Partnership. Our Manager’s entitlement to non-performance-based compensation might reduce its incentive to devote the time and effort of its professionals to seeking profitable opportunities for our portfolio, which could result in a lower performance of our portfolio and materially adversely affect our business, financial condition and results of operations.

Our investment guidelines are very broad, and our board of directors will not approve each decision to acquire, dispose of, or otherwise manage an asset.

Our Manager is authorized to follow very broad guidelines in pursuing our strategy. Our board of directors will periodically review our portfolio and asset-management decisions. However, it generally will not review all of our proposed acquisitions, dispositions and other management decisions. In addition, in conducting periodic reviews, our board of directors will rely primarily on information provided to it by our Manager. Furthermore, our Manager may arrange for us to use complex strategies or to enter into complex transactions that may be difficult or impossible to unwind by the time they are reviewed by our board of directors. Our Manager has great latitude within the broad guidelines in determining the types of assets it may decide are proper for us to acquire and other decisions with respect to the management of those assets subject to our maintaining our qualification as a REIT. Poor decisions could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

There will be conflicts of interest in our relationships with our Manager and Freedom Mortgage, which could result in decisions that are not in the best interests of our stockholders.

Our Manager is a Delaware limited liability company established by Mr. Middleman. The Manager is a party to a services agreement with Freedom Mortgage, which is wholly owned and controlled by Mr. Middleman. The Manager is owned by a “blind trust” for the benefit of Mr. Middleman.

We are dependent on our Manager for our day-to-day management and operations. In turn, the Manager is dependent on the performance of Freedom Mortgage under the services agreement. Various potential and actual conflicts of interest may arise from the activities of Freedom Mortgage and its affiliates by virtue of this relationship. The ability of our Manager’s officers and personnel, with the exception of those officers that are dedicated to us, to engage in other business activities may reduce the time our Manager and certain of its officers and personnel spend managing us.

We may choose not to enforce, or to enforce less vigorously, our rights under our management agreement or our rights as a third party beneficiary to the services agreement between our Manager and Freedom Mortgage because of our desire to maintain ongoing relationships with our Manager and Freedom Mortgage. In the future, Freedom Mortgage may sponsor other vehicles that invest in Servicing Related Assets, prime loans or other residential mortgage assets, and there may be situations where we compete with Freedom Mortgage or its affiliates for opportunities to acquire Servicing Related Assets or other residential mortgage assets. Freedom Mortgage is a separate and distinct company with its own business interests and will be under no obligation to maintain its current business strategy. Freedom Mortgage will be under no obligation to offer Servicing Related Assets or any other residential mortgage assets to us, and Freedom Mortgage may offer those assets to third parties without offering such assets to us.

In addition, there may be conflicts of interest inherent in our relationship with Freedom Mortgage through our Manager to the extent Freedom Mortgage or our Manager invests in or creates new vehicles to invest in assets in which we may invest or whose investment objectives overlap with our investment objectives. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles. Members of our board of directors may serve as officers and/or directors of these other entities, provided that we maintain a majority of independent directors in accordance with the rules of the NYSE. In addition, in the future, our Manager or its affiliates may have investments in and/or earn fees from such other investment vehicles that are higher than their economic interests in us and which may therefore create an incentive to allocate investments to such other investment vehicles.

Our management agreement with our Manager generally does not limit or restrict our Manager or its affiliates from engaging in any business or managing other pooled investment vehicles that invest in investments that meet our investment objectives, except that under our management agreement neither our Manager nor any entity controlled by or under common control with our Manager is permitted to raise or sponsor any new pooled investment vehicle whose investment policies, guidelines or plans target as its primary investment category investments in Excess MSRs.

The ability of our Manager and its officers and employees to engage in other business activities, subject to the terms of our management agreement with our Manager, may reduce the amount of time our Manager, its officers or other employees spend managing us. In addition, we may engage (subject to our investment guidelines) in material transactions with Freedom Mortgage, its affiliates or our Manager, including, but not limited to, certain financing arrangements, co-investments in, or purchases of, MSRs or other assets, that present an actual, potential or perceived conflict of interest. It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction, litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential, actual or perceived conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation, which could materially adversely affect our business in a number of ways, including causing an inability to raise additional funds, a reluctance of counterparties to do business with us, a decrease in the prices of our common or preferred securities and a resulting increased risk of litigation and regulatory enforcement actions.

The management agreement with our Manager was not negotiated on an arm's-length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate.

The management agreement with our Manager was negotiated between related parties, and its terms, including fees payable, may not be as favorable to us as if it had been negotiated on an arm's-length basis with an unrelated third party. Various potential and actual conflicts of interest may arise from the activities of Freedom Mortgage and its affiliates.

Termination of our management agreement without cause will result in a significant termination fee payable by us. That fee will increase the effective cost to us of terminating the management agreement, thereby adversely affecting our ability to terminate our Manager without cause.

Pursuant to the management agreement, our Manager will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our board of directors in following or declining to follow the Manager's advice or recommendations. Under the terms of the management agreement, our Manager, Freedom Mortgage, and their respective affiliates and each of their officers, directors, trustees, members, stockholders, partners, managers, Investment Committee members, employees, agents, successors and assigns, will not be liable to us for acts or omissions performed in accordance with and pursuant to the management agreement, except because of acts constituting bad faith, willful misconduct, gross negligence, fraud or reckless disregard of their duties under the management agreement. In addition, we will indemnify our Manager, Freedom Mortgage, and their respective affiliates and each of their officers, directors, trustees, members, stockholders, partners, managers, Investment Committee members, employees, agents, successors and assigns, with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our Manager not constituting bad faith, willful misconduct, gross negligence, fraud or reckless disregard of duties, performed in good faith in accordance with and pursuant to the management agreement.

If our Manager ceases to be our Manager pursuant to the management agreement, our lenders and our derivative counterparties may cease doing business with us.

If our Manager ceases to be our Manager, it would constitute an event of default or early termination event under some of our financing and hedging agreements, upon which our counterparties would have the right to terminate their agreements with us. If our Manager ceases to be our Manager for any reason, including upon the non-renewal of our management agreement, and we are unable to obtain financing or enter into or maintain derivative transactions, our business, financial condition and results of operations and our ability to make distributions to our stockholders may be materially adversely affected.

Risks Related to Our Organizational Structure

Maintenance of certain exceptions from (or otherwise not falling within) the definitions of "investment company" under the Investment Company Act imposes significant limitations on our operations.

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries is required to register as an investment company under the Investment Company Act. This limits the types of businesses in which we may engage and the assets we may hold and the manner in which we hold them. Certain of our subsidiaries rely on the exception provided by Section 3(c)(5)(C) under the Investment Company Act which is designed for entities primarily engaged in the business of "purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exception generally requires that at least 55% of the entity's assets consist of qualifying real estate interests and at least 80% of the entity's assets consist of qualifying real estate interests or real estate-related assets (with no more than 20% in miscellaneous assets). These requirements limit the types of assets those subsidiaries can own and the timing of sales and purchases of those assets.

To classify the assets held by our subsidiaries as qualifying real estate interests or real estate-related assets, we seek to rely on no-action letters and other guidance published by the SEC staff regarding those kinds of assets, as well as upon our analyses (in consultation with outside counsel) of guidance published with respect to other types of assets. There can be no assurance that the laws and regulations governing the Investment Company Act status of companies similar to ours, or the guidance from the SEC or its staff regarding the treatment of assets as qualifying real estate interests or real estate-related assets, will not change in a manner that adversely affects our operations. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our investment company status, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we intend to monitor the assets of our subsidiaries regularly, there can be no assurance that our subsidiaries will be able to maintain their exception from registration. Any of the foregoing could require us to adjust our strategy, which could limit our ability to make certain investments or require us to sell assets in a manner, at a price or at a time that we otherwise would not have chosen. This could negatively affect the value of our common or preferred stock, the sustainability of our business model and our ability to make distributions.

The ownership limits in our charter may discourage a takeover or business combination that may have benefited our stockholders.

To assist us in qualifying as a REIT, among other purposes, our charter generally limits, unless waived by our board of directors, the beneficial or constructive ownership of any class of our stock by any person, other than Mr. Middleman, to no more than 9.0% in value or the number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our stock. This and other restrictions on ownership and transfer of our shares of stock contained in our charter may discourage a change of control of us and may deter individuals or entities from making tender offers for our common stock on terms that might be financially attractive to you or which may cause a change in our management. In addition to deterring potential transactions that may be favorable to our stockholders, these provisions may also decrease your ability to sell our common stock because they make purchases of our common stock less attractive.

Our stockholders' ability to control our operations is severely limited.

Our board of directors approves our major strategies, including our strategies regarding investments, financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other strategies without a vote of our stockholders.

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

Certain provisions of the Maryland General Corporation Law, or the MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or impeding a change of control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock, including:

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then-outstanding stock) or an affiliate of an interested stockholder for five years after the most recent date on which the stockholder became an interested stockholder, and thereafter require two supermajority stockholder votes to approve any such combination; and

- "control share" provisions that provide that a holder of "control shares" of the Company (defined as voting shares of stock which, when aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), entitle the acquiror to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares," subject to certain exceptions) generally has no voting rights with respect to the control shares except to the extent approved by our stockholders by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have elected to opt-out of these provisions of the MGCL, in the case of the business combination provisions, by resolution of our board of directors exempting any business combination between us and any other person (provided that such business combination is first approved by our board of directors, including a majority of our directors who are not affiliates or associates of such person), and, in the case of the control share provisions, pursuant to a provision in our bylaws. However, our board of directors may by resolution elect to repeal the foregoing opt-out from the business combination provisions of the MGCL, and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

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

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

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

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

- actual receipt of an improper benefit or profit in money, property or services; or

- active and deliberate dishonesty by the director or officer that was established by a final judgment and is material to the cause of action.

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

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

Our charter provides that, subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors, a director may be removed only for “cause” (as defined in our charter), and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum, for the full term of the directorship in which the vacancy occurred (other than vacancies among any directors elected by the holder or holders of any class or series of preferred stock, if such right exists). These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in our control that is in the best interests of our stockholders.

Risks Related to Our Common Stock

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

The market price of our common stock may be highly volatile and subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. The stock market has experienced price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies’ operating performances. These broad market fluctuations could reduce the market price of our common stock. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could lead to a material decline in the market price of our common stock. If the market price of our common stock declines significantly, you may be unable to resell your shares at a gain. Further, fluctuations in the trading price of our common stock may adversely affect the liquidity of the trading market for our common stock and, in the event that we seek to raise capital through future equity financings, our ability to raise such equity capital.

We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- the uncertainty and economic impact of the COVID-19 pandemic, impact on market liquidity, the value of assets and availability of financing;
- actual or anticipated variations in our quarterly operating results;
- increases in market interest rates that lead purchasers of our common stock to demand a higher yield or to seek alternative investments;
- changes in market valuations of similar companies;

- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key personnel;
- actions by stockholders;
- speculation in the press or investment community;
- general market, economic and political conditions and the impact of these conditions on the global credit markets;
- the operating performance of other similar companies;
- changes in accounting principles; and
- passage of legislation or other regulatory developments that adversely affect us or our industry.

Future sales of our common stock or securities convertible into our common stock could cause the market value of our common stock to decline and could result in dilution of your shares.

Sales of substantial amounts of shares of our common stock or securities convertible into our common stock could cause the market price of our common stock to decrease significantly. We cannot predict the effect, if any, of future sales of our common stock or securities convertible into our common stock, or the availability of shares of our common stock for future sales, on the value of our common stock. Sales of substantial amounts of shares of our common stock or securities convertible into our common stock, or the perception that such sales could occur, may adversely affect prevailing market values for our common stock.

Future offerings of debt securities, which would rank senior to our common stock upon our liquidation, and future offerings of equity securities, which would dilute the common stock holdings of 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 shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the 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. Our preferred stock could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common stock. 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.

We have not established a minimum distribution payment level with respect to our common stock, and we cannot assure you of our ability to make distributions in the future.

We expect to make regular distributions to holders of our common stock and preferred stock in amounts such that we distribute all or substantially all of our REIT taxable income in each year. We have not established a minimum distribution payment level with respect to our common stock, and our ability to make distributions may be adversely affected by a number of factors, including the risk factors described in this Annual Report on Form 10-K. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, debt covenants, maintenance of our REIT qualification, applicable law and other factors as our board of directors may deem relevant from time to time.

No assurance can be given that the level of any distributions we make to our stockholders will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect the market price of our common stock. In addition, some of our distributions may include a return of capital, which would reduce the amount of capital available to operate our business.

Distributions that we make to our stockholders will generally be taxable to our stockholders as ordinary income. However, a portion of our distributions may be designated by us as long-term capital gains to the extent that they are attributable to capital gain income recognized by us or may constitute a return of capital to the extent that they exceed our earnings and profits as determined for U.S. federal income tax purposes. A return of capital is not taxable, but has the effect of reducing the tax basis of a stockholder’s investment in our common stock.

Risks Related to Our Preferred Stock

Our 8.20% Series A Cumulative Redeemable Preferred Stock (the “Series A Preferred Stock”) and our 8.250% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (the “Series B Preferred Stock,” and together with the Series A Preferred Stock, the “Preferred Stock”) ranks junior to our existing and future indebtedness and will rank junior to any other class or series of stock we may issue in the future with terms specifically providing that such stock ranks senior to the Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up (“Senior Stock”), and your interests could be diluted by the issuance of additional shares of preferred stock and by other transactions.

Our Preferred Stock ranks junior to all of our existing and future indebtedness and any Senior Stock we may issue in the future and to other non-equity claims on us and our assets available to satisfy claims against us, including claims in bankruptcy, liquidation or similar proceedings. In the event of our bankruptcy, liquidation or dissolution or the winding-up of our affairs, our assets will be available to pay obligations on our Preferred Stock only after all of our indebtedness and other liabilities have been paid. In addition, our Preferred Stock would effectively rank junior to all indebtedness and other liabilities of any existing or future subsidiaries. Such subsidiaries are or would be separate legal entities and have or will have no legal obligation to pay any amounts to us in respect of dividends due on our Preferred Stock. If we are forced to liquidate our assets to pay our creditors, we may not have sufficient assets to pay amounts due on any or all of our Preferred Stock then outstanding. We may in the future incur substantial amounts of debt and other obligations that will rank senior to our Preferred Stock.

Our charter currently authorizes the issuance of up to 100,000,000 shares of preferred stock in one or more classes or series. As of December 31, 2021, we have 4,781,635 shares of preferred stock outstanding, including 2,781,635 shares of Series A Preferred Stock and 2,000,000 shares of Series B Preferred Stock. Subject to limitations prescribed by Maryland law and our charter, our board of directors is authorized to issue, from our authorized but unissued shares of stock, preferred stock in such classes or series as our board of directors may determine and to establish from time to time the number of shares of preferred stock to be included in any such class or series. The issuance of additional shares of either series of Preferred Stock or any class or series of stock we may issue in the future with terms specifically providing that such stock ranks on parity with our Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up (“Parity Stock”) would dilute the interests of the holders of our Preferred Stock, and the issuance of any Senior Stock or the incurrence of additional indebtedness could affect our ability to pay dividends on, redeem or pay the liquidation preference on our Preferred Stock. Other than the limited conversion rights afforded to holders of our Preferred Stock that may become exercisable in connection with certain changes of control, none of the provisions relating to our Preferred Stock contain any terms relating to or limiting our indebtedness or affording the holders of our Preferred Stock protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets, so long as the rights of the holders of our Preferred Stock are not materially and adversely affected.

The Preferred Stock has not been rated.

We have not sought to obtain a rating for our Preferred Stock, and the Preferred Stock may never be rated. It is possible, however, that one or more rating agencies might independently determine to assign a rating to either series of our Preferred Stock or that we may elect to obtain a rating of one or both series of our Preferred Stock in the future. Furthermore, we may elect to issue other securities for which we may seek to obtain a rating. If any ratings are assigned to our Preferred Stock in the future or if we issue other securities with a rating, such ratings, if they are lower than market expectations or are subsequently lowered or withdrawn, could adversely affect the market for or the market value of the Preferred Stock.

Ratings only reflect the views of the issuing rating agency or agencies, and such ratings could at any time be revised downward or withdrawn entirely at the discretion of the issuing rating agency. Further, a rating is not a recommendation to purchase, sell or hold any particular security, including our Preferred Stock. In addition, ratings do not reflect market prices or suitability of a security for a particular investor, and any future rating of our Preferred Stock may not reflect all risks related to the Company and its business, or the structure or market value of our Preferred Stock.

We may not be able to pay dividends or other distributions on the Preferred Stock.

Under Maryland law, no distributions on stock may be made if, after giving effect to the distribution, (i) the corporation would not be able to pay the indebtedness of the corporation as such indebtedness becomes due in the usual course of business or (ii) except in certain limited circumstances when distributions are made from net earnings, the corporation’s total assets would be less than the sum of the corporation’s total liabilities plus, unless the charter provides otherwise (which our charter does, with respect to our Preferred Stock), the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the distribution. There can be no guarantee that we will have sufficient cash to pay dividends on our Preferred Stock. Our ability to pay dividends may be impaired if any of the risks described in this Annual Report on Form 10-K were to occur. In addition, our ability to pay dividends depends upon our earnings, our financial condition, maintenance of our REIT qualification and other factors as our board of directors may deem relevant from time to time. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make distributions on our Preferred Stock and on our common stock, to pay our indebtedness or to fund our other liquidity needs.

Holders of our Preferred Stock may not be able to exercise conversion rights upon a change of control. If exercisable, the change of control conversion rights applicable to our Preferred Stock may not adequately compensate holders of our Preferred Stock. These change of control conversion rights may also make it more difficult for a party to acquire us or discourage a party from acquiring us.

Upon the occurrence of certain changes of control, each holder of our Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date (as defined below), we have provided notice of our election to redeem some or all of the shares of Preferred Stock held by such holder, in which case such holder will have the right only with respect to shares of Preferred Stock that are not called for redemption) to convert some or all of such holder’s Preferred Stock into shares of our common stock (or, under specified circumstances, certain alternative consideration). Notwithstanding that we generally may not redeem our Series A Preferred Stock prior to August 17, 2022 and our Series B Preferred Stock prior to April 15, 2024, we have a special optional redemption right to redeem our Preferred Stock in the event of certain changes of control, and holders of our Preferred Stock will not have the right to convert any shares that we have elected to redeem prior to the date the Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide notice to the holders of Preferred Stock (the “Change of Control Conversion Date”).

If we do not elect to redeem the Preferred Stock prior to the Change of Control Conversion Date, then upon an exercise of the conversion rights provided to the holders of our Preferred Stock, the holders of Preferred Stock will be limited to a maximum number of shares of our common stock (or, if applicable, certain alternative conversion consideration) which may result in a holder receiving shares of common stock (or alternative conversion consideration, as applicable) with a value that is less than the liquidation preference of our Preferred Stock.

In addition, the change of control conversion feature of the Preferred Stock may have the effect of discouraging a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change of control transaction under circumstances that otherwise could provide the holders of Preferred Stock with the opportunity to realize a premium over the then-current market price of such stock or that stockholders may otherwise believe is in their best interests.

Our charter, including the articles supplementary designating the Preferred Stock, contains restrictions upon transfer and ownership of our stock, which may impair the ability of holders to acquire the Preferred Stock or convert Preferred Stock into our common stock.

Our charter, including the articles supplementary designating each series of our Preferred Stock, contains restrictions on transfer and ownership of our stock intended to, among other purposes, assist us in maintaining our qualification as a REIT for U.S. federal income tax purposes. Our charter provides that generally no person, other than certain exempted holders, may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.0% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our stock. No holder of our Preferred Stock will be entitled to convert such stock into our common stock to the extent that receipt of shares of our common stock would cause the holder to exceed any of the limitations on ownership and transfer contained in our charter. In addition, these restrictions could have anti-takeover effects and could reduce the possibility that a third party will attempt to acquire control of us, which could adversely affect the market price of our Preferred Stock.

Holders of our Preferred Stock have limited voting rights.

Our common stock is the only class of our securities that carries full voting rights. Holders of our Preferred Stock may vote only (i) to elect two additional directors to our board of directors in the event that six full quarterly dividends (whether or not consecutive) payable on the applicable series of Preferred Stock are in arrears, (ii) on amendments to our charter, including the articles supplementary designating the applicable series of Preferred Stock, that materially and adversely affect the rights of the holders of that series of Preferred Stock or (iii) to authorize, increase or create additional classes or series of Senior Stock. Other than these limited circumstances, holders of our Preferred Stock generally do not have any voting rights.

The market price of our Preferred Stock could be substantially affected by various factors.

The market price of our Preferred Stock will depend on many factors, which may change from time to time, including:

- prevailing interest rates, increases in which may have an adverse effect on the market price of the Preferred Stock;
- trading prices of common and preferred equity securities issued by REITs and other similar companies;
- the annual yield from distributions on the Preferred Stock as compared to yields on other financial instruments;

- general economic and financial market conditions;
- government action or regulation;
- our financial condition, performance and prospects and those of our competitors;
- changes in financial estimates or recommendations by securities analysts with respect to us, our competitors or our industry;
- our issuance of additional preferred equity securities or the incurrence of debt; and
- actual or anticipated variations in our quarterly operating results and those of our competitors.

As a result of these and other factors, holders of our Preferred Stock may experience a decrease, which could be substantial and rapid, in the market price of the Preferred Stock, including decreases unrelated to our operating performance or prospects.

Future offerings of debt or equity securities may adversely affect the market price of our Preferred Stock.

Future issuances and sales of Parity Stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for either series of our Preferred Stock and our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us.

If we decide to issue debt or Senior Stock in the future, it is possible that these securities will be governed by an indenture or other instrument containing covenants or other provisions that will restrict our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our Preferred Stock and may result in dilution to owners of our Preferred Stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity 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 Preferred Stock bear the risk of our future offerings reducing the market price of our Preferred Stock and diluting the value of their holdings in us.

If our common stock is delisted, the ability to transfer or sell shares of our Preferred Stock may be limited and the market value of our Preferred Stock will likely be materially adversely affected.

Other than in connection with certain changes of control, our Preferred Stock does not contain provisions that are intended to protect holders of our Preferred Stock if our common stock is delisted from the NYSE. Since our Preferred Stock has no stated maturity date, holders of our Preferred Stock may be forced to hold their shares of Preferred Stock and receive stated dividends on the Preferred Stock when, as and if authorized by our board of directors and declared and paid by us with no assurance as to ever receiving the liquidation value thereof. In addition, if our common stock is delisted from the NYSE, it is likely that our Preferred Stock will be delisted from the NYSE as well. Accordingly, if our common stock is delisted from the NYSE, the ability to transfer or sell shares of our Preferred Stock may be limited and the market value of our Preferred Stock will likely be materially adversely affected.

Future discontinuance of U.S. dollar LIBOR might adversely affect the value of investments in the Series B Preferred Stock.

On July 27, 2017, and in a subsequent speech by its chief executive on July 12, 2018, the U.K. Financial Conduct Authority (the "FCA"), which regulates LIBOR, confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021. On March 5, 2021, ICE Benchmark Administration Limited, the LIBOR administrator, and the FCA issued an announcement on the future cessation and loss of representativeness of the LIBOR benchmarks. For three-month U.S. dollar LIBOR ("USD LIBOR"), this will occur immediately after June 30, 2023.

Holders of the Series B Preferred Stock should be aware that, when USD LIBOR is discontinued or otherwise unavailable, the dividend rate on the Series B Preferred Stock will be determined for the relevant period by the fallback provisions applicable to such stock. From and including April 15, 2024 (the "floating rate period"), and because USD LIBOR will have ceased publication, under the terms of the Series B Preferred Stock, we will appoint a calculation agent and the calculation agent will consult with an investment bank of national standing to determine whether there is an industry accepted substitute or successor base rate to USD LIBOR. If, after such consultation, the calculation agent determines that there is an industry accepted substitute or successor base rate, the calculation agent shall use such substitute or successor base rate. In such case, the calculation agent in its sole discretion may also implement other technical changes to the Series B Preferred Stock in a manner that is consistent with industry accepted practices for such substitute or successor base rate.

It is currently anticipated that the successor rate to be chosen by the calculation agent during the floating rate period will be the secured overnight financing rate, or "SOFR."

The selection of a successor rate, and any decisions, determinations or elections made by us or the calculation agent in connection with implementing a successor rate with respect to the Series B Preferred Stock in accordance with its terms during the floating rate period, could result in adverse consequences to the applicable dividend rate on the Series B Preferred Stock, which could adversely affect the return on, value of and market for the Series B Preferred Stock. Further, there is no assurance that the characteristics of any successor rate will be similar to USD LIBOR, or that any successor rate will produce the economic equivalent of USD LIBOR.

Potential conflicts of interest in connection with replacing USD LIBOR.

During the floating rate period, the calculation agent will make certain determinations in its own discretion, as described above and in the terms of the Series B Preferred Stock, in connection with choosing and implementing a replacement dividend rate. These determinations do not require the consent of the holders and, once made, may negatively affect the value of the Series B Preferred Stock and will be conclusive and binding on the holders of the Series B Preferred Stock.

The composition and characteristics of SOFR are not the same as those of USD LIBOR and there is no guarantee that SOFR is a comparable substitute for USD LIBOR.

The composition and characteristics of the SOFR are not the same as those of USD LIBOR. SOFR is a broad U.S. Treasury repo financing rate that represents overnight secured funding transactions. This means that SOFR is fundamentally different from USD LIBOR for two key reasons. First, SOFR is a secured rate, while USD LIBOR is an unsecured rate. Second, SOFR is an overnight rate, while USD LIBOR represents interbank funding over different maturities. As a result, there can be no assurance that SOFR will perform in the same way as USD LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, regulatory, judicial or other events. For example, since publication of SOFR began in April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmark or other market rates.

Because SOFR is published by the Federal Reserve Bank of New York based on data received from other sources, we have no control over its determination, calculation or publication. There can be no guarantee that SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of holders of the Series B Preferred Stock.

During the floating rate period, under the terms of the Series B Preferred Stock, we will appoint a calculation agent and the calculation agent will consult with an investment bank of national standing to determine whether there is an industry accepted substitute or successor base rate to USD LIBOR. If, after such consultation, the calculation agent determines that there is an industry accepted substitute or successor base rate, the calculation agent shall use such substitute or successor base rate. It is currently anticipated that the successor rate to be chosen by the calculation agent for dividend periods during the floating rate period will be SOFR, and we assume that the successor rate will be SOFR for purposes of the following discussion. In the following discussion of SOFR, when we refer to SOFR-linked securities, we mean the Series B Preferred Stock from and including April 15, 2024.

SOFR is published by the Federal Reserve Bank of New York ("FRBNY") and is intended to be a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. FRBNY reports that SOFR includes all trades in the Broad General Collateral Rate, plus bilateral Treasury repurchase agreement ("repo") transactions cleared through the delivery-versus-payment service offered by the Fixed Income Clearing Corporation (the "FICC"), a subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). SOFR is filtered by FRBNY to remove a portion of the foregoing transactions considered to be "specials." According to FRBNY, "specials" are repos for specific-issue collateral which take place at cash-lending rates below those for general collateral repos because cash providers are willing to accept a lesser return on their cash in order to obtain a particular security.

FRBNY reports that SOFR is calculated as a volume-weighted median of transaction-level tri-party repo data collected from The Bank of New York Mellon, which currently acts as the clearing bank for the tri-party repo market, as well as General Collateral Finance Repo transaction data and data on bilateral Treasury repo transactions cleared through the FICC's delivery-versus-payment service. FRBNY notes that it obtains information from DTCC Solutions LLC, an affiliate of DTCC.

FRBNY publishes SOFR daily on its website at https://apps.newyorkfed.org/markets/autorates/sofr. FRBNY states on its publication page for SOFR that use of SOFR is subject to important disclaimers, limitations and indemnification obligations, including that FRBNY may alter the methods of calculation, publication schedule, rate revision practices or availability of SOFR at any time without notice.

Because SOFR is published by FRBNY based on data received from other sources, we have no control over its determination, calculation or publication. There can be no assurance that SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in SOFR-linked securities. If the manner in which SOFR is calculated is changed, that change may result in a reduction of the amount of dividends payable on SOFR-linked securities, which may adversely affect the trading prices of SOFR-linked securities. If the rate at which dividends accrue on the Series B Preferred Stock on any day or for any dividend period during the floating rate period declines to zero or becomes negative, no dividends will accrue on the Series B Preferred Stock with respect to that day or dividend period.

FRBNY started publishing SOFR in April 2018. FRBNY has also started publishing historical indicative SOFRs dating back to 2014, although such historical indicative data inherently involves assumptions, estimates and approximations. Holders of the Series B Preferred Stock should not rely on such historical indicative data or on any historical changes or trends in SOFR as an indicator of the future performance of SOFR. Since the initial publication of SOFR, daily changes in the rate have, on occasion, been more volatile than daily changes in comparable benchmark or market rates, and SOFR during the floating rate period may bear little or no relation to the historical actual or historical indicative data. In addition, the return on and value of SOFR-linked securities may fluctuate more than floating rate preferred stock that is linked to less volatile rates. An established trading market for the SOFR-linked securities may never develop or may not be very liquid. Market terms for preferred stock that is linked to SOFR may evolve over time, and as a result, trading prices of SOFR-linked securities may be lower than those of later-issued preferred stock that is linked to SOFR. Similarly, if SOFR does not prove to be widely used in SOFR-linked securities that are similar or comparable to the Series B Preferred Stock, the trading price of the SOFR-linked securities may be lower than those of preferred stock that is linked to rates that are more widely used. Investors in the SOFR-linked securities may not be able to sell the SOFR-linked securities at all or may not be able to sell the SOFR-linked securities at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

Furthermore, during the floating rate period and assuming that the replacement rate is SOFR, dividends on the Series B Preferred Stock are only capable of being determined at the end of the relevant dividend period and immediately or shortly prior to the relevant dividend payment date. It might be difficult for investors in the Series B Preferred Stock to estimate reliably the amount of dividends that will be payable on such stock, and some investors might be unable or unwilling to trade such stock without changes to their information technology systems, both of which might adversely affect the liquidity of such stock.

Risks Related to U.S. Federal Income Tax

Our failure to qualify as a REIT would subject us to U.S. federal, state and local income taxes, which could adversely affect the value of our common stock and would substantially reduce the cash available for distribution to our stockholders.

We operate in a manner that is intended to cause us to qualify as a REIT for U.S. federal income tax purposes. However, the U.S. federal income tax laws governing REITs are complex, and interpretations of the U.S. federal income tax laws governing qualification as a REIT are limited. Moreover, our qualification and taxation as a REIT depend upon our ability to meet on a continuing basis, through actual annual operating results, certain qualification tests set forth in the U.S. federal income tax laws. Although we intend to operate so that we continue to qualify as a REIT, given the complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the potential tax treatment of the investments we make, and the possibility of future changes in our circumstances, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements.

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

Complying with REIT requirements may cause us to forego or liquidate otherwise attractive investments.

To qualify as a REIT, we must continually satisfy various tests regarding the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our common stock. In order to meet these tests, we may be required to forego investments we might otherwise make. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. In addition, we may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our investment performance.

Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our stockholders.

To qualify as a REIT, we must distribute to our stockholders each calendar year at least 90% of our REIT taxable income (including certain items of non-cash income), determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than the sum of:

- 85% of our REIT ordinary income for that year;

- 95% of our REIT capital gain net income for that year; and

- any undistributed taxable income from prior years.

We intend to distribute our taxable income to our stockholders in a manner intended to satisfy the 90% distribution requirement and to avoid both corporate income tax and the 4% nondeductible excise tax. However, there is no requirement that TRSs distribute their after-tax net income to their parent REIT or its stockholders.

Our taxable income may substantially exceed our net income as determined based on GAAP, because, for example, realized capital losses will be deducted in determining our GAAP net income, but may not be deductible in computing our taxable income. In addition, we may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year. To the extent that we generate such non-cash taxable income in a taxable year, we may incur corporate income tax and the 4% nondeductible excise tax on that income if we do not distribute such income to stockholders in that year. In that event, we may be required to use cash reserves, incur debt, sell assets, make taxable distributions of our shares or debt securities or liquidate non-cash assets at rates or at times that we regard as unfavorable to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in that year.

We may satisfy the 90% distribution test with taxable distributions of our stock or debt securities. The IRS has issued Revenue Procedure 2017-45 authorizing elective cash/stock dividends to be made by publicly held REITs (i.e., REITs that are required to file annual and periodic reports with the SEC under the Exchange Act). Pursuant to Revenue Procedure 2017-45, the IRS will treat the distribution of stock pursuant to an elective cash/stock dividend as a distribution of property under Section 301 of the Code (i.e., a dividend), as long as at least 20% (and pursuant to Revenue Procedure 2020-19, 10% for distributions declared on or after November 1, 2021, and on or before June 30, 2022) of the total dividend is available in cash and certain other parameters detailed in the Revenue Procedure are satisfied. We have paid dividends in our own stock in the past and may pay dividends in our own stock in the future. If in the future we choose to pay dividends in our own stock, our stockholders may be required to pay tax in excess of the cash that they receive.

Despite qualification as a REIT, we may face other tax liabilities that reduce our cash flows.

Despite qualification as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, Solutions, Aurora and any other TRSs we form will be subject to regular corporate U.S. federal, state and local taxes. Any of these taxes would decrease cash available for distributions to our stockholders.

We may lose our REIT qualification or be subject to a penalty tax if the U.S. Internal Revenue Service, or IRS, successfully challenges our characterization of our investments in Excess MSRs.

We have created, and may create in the future, Excess MSRs from the MSRs held by Aurora. The IRS has issued two private letter rulings to other REITs concluding that Excess MSRs are qualifying assets for purposes of the 75% asset test and produce qualifying income for purposes of the 75% gross income test. Any income that is qualifying income for the 75% gross income test is also qualifying income for the 95% gross income test. A private letter ruling may be relied upon only by the taxpayer to whom it is issued, and the IRS may revoke a private letter ruling. Based on these private letter rulings and other IRS guidance regarding excess mortgage servicing fees, we generally intend to treat our investments in Excess MSRs as qualifying assets for purposes of the 75% asset test and as producing qualifying income for purposes of the 95% and 75% gross income tests. However, we have not sought, and we do not intend to seek, our own private letter ruling. Thus, it is possible that the IRS could successfully take the position that our Excess MSRs are not qualifying assets or do not produce qualifying income, presumably by recharacterizing Excess MSRs as an interest in servicing compensation, in which case we may fail one or more of the income and asset requirements for REIT qualification. If we failed one of those tests, we would either be required to pay a penalty tax, which could be material, to maintain REIT status, or we would fail to qualify as a REIT.

The failure of RMBS subject to a repurchase agreement to qualify as real estate assets would adversely affect our ability to qualify as a REIT.

We have entered into repurchase agreements under which we nominally sell certain of our RMBS to a counterparty and simultaneously agree to repurchase the sold assets. We believe that, for U.S. federal income tax purposes, these transactions will be treated as secured debt and we will be treated as the owner of the RMBS that are the subject of any such repurchase agreement notwithstanding that such agreements may transfer record ownership of such assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could successfully assert that we do not own the RMBS during the term of the repurchase agreement, in which case we could fail to qualify as a REIT.

Our ability to engage in TBA transactions could be limited by the requirements necessary to qualify as a REIT, and we could fail to qualify as a REIT as a result of these investments.

We purchase and sell TBAs for purposes of managing interest related risks associated with our liabilities under repurchase agreements, including duration and basis risks. We generally treat such TBA purchases and sales as hedging transactions that hedge indebtedness incurred to acquire or carry real estate assets, or “qualifying liability hedges” for REIT purposes. From time to time, we also opportunistically engage in TBA transactions because we find them attractive on their own. The law is unclear regarding whether income and gains from TBAs that are not qualifying liability hedges are qualifying income for the 75% gross income test and whether TBAs are qualifying assets for the 75% asset test.

To the extent that we engage in TBA transactions that are not qualifying liability hedges for REIT purposes, unless we receive a favorable private letter ruling from the IRS or we are advised by counsel that income and gains from such TBAs should be treated as qualifying income for purposes of the 75% gross income test, we will limit our income and gains from dispositions of such TBAs and any non-qualifying income to no more than 25% of our gross income for each calendar year. Further, unless we 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 such TBAs and any non-qualifying assets to no more than 25% of our total assets at the end of any calendar quarter and will limit the TBAs held by us that are issued by any one issuer to no more than 5% of our total assets at the end of any calendar quarter. Accordingly, our ability to purchase and sell Agency RMBS through TBAs and to hold or dispose of TBAs, through dollar roll transactions or otherwise, could be limited.

Even if we are advised by counsel that such TBAs should be treated as qualifying assets or that income and gains from such 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 other non-qualifying assets for the 75% asset test, exceeded 25% of our total assets at the end of any calendar quarter, (ii) the value of our TBAs issued by any one issuer exceeded 5% of our total assets at the end of any calendar quarter, or (iii) our income and gains from our TBAs that are not qualifying liability hedges, together with our non-qualifying income for the 75% gross income test, exceeded 25% of our gross income for any taxable year.

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

The REIT provisions of the Code substantially limit our ability to hedge. 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 U.S. 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 interest rate changes or other changes than we would otherwise want to bear.

Our ownership of and relationship with Solutions, Aurora and any future TRSs that we form will be limited and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation (other than a REIT) of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's total assets may consist of stock or securities of one or more TRSs. A domestic TRS will pay U.S. federal, state and local income tax at regular corporate rates on any income that it earns. In addition, if a TRS borrows funds either from us or a third party, it may be unable to deduct all or a portion of the interest paid, resulting in a higher corporate level tax liability. Specifically, the Tax Cuts and Jobs Act (the "TCJA"), enacted in 2017, imposes a disallowance of deductions for business interest expense (even if paid to third parties) in excess of the sum of a taxpayer's business interest income and 30% of the adjusted taxable income of the business, which is its taxable income computed without regard to business interest income or expense, net operating losses or the pass-through income deduction (and for taxable years before 2022, excludes depreciation and amortization). Further, the REIT rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our ownership limitation may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their common stock.

In order for us to qualify as a REIT for each taxable year, no more than 50% in value of our outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year. "Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. In order to help us qualify as a REIT, among other purposes, our charter generally prohibits any person, other than Mr. Middleman, from beneficially or constructively owning more than 9.0% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our stock.

The ownership limitation and other restrictions could have the effect of discouraging a takeover or other transaction in which holders of shares of our common stock might receive a premium for their common stock over the then-prevailing market price or which holders might believe to be otherwise in their best interests.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to "qualified dividend income" payable to U.S. stockholders that are taxed at individual rates is 20% (plus the 3.8% surtax on net investment income, if applicable). Dividends payable by REITs, however, are generally not eligible for the reduced rates on qualified dividend income. However, under the TCJA, REIT dividends constitute "qualified business income" and thus a 20% deduction is available to individual taxpayers with respect to such dividends, resulting in a 29.6% maximum federal tax rate (plus the 3.8% surtax on net investment income, if applicable) for individual U.S. stockholders. Unless Congress takes action, the 20% deduction applicable to REIT dividends will expire on January 1, 2026. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates 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 stock.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our common stock.

At any time, the U.S. federal income tax laws or regulations governing REITs or the taxation of REIT stockholders or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, U.S. federal income tax law, regulation or administrative interpretation.

The TCJA made significant changes to the U.S. federal income tax rules for taxation of individuals and corporations. The top corporate income tax rate has been reduced to 21%. In the case of individuals, the tax brackets have been adjusted, the top federal income rate has been reduced to 37%, as discussed above, special rules reduced taxation of certain income earned through passthrough entities and reduced the top effective rate applicable to ordinary dividends from REITs to 29.6% (through a 20% deduction for ordinary REIT dividends received, as described above) and various deductions have been eliminated or limited, including limiting the deduction for state and local taxes to $10,000 per year. The TCJA may require us to take certain amounts in income no later than the time such amounts are reflected on certain financial statements. To the extent that this rule requires the accrual of income earlier than under the general tax rules, it could increase our "phantom income," which may make it more likely that we could be required to borrow funds or take other action to satisfy the REIT distribution requirements for the taxable year in which this "phantom income" is recognized. Most of the changes made by the TCJA applicable to individuals are temporary and apply only to taxable years beginning after December 31, 2017 and before January 1, 2026. The TCJA made numerous other large and small changes to the tax rules that do not affect REITs directly but may affect our stockholders and may indirectly affect us. For example, the TCJA reduced the limit for an individual's mortgage interest expense to interest on $750,000 of mortgages and does not permit deduction of interest on home equity loans (after grandfathering all existing mortgages). Such change and the reduction in deductions for state and local taxes (including property taxes) may adversely affect the residential mortgage markets in which we invest.

Stockholders are urged to consult with their tax advisors with respect to the status of the TCJA and any other regulatory or administrative developments and proposals and their potential effect on investment in our stock.

Our recognition of "phantom" income may reduce a stockholder's after-tax return on an investment in our common stock.

We may recognize taxable income in excess of our economic income, or "phantom income", in the first years that we hold certain investments, and experience an offsetting excess of economic income over our taxable income in later years. As a result, stockholders at times may be required to pay U.S. federal income tax on distributions that economically represent a return of capital rather than a dividend. These distributions would be offset in later years by distributions representing economic income that would be treated as returns of capital for U.S. federal income tax purposes. Taking into account the time value of money, this acceleration of U.S. federal income tax liabilities may reduce a stockholder's after-tax return on his or her investment to an amount less than the after-tax return on an investment with an identical before-tax rate of return that did not generate phantom income.

Liquidation of our assets may jeopardize our REIT qualification.

To maintain our qualification as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our assets to repay obligations to our lenders or for other reasons, we may be unable to comply with these requirements, thereby jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as inventory or property held primarily for sale to customers in the ordinary course of business.

Our qualification as a REIT and exemption from U.S. federal income tax with respect to certain assets may be dependent on the accuracy of legal opinions or advice rendered or given or statements by the issuers of assets that we acquire, and the inaccuracy of any such opinions, advice or statements may adversely affect our REIT qualification and result in significant corporate-level tax.

When purchasing securities, we may rely on opinions or advice of counsel for the issuer of such securities, or statements made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, the value of such securities, and also to what extent those securities constitute qualified real estate assets for purposes of the REIT asset tests and produce income that qualifies under the 75% gross income test. The inaccuracy of any such opinions, advice or statements may adversely affect our ability to qualify as a REIT and result in significant corporate-level tax.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our business is operated from space provided through our Manager located at 1451 Route 34, Suite 303, Farmingdale, New Jersey 07727, telephone (877) 870-7005, and 1270 Avenue of the Americas, Suite 920, New York, New York 10020, telephone (877) 870-7005.

Item 3. Legal Proceedings

From time to time, the Company may be involved in various claims and legal actions in the ordinary course of business. As of December 31, 2021, the Company is not aware of any material legal or regulatory claims or proceedings.

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 Information

Our common stock has been listed and traded on the NYSE under the symbol "CHMI" since October 4, 2013. Prior to October 4, 2013, our common stock was not listed on any exchange or over-the-counter market.

Holders

As of March 15, 2022, we had six holders of record of our common stock. The six holders of record include Cede & Co., which holds shares as nominee for The Depository Trust Company, which itself holds shares on behalf of the beneficial owners of our common stock. Such information was obtained from our registrar and transfer agent.

Dividends

U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income.

We intend to make regular quarterly distributions of all or substantially all of our REIT taxable income to holders of our common and preferred stock out of assets legally available for this purpose, if and to the extent authorized by our board of directors. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our repurchase agreements and other debt payable. If our cash available for distribution is less than our REIT taxable income, we could be required to sell assets or borrow funds to make cash distributions, or, with respect to our common stock, we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. We will make distributions only upon the authorization of our board of directors. The amount, timing and frequency of distributions will be authorized by our board of directors based upon a variety of factors, including:

- actual results of operations;
- our level of retained cash flows;
- our ability to make additional investments in our target assets;
- restrictions under Maryland law;
- the terms of our preferred stock;
- any debt service requirements;
- our taxable income;
- the annual distribution requirements under the REIT provisions of the Code; and
- other factors that our board of directors may deem relevant.

Our ability to make distributions to our stockholders will depend upon the performance of our investment portfolio, and, in turn, upon our Manager's management of our business. Distributions will be made quarterly in cash to the extent that cash is available for distribution. We may not be able to generate sufficient cash available for distribution to pay distributions to our stockholders. In addition, our board of directors may change our distribution policy with respect to our common stock in the future. No assurance can be given that we will be able to make any other distributions to our stockholders at any time in the future or that the level of any distributions we do make to our stockholders will achieve a market yield or increase or even be maintained over time.

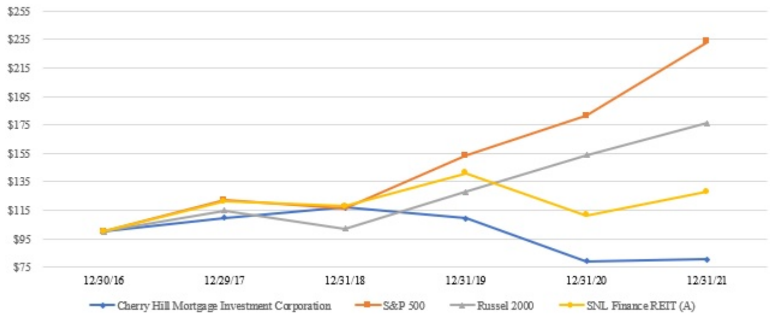
We make distributions based on a number of factors, including an estimate of taxable earnings. Dividends distributed and taxable income will typically differ from GAAP earnings due to items such as fair value adjustments, differences in premium amortization and discount accretion, and nondeductible general and administrative expenses. Our common dividend per share may be substantially different than our taxable earnings and GAAP earnings per share.

The following table sets forth the dividends declared during each calendar quarter for 2021 and 2020:

	Declaration Date	Record Date	Payment Date	Amount per Share
2021				
Fourth Quarter	12/9/2021	12/31/2021	1/25/2022	$ 0.27
Third Quarter	9/17/2021	9/30/2021	10/26/2021	$ 0.27
Second Quarter	6/17/2021	6/30/2021	7/27/2021	$ 0.27
First Quarter	3/4/2021	3/31/2021	4/27/2021	$ 0.27
2020				
Fourth Quarter	12/10/2020	12/31/2020	1/26/2021	$ 0.27
Third Quarter	9/17/2020	9/30/2020	10/27/2020	$ 0.27
Second Quarter	6/18/2020	6/30/2020	7/28/2020	$ 0.27
First Quarter	3/12/2020	3/31/2020	4/28/2020	$ 0.40

Stockholder Return Performance

The following graph is a comparison of the cumulative total stockholder return on our common stock, the S&P 500 Index, the Russell 2000 Index and the SNL Finance REIT Index, a peer group index, from December 31, 2015 to December 31, 2021. The graph assumes that $100 was invested on December 31, 2014 in our common stock, the S&P 500 Index, the Russell 2000 Index and the SNL Finance REIT Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our common stock will continue in line with the same or similar trends depicted in the graph below:



	December 29, 2017		December 31, 2018		December 31, 2019		December 31, 2020		December 31, 2021	
Cherry Hill Mortgage Investment Corporation	$	109.81	$	117.15	$	109.27	$	79.20	$	80.48
Russel 2000	$	114.65	$	102.02	$	128.06	$	153.62	$	176.39
SNL Finance REIT (A)	$	120.98	$	117.81	$	140.91	$	111.54	$	128.00
S&P 500	$	121.83	$	116.49	$	153.17	$	181.35	$	233.41

Source: SNL Financial LC

(A) In addition to the Company, as of December 31, 2021, the SNL Finance REIT Index comprised the following companies: AG Mortgage Investment Tr Inc., AGNC Investment Corp., American Church Mortgage Co., Annaly Capital Mgmt Inc., Anworth Mortgage Asset Corp., Apollo Commercial Real Estate,Arbor Realty Trust Inc., Ares Commercial RE Corp., Arlington Asset Invt Corp., ARMOUR Residential REIT Inc., Blackstone Mortgage Tr Inc., Broadmark Realty Capital Inc., Capstead Mortgage Corp., Chimera Investment Corp., Colony Credit Real Estate, Inc, CV Holdings Inc., Dynex Capital Inc., Ellington Financial Inc., Ellington Resdl Mrtg REIT, Exantas Capital Corp., Granite Point Mortgage Trust, Great Ajax Corp., Hannon Armstrong Sustainable, Hunt Companies Finance Trust, Invesco Mortgage Capital Inc., Jernigan Capital Inc., KKR Real Estate Finance Trust, Ladder Capital Corp, MFA Financial Inc., New Resdl Invt Corp., New York Mortgage Trust Inc., Orchid Island Capital Inc., PennyMac Mortgage Invt Trust, RAIT Financial Trust, Ready Capital Corp., Redwood Trust Inc., Sachem Capital Corp., Starwood Property Trust Inc., TPG RE Finance Trust Inc, Tremont Mortgage Trust, Two Harbors Investment Corp., United Development Funding IV, and Western Asset Mrtg Cap Corp.

Securities Authorized For Issuance Under Equity Compensation Plans

During 2013, the board of directors approved and the Company adopted the Cherry Hill Mortgage Investment Corporation 2013 Equity Incentive Plan (the “2013 Plan”). The 2013 Plan provides for the grant of options to purchase shares of the Company’s common stock, stock awards, stock appreciation rights, performance units, incentive awards and other equity-based awards, including long term incentive plan units (“LTIP-OP Units”) of the Operating Partnership. Each LTIP-OP Unit awarded is deemed equivalent to an award of one share of our common stock under the 2013 Plan and reduces the 2013 Plan’s share authorization for other awards on a one-for-one basis.

The following table presents information with respect to the Company's equity compensation plans as of December 31, 2021:

Equity Incentive Plan Information
As of December 31, 2021

	Number of Securities Issued or to be Issued Upon Exercise	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans
Equity compensation Plans Approved By Shareholders		1,012,239
LTIP-OP Units	391,647	
Forfeited LTIP-OP Units	(916)	
Converted/Redeemed LTIP-OP Units	53,849	
Shares of Common Stock	144,980	
Forfeited Shares of Common Stock	(3,155)	
Equity Compensation Plans Not Approved By Shareholders		-

LTIP-OP Units are a special class of partnership interest in the Operating Partnership. LTIP-OP Units may be issued to eligible participants for the performance of services to or for the benefit of the Operating Partnership. Initially, LTIP-OP Units do not have full parity with the Operating Partnership's common units of limited partnership interest ("OP Units") with respect to liquidating distributions; however, LTIP-OP Units receive, whether vested or not, the same per-unit distributions as OP Units and are allocated their pro-rata share of the Operating Partnership's net income or loss. Under the terms of the LTIP-OP Units, the Operating Partnership will revalue its assets upon the occurrence of certain specified events, and any increase in the Operating Partnership's valuation from the time of grant of the LTIP-OP Units until such event will be allocated first to the holders of LTIP-OP Units to equalize the capital accounts of such holders with the capital accounts of the holders of OP Units. Upon equalization of the capital accounts of the holders of LTIP-OP Units with the other holders of OP Units, the LTIP-OP Units will achieve full parity with OP Units for all purposes, including with respect to liquidating distributions. If such parity is reached, vested LTIP-OP Units may be converted into an equal number of OP Units at any time and, thereafter, enjoy all the rights of OP Units, including redemption rights.

Item 6. Reserved

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

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and the accompanying notes included in "Item 8. Consolidated Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. All currency amounts are presented in thousands, except per share amounts or as otherwise noted.

General

We are a public residential real estate finance company focused on acquiring, investing in and managing residential mortgage assets in the United States. We were incorporated in Maryland on October 31, 2012, and we commenced operations on or about October 9, 2013 following the completion of our initial public offering and a concurrent private placement. Our common stock, our Series A Preferred Stock and our Series B Preferred Stock are listed and traded on the NYSE under the symbols “CHMI,” “CHMI-PRA” and “CHMI-PRB,” respectively. We are externally managed by our Manager, Cherry Hill Mortgage Management, LLC, an SEC-registered investment adviser.

Our principal objective is to generate attractive current yields and risk-adjusted total returns for our stockholders over the long term, primarily through dividend distributions and secondarily through capital appreciation. We attempt to attain this objective by selectively constructing and actively managing a portfolio of Servicing Related Assets and RMBS and, subject to market conditions, other cash flowing residential mortgage assets.

We are subject to the risks involved with real estate and real estate-related debt instruments. These include, among others, the risks normally associated with changes in the general economic climate, changes in the mortgage market, changes in tax laws, interest rate levels, and the availability of financing.

We elected to be taxed as a REIT for U.S. federal income tax purposes commencing with our short taxable year ended December 31, 2013. We operate so as to continue to qualify to be taxed as a REIT. Our asset acquisition strategy focuses on acquiring a diversified portfolio of residential mortgage assets that balances the risk and reward opportunities our Manager observes in the marketplace. Prior to our acquisition of Aurora in May 2015, our Servicing Related Assets consisted of Excess MSRs in three pools: Excess MSR Pool 1, Excess MSR Pool 2 and Excess MSR Pool 2014. The Excess MSRs in these three pools had been previously acquired by the Company from Freedom Mortgage. All of these Excess MSRs were sold back to Freedom Mortgage in November 2016 and February 2017. Aurora has or is in the process of obtaining the licenses necessary to invest in MSRs on a nationwide basis and is an approved seller/servicer for Fannie Mae and Freddie Mac.

In addition to Servicing Related Assets, we invest in RMBS, primarily those backed by 30-, 20- and 15-year fixed rate mortgages that offer what we believe to be favorable prepayment and duration characteristics. Our RMBS consist primarily of Agency RMBS on which the payments of principal and interest are guaranteed by an Agency. We have also invested in Agency CMOs consisting of interest only securities (“IOs”) as well as non-Agency RMBS. We finance our RMBS with an amount of leverage, that varies from time to time depending on the particular characteristics of our portfolio, the availability of financing and market conditions. We do not have a targeted leverage ratio for our RMBS. Our borrowings for RMBS consist of short-term borrowings under master repurchase agreements.

Subject to maintaining our qualification as a REIT, we utilize derivative financial instruments (or hedging instruments) to hedge our exposure to potential interest rate mismatches between the interest we earn on our assets and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate hedges, our objectives include, where desirable, locking in, on a long-term basis, a spread between the yield on our assets and the cost of our financing in an effort to improve returns to our stockholders.

We also seek to operate our business in a manner that does not require us to register as an investment company under the Investment Company Act.

Effective January 1, 2020, the Operating Partnership contributed substantially all of its assets to CHMI Sub-REIT, Inc. (the “Sub-REIT”) in exchange for all of the common stock of the Sub-REIT. As a result of this contribution, the Sub-REIT is a wholly-owned subsidiary of the Operating Partnership and operations formerly conducted by the Operating Partnership through its subsidiaries are now conducted by the Sub-REIT through those same subsidiaries. The Sub-REIT has elected to be taxed as a REIT under the Code commencing with its taxable year ended December 31, 2020.

From time to time, we may issue and sell shares of our common stock or preferred stock, including additional shares of our Class A Preferred Stock or Class B Preferred Stock. See “Item 8. Consolidated Financial Statements and Supplementary Data—Note 6. Equity and Earnings per Common Share—Common and Preferred Stock.”

In April 2018, the Company initiated an at-the-market offering program (the “Preferred Series A ATM Program”) pursuant to which it may offer through one or more sales agents and sell from time to time up to $35 million of its Series A Preferred Stock at prices prevailing at the time, subject to volume and other regulatory limitations. The Company did not issue and sell any shares of the Series A Preferred Stock during the years ended December 31, 2021 and December 31, 2020 pursuant to the Preferred Series A ATM Program.

In August 2018, the Company initiated an at-the-market offering program (the “Common Stock ATM Program” and, together with the Preferred Series A ATM Program, the “ATM Programs”) pursuant to which it may offer through one or more sales agents and sell from time to time up to $50 million of its common stock at prices prevailing at the time, subject to volume and other regulatory limitations. During the year ended December 31, 2021, the Company issued and sold 1,148,398 shares of common stock under the Common Stock ATM Program. The shares were sold at a weighted average price of $8.88 per share for gross proceeds of approximately $10.2 million before fees of approximately $200,000. The net proceeds were used for general corporate purposes, including investment in RMBS. The Company did not issue and sell any common stock under the Common Stock ATM Program during the year ended December 31, 2020.

In September 2019, we initiated a share repurchase program that allows for the repurchase of up to an aggregate of $10.0 million of our common stock. Shares may be repurchased from time to time through privately negotiated transactions or open market transactions, pursuant to a trading plan in accordance with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or by any combination of such methods. The manner, price, number and timing of share repurchases are subject to a variety of factors, including market conditions and applicable SEC rules. The share repurchase program does not require the purchase of any minimum number of shares, and, subject to SEC rules, purchases may be commenced or suspended at any time without prior notice. The Company did not repurchase any common stock pursuant to the repurchase program during the year ended December 31, 2021. During the year ended December 31, 2020, the Company repurchased 142,531 shares of its common stock pursuant to the repurchase program for approximately $1.8 million.

This Management’s Discussion and Analysis of Results of Operations and Financial Condition omits discussion and comparison of results of operations and financial condition for the year ended December 31, 2019. That discussion and comparison is included under the heading “Item 7. Management’s Discussion and Analysis of Results of Operations and Financial Condition” in our Annual Report on Form 10-K for the year ended December 31, 2020.

Effects of COVID-19 on the Company

The COVID-19 pandemic continues to create substantial uncertainty for government policy makers and the Federal Reserve Board with consequent effects on the economy in the United States. While the economy has largely reopened, the increased presence of highly contagious variants, of the virus has exacerbated supply chain issues that arose during the shutdown of various economies. Certain forbearance programs and prohibitions on foreclosures have been extended while others have expired adding to the concern of the consequences once all such programs end. As of December 31, 2021, 1.7% of borrowers on loans underlying the MSRs owned by Aurora are reflected as being in an active forbearance program, with 5.0% of those borrowers continuing to make their regular scheduled monthly payment.

In order to replenish our unrestricted cash and to reduce the leverage we employed, we undertook sales of Agency RMBS in our portfolio reducing the amount of our assets from $2,347.1 million at December 31, 2019 to $1,557.2 million at March 31, 2020 and $1,222.1 million at December 31, 2020. In addition, during the fourth quarter of 2020, we sold all of the CMOs remaining in our portfolio. During the year ended December 31, 2021, we purchased and sold Agency RMBS in the normal course of operations as a result of stabilizing economic conditions. We continue to maintain an elevated level of unrestricted cash due to the continuing uncertainty regarding government policy and the economy. Based on information currently available to us, we continue to believe that we will be able to satisfy all of our servicing obligations in 2022.

Aurora completed the sale of its portfolio of Ginnie Mae MSRs to Freedom Mortgage on June 30, 2020. The sale was the result of a strategic decision and was not related to the forbearance programs instituted by the Agencies.

The Company has been working remotely since March 2020. The transition has caused minimal disruption in our regular operations due to the use of a cloud-based solution in our regular operations. We do not anticipate any operational issues arising from working remotely for as long as is necessary.

On January 26, 2022, the Federal Reserve announced that it expects to end its monthly asset purchases, including its purchases of Agency RMBS, and has signaled that it is likely to begin increasing the federal funds rate. This announcement indicates that the Federal Reserve will likely be reversing the policies it adopted in 2020 in response to the macro-economic effects of the COVID-19 pandemic. In response to the COVID-19 pandemic, the Federal Reserve adopted a policy of quantitative easing whereby it purchased each month significant amounts of U.S. Treasury securities and Agency RMBS. The Federal Reserve also reduced the federal funds rate target to 0 to 0.25 percent, established a series of emergency lending programs, reduced the discount rate and encouraged depository institutions to borrow from the discount window, and took regulatory actions to ease capital and liquidity requirements at depository institutions. The purpose of these actions was to stabilize financial markets and reduce both interest rates generally and the spread between long-term and short-term interest rates. The Federal Reserve's balance sheet increased by more than $4.5 trillion to nearly $9 trillion, including $2.5 trillion in Agency RMBS. Due to the reduction in interest rates, prepayment speeds and mortgage refinancing activity increased. The Federal Reserve took similar actions during the 2008 financial crisis.

A shift in the Federal Reserve's policies is likely to result in higher interest rates, including for Agency RMBS. The Federal Reserve has already begun to reduce its asset purchases and has stated that it intends to hold, in the longer run, primarily U.S. Treasury securities on its balance sheet. These actions may decrease spreads on interest rates, reducing our net interest income. They may also negatively impact our results as we have certain assets and liabilities that are sensitive to changes in interest rates. In addition, increases in interest rates may result in lower refinancing activity and therefore decrease the rate of prepayment on loans underlying our assets, which could have a material adverse effect on our result of operations.

We cannot predict or control the impact future actions by the Federal Reserve will have on our business. Accordingly, future actions by the Federal Reserve could have a material and adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Factors Impacting our Operating Results

Our income is generated primarily by the net spread between the income we earn on our assets and the cost of our financing and hedging activities as well as the amortization of any purchase premiums or the accretion of discounts. Our net income includes the actual interest payments we receive on our RMBS, the net servicing fees we receive on our MSRs and the accretion/amortization of any purchase discounts/premiums. Changes in various factors such as market interest rates, prepayment speeds, estimated future cash flows, servicing costs and credit quality could affect the amount of premium to be amortized or discount to be accreted into interest income for a given period. Prepayment speeds vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. Our operating results may also be affected by credit losses in excess of initial anticipations or unanticipated credit events experienced by borrowers whose mortgage loans underlay the MSRs held by Aurora or the non-Agency RMBS held in our portfolio.

Set forth below is the positive net spread between the yield on RMBS and our costs of funding those assets at the end of each of the quarters indicated below:

Average Net Yield Spread at Period End

Quarter Ended	Average Asset Yield	Average Cost of Funds	Average Net Interest Rate Spread
December 31, 2021	2.93%	0.62%	2.31%
September 30, 2021	2.94%	0.63%	2.31%
June 30, 2021	2.94%	0.62%	2.32%
March 31, 2021	3.04%	0.53%	2.52%
December 31, 2020	3.05%	0.59%	2.46%
September 30, 2020	3.17%	0.63%	2.54%
June 30, 2020	3.33%	0.84%	2.49%
March 31, 2020	3.53%	1.42%	2.11%
December 31, 2019	3.72%	1.79%	1.93%
September 30, 2019	3.77%	1.90%	1.87%

The Average Cost of Funds also includes the benefits of related swaps.

Changes in the Market Value of Our Assets

We hold our Servicing Related Assets as long-term investments. Our MSRs are, carried at their fair value with changes in their fair value recorded in other income or loss in our consolidated statements of income (loss). Those values may be affected by events or headlines that are outside of our control, such as the COVID-19 pandemic and other events impacting the U.S. or global economy generally or the U.S. residential market specifically, and events or headlines impacting the parties with which we do business. See “Item 1A. Risk Factors – Risks Related to Our Business.”

Our RMBS are carried at their fair value, as available-for-sale in accordance with ASC 320, *Investments – Debt and Equity Securities.* Beginning on January 1, 2020, upon adoption of Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments-Credit Losses*, we evaluate the cost basis of our RMBS on a quarterly basis under ASC 326-30, *Financial Instruments-Credit Losses: Available-for-Sale Debt Securities.* When the fair value of a security is less than its amortized cost basis as of the balance sheet date, the security’s cost basis is considered impaired. If we determine that we intend to sell the security or it is more likely than not that we will be required to sell before recovery, we recognize the difference between the fair value and amortized cost as a loss in the consolidated statements of income (loss). If we determine we do not intend to sell the security or it is not more likely than not we will be required to sell the security before recovery, we must evaluate the decline in the fair value of the impaired security and determine whether such decline resulted from a credit loss or non-credit related factors. In our assessment of whether a credit loss exists, we perform a qualitative assessment around whether a credit loss exists and if necessary, we compare the present value of estimated future cash flows of the impaired security with the amortized cost basis of such security. The estimated future cash flows reflect those that a “market participant” would use and typically include assumptions related to fluctuations in interest rates, prepayment speeds, default rates, collateral performance, and the timing and amount of projected credit losses, as well as incorporating observations of current market developments and events. Cash flows are discounted at an interest rate equal to the current yield used to accrete interest income. If the present value of estimated future cash flows is less than the amortized cost basis of the security, an expected credit loss exists and is included in provision (reversal) for credit losses on securities in the consolidated statements of income (loss). If it is determined as of the financial reporting date that all or a portion of a security’s cost basis is not collectible, then we will recognize a realized loss to the extent of the adjustment to the security’s cost basis. This adjustment to the amortized cost basis of the security is reflected in realized gain (loss) on RMBS, available-for-sale, net in the consolidated statements of income (loss).

Impact of Changes in Market Interest Rates on Our Assets

The value of our assets may be affected by prepayment speeds on mortgage loans. Prepayment speed is the measurement of how quickly borrowers pay down the UPB of their loans or how quickly loans are otherwise liquidated or charged off. Generally, in a declining interest rate environment, prepayment speeds tend to increase. Conversely, in an increasing interest rate environment, prepayment speeds tend to decrease. When we acquire Servicing Related Assets or RMBS, we anticipate that the underlying mortgage loans will prepay at a projected rate generating an expected cash flow (in the case of Servicing Related Assets) and yield. If we purchase assets at a premium to par value and borrowers prepay their mortgage loans faster than expected, the corresponding prepayments on our assets may reduce the expected yield on such assets because we will have to amortize the related premium on an accelerated basis. In addition, we will have to reinvest the greater amounts of prepayments in that lower rate environment, thereby affecting future yields on our assets. If we purchase assets at a discount to par value, and borrowers prepay their mortgage loans slower than expected, the decrease in corresponding prepayments may reduce the expected yield on assets because we will not be able to accrete the related discount as quickly as originally anticipated.

If prepayment speeds are significantly greater than expected, the fair value of the Servicing Related Assets could be less than their fair value as previously reported on our consolidated balance sheets. Such a reduction in the fair value of the Servicing Related Assets would have a negative impact on our book value. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from the Servicing Related Assets, and we could receive substantially less than what we paid for such assets. Our balance sheet, results of operations and cash flows are susceptible to significant volatility due to changes in the fair value of, or cash flows from, the Servicing Related Assets as interest rates change.

A slower than anticipated rate of prepayment due to an increase in market interest rates also will cause the life of the related RMBS to extend beyond that which was projected. As a result, we would have an asset with a lower yield than current investments for a longer period of time. In addition, if we have hedged our interest rate risk, extension may cause the security to be outstanding longer than the related hedge, thereby reducing the protection intended to be provided by the hedge.

Voluntary and involuntary prepayment rates may be affected by a number of factors including, but not limited to, the availability of mortgage credit, the relative economic vitality of, or natural disasters affecting, the area in which the related properties are located, the servicing of the mortgage loans, possible changes in tax laws, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors, none of which can be predicted with any certainty.

We attempt to reduce the exposure of our MSRs to voluntary prepayments through the structuring of recapture agreements with Aurora’s subservicers. Under these agreements, the subservicer attempts to refinance specified mortgage loans. The subservicer sells the new mortgage loan to the applicable Agency, transfers the related MSR to Aurora and then subservices the new mortgage loan on behalf of Aurora. See “Item 8. Consolidated Financial Statements and Supplementary Data—Note 7. Transactions with Related Parties” for information regarding Aurora’s recapture agreements.

With respect to our business operations, increases in interest rates, in general, may over time cause:

- the interest expense associated with our borrowings to increase;
- the value of our assets to fluctuate;
- coupons on any adjustable-rate and hybrid RMBS we may own to reset, although on a delayed basis, to higher interest rates;
- prepayments on our RMBS to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts; and
- an increase in the value of any interest rate swap agreements we may enter into as part of our hedging strategy.

Conversely, decreases in interest rates, in general, may over time cause:

- prepayments on our RMBS to increase, thereby accelerating the amortization of our purchase premiums and the accretion of our purchase discounts;
- the interest expense associated with our borrowings to decrease;
- the value of our assets to fluctuate;
- a decrease in the value of any interest rate swap agreements we may enter into as part of our hedging strategy; and
- coupons on any adjustable-rate and hybrid RMBS assets we may own to reset, although on a delayed basis, to lower interest rates.

Effects of Spreads on our Assets

The spread between the yield on our assets and our funding costs affects the performance of our business. Wider spreads imply the potential for greater income on new asset purchases but may have a negative impact on our stated book value. Wider spreads may also negatively impact asset prices. In an environment where spreads are widening, counterparties may require additional collateral to secure borrowings which may require us to reduce leverage by selling assets. Conversely, tighter spreads imply the potential for lower income on new asset purchases but may have a positive impact on stated book value of our existing assets. In this case, we may be able to reduce the amount of collateral required to secure borrowings.

Credit Risk

We are subject to varying degrees of credit risk in connection with our assets. Although we expect relatively low credit risk with respect to our portfolios of Agency RMBS, we are subject to the credit risk of borrowers under the loans backing any CMOs that we may own and to the credit enhancements built into the CMO structure. We also are subject to the credit risk of the borrowers under the mortgage loans underlying the MSRs that Aurora owns. Through loan level due diligence, we attempt to mitigate this risk by seeking to acquire high quality assets at appropriate prices given anticipated and unanticipated losses. We also conduct ongoing monitoring of acquired MSRs. Nevertheless, unanticipated credit losses could occur which could adversely impact our operating results.

Critical Accounting Policies and Use of Estimates

Our financial statements are prepared in accordance with US GAAP, which requires the use of estimates that involve the exercise of judgment and the use of assumptions as to future uncertainties. Our most critical accounting policies involve decisions and assessments that could affect our reported amounts of assets and liabilities, as well as our reported amounts of revenues and expenses. We believe that the decisions and assessments upon which our financial statements are based were reasonable at the time made and based upon information available to us at that time. Our critical accounting policies and accounting estimates may change over time as we diversify our portfolio. The material accounting policies and estimates that we expect to be most critical to an investor’s understanding of our financial results and condition and require complex management judgment are discussed below. For additional information on our material accounting policies and estimates, see “Item 8. Consolidated Financial Statements and Supplementary Data - Note 2. Basis of Presentation and Significant Accounting Policies”.

Investments in Securities

We have elected to classify our investments in RMBS as available-for-sale. Although we may hold most of our securities until maturity, we may, from time to time, sell any of our securities as part of our overall management of our asset portfolio. All assets classified as available-for-sale will be reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders’ equity. For additional information on our assessment of credit-related impairment and our fair value methodology, see “Item 8. Consolidated Financial Statements and Supplementary Data - Note 4. Investments in RMBS and Note 9. Fair Value”.

Revenue Recognition on Securities

Interest income from coupon payments is accrued based on the outstanding principal amount of the RMBS and their contractual terms. Premiums and discounts associated with the purchase of the RMBS are amortized or accreted into interest income over the projected lives of the securities using the effective interest method. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, consensus prepayment speeds, and current market conditions. Adjustments are made for actual prepayment activity.

Investments in MSRs

We have elected the fair value option to record our investments in MSRs in order to provide users of our consolidated financial statements with better information regarding the effects of prepayment risk and other market factors on the MSRs. Under this election, we record a valuation adjustment on our investments in MSRs on a quarterly basis to recognize the changes in fair value of our MSRs in net income as described below. Although transactions in MSRs are observable in the marketplace, the valuation includes unobservable market data inputs (prepayment speeds, delinquency levels, costs to service and discount rates). The difference between the fair value of MSRs and their amortized cost basis is recorded within “Unrealized gain (loss) on investments in Servicing Related Assets” on the consolidated statements of income (loss). Fair value is generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the MSRs and, therefore, may differ from their effective yields. In determining the valuation of MSRs, management uses internally developed models that are primarily based on observable market-based inputs but which also include unobservable market data inputs. For additional information on our fair value methodology, see “Item 8. Consolidated Financial Statements and Supplementary Data–Note 9. Fair Value”.

Revenue Recognition on Investments in MSRs

Mortgage servicing fee income represents revenue earned from the ownership of MSRs. The servicing fees are based on a contractual percentage of the outstanding principal balance and are recognized as revenue as the related mortgage payments are collected. Corresponding costs to service are charged to expense as incurred. Servicing fee income received and servicing expenses incurred are reported on the consolidated statements of income (loss).

Repurchase Transactions

We finance the acquisition of our RMBS for our portfolio through repurchase transactions under master repurchase agreements. Repurchase transactions are treated as collateralized financing transactions and are carried at their contractual amounts as specified in the respective transactions. Accrued interest payable is included in “Accrued expenses and other liabilities” on the consolidated balance sheets. Securities financed through repurchase transactions remain on our consolidated balance sheet as an asset and cash received from the purchaser is recorded on our consolidated balance sheet as a liability. Interest paid in accordance with repurchase transactions is recorded in interest expense on the consolidated statements of income (loss).

Income Taxes

We elected to be taxed as a REIT under the Code commencing with our short taxable year ended December 31, 2013. We expect to continue to qualify to be treated as a REIT. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate income tax rates to the extent that it annually distributes less than 100% of its taxable income. Our taxable REIT subsidiary, Solutions, and its wholly-owned subsidiary, Aurora, are subject to U.S. federal income taxes on their taxable income.

We account for income taxes in accordance with ASC 740, *Income Taxes*. ASC 740 requires the recording of deferred income taxes that reflect the net tax effect of temporary differences between the carrying amounts of our assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, including operating loss carry forwards. 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 of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date. For information on our assessment of the realizability of deferred tax assets, see “Item 8. Consolidated Financial Statements and Supplementary Data - Note 16. Income Taxes”. We assess our tax positions for all open tax years and determine if we have any material unrecognized liabilities in accordance with ASC 740. We record these liabilities to the extent we deem them more-likely-than-not to be incurred. We record interest and penalties related to income taxes within the provision for income taxes in the consolidated statements of income (loss). We have not incurred any interest or penalties.

Results of Operations

Presented below is a comparison of the Company’s results of operations for the periods indicated (dollars in thousands):

Results of Operations

	Year Ended December 31, 2021	Year Ended December 31, 2020
Income		
Interest income	$ 14,956	$ 42,841
Interest expense	5,768	22,134
Net interest income	9,188	20,707
Servicing fee income	54,157	65,961
Servicing costs	13,624	22,640
Net servicing income	40,533	43,321
Other income (loss)		
Realized gain (loss) on RMBS, available-for-sale, net	548	(4,640)
Realized loss on investments in MSRs, net	-	(11,347)
Realized loss on derivatives, net	(9,339)	(9,977)
Realized gain (loss) on acquired assets, net	15	(690)
Unrealized gain (loss) on derivatives, net	(1,745)	48,055
Unrealized loss on investments in Servicing Related Assets	(11,062)	(141,900)
Total Income (Loss)	**28,138**	**(56,471)**
Expenses		
General and administrative expense	6,983	7,741
Management fee to affiliate	7,844	7,770
Total Expenses	**14,827**	**15,511**
Income (Loss) Before Income Taxes	**13,311**	**(71,982)**
Provision for (Benefit from) corporate business taxes	**781**	**(18,764)**
Net Income (Loss)	**12,530**	**(53,218)**
Net (income) loss allocated to noncontrolling interests in Operating Partnership	(247)	979
Dividends on preferred stock	9,853	9,842
Net Income (Loss) Applicable to Common Stockholders	**$ 2,430**	**$ (62,081)**

Presented below is summary financial data on our segments together with the data for the Company as a whole, for the periods indicated (dollars in thousands):

Segment Summary Data

For

	Servicing Related Assets	RMBS	All Other	Total
Income Statement				
Year Ended December 31, 2021				
Interest income	$ 376	$ 14,580	$ -	$ 14,956
Interest expense	4,484	1,284	-	5,768
Net interest income (expense)	(4,108)	13,296	-	9,188
Servicing fee income	54,157	-	-	54,157
Servicing costs	13,624	-	-	13,624
Net servicing income	40,533	-	-	40,533
Other income (expense)	(34,103)	12,520	-	(21,583)
Other operating expenses	3,040	717	11,070	14,827
Provision for corporate business taxes	781	-	-	781
Net Income (Loss)	$ (1,499)	$ 25,099	$ (11,070)	$ 12,530
Year Ended December 31, 2020				
Interest income	$ 2,661	$ 40,180	$ -	$ 42,841
Interest expense	5,357	16,777	-	22,134
Net interest income (expense)	(2,696)	23,403	-	20,707
Servicing fee income	65,961	-	-	65,961
Servicing costs	22,640	-	-	22,640
Net servicing income	43,321	-	-	43,321
Other expense	(95,864)	(24,635)	-	(120,499)
Other operating expenses	3,457	852	11,202	15,511
Benefit from corporate business taxes	(18,764)	-	-	(18,764)
Net Loss	$ (39,932)	$ (2,084)	$ (11,202)	$ (53,218)
Year Ended December 31, 2019				
Interest income	$ 2,819	$ 68,852	$ -	$ 71,671
Interest expense	3,445	51,002	-	54,447
Net interest income (expense)	(626)	17,850	-	17,224
Servicing fee income	73,555	-	-	73,555
Servicing costs	17,404	-	-	17,404
Net servicing income	56,151	-	-	56,151
Other expense	(100,483)	(20,167)	-	(120,650)
Other operating expenses	1,971	873	10,481	13,325
Benefit from corporate business taxes	(9,925)	-	-	(9,925)
Net Loss	$ (37,004)	$ (3,190)	$ (10,481)	$ (50,675)

	Servicing Related Assets	RMBS	All Other	Total
Balance Sheet				
December 31, 2021				
Investments	$ 218,727	$ 953,496	$ -	$ 1,172,223
Other assets	44,506	21,611	64,522	130,639
Total assets	263,233	975,107	64,522	1,302,862
Debt	145,268	865,494	-	1,010,762
Other liabilities	1,847	1,411	10,026	13,284
Total liabilities	147,115	866,905	10,026	1,024,046
Net assets	$ 116,118	$ 108,202	$ 54,496	$ 278,816
December 31, 2020				
Investments	$ 174,414	$ 1,228,251	$ -	$ 1,402,665
Other assets	51,063	55,260	84,500	190,823
Total assets	225,477	1,283,511	84,500	1,593,488
Debt	111,379	1,149,978	-	1,261,357
Other liabilities	2,392	6,370	10,803	19,565
Total liabilities	113,771	1,156,348	10,803	1,280,922
Net assets	$ 111,706	$ 127,163	$ 73,697	$ 312,566

Interest Income

Interest income for the year ended December 31, 2021 was $15.0 million as compared to $42.8 million for the year ended December 31, 2020. The $27.8 million decrease in interest income for the year ended December 31, 2021 as compared to the year ended December 31, 2020 primarily resulted from the sale of RMBS.

Interest Expense

Interest expense for the year ended December 31, 2021 was $5.8 million as compared to $22.1 million for the year ended December 31, 2020. The $16.3 million decrease for the year ended December 31, 2021 as compared to the year ended December 31, 2020, was substantially related to fewer repurchase agreement borrowings and an overall decrease in interest rates.

Servicing Fee Income

Servicing fee income for the year ended December 31, 2021 was $54.2 million as compared to $66.0 million for the year ended December 31, 2020. The $11.8 million decrease in servicing fee income for the year ended December 31, 2021 as compared to the year ended December 31, 2020 resulted from the sale of the Ginnie Mae MSRs during 2020 as well as runoff due to prepayment of mortgages within the portfolio.

Servicing Costs

Servicing costs for the year ended December 31, 2021 was $13.6 million as compared to $22.6 million for the year ended December 31, 2020. The $9.0 million decrease in servicing costs for the year ended December 31, 2021 as compared to the year ended December 31, 2020 primarily resulted from the sale of the Ginnie Mae MSRs during 2020 as well as runoff due to prepayment of mortgages within the portfolio.

Unrealized Loss on Investments in Servicing Related Assets

Unrealized loss on our investments in Servicing Related Assets was approximately $11.1 million and $141.9 miilion for the years ended December 31, 2021 and December 31, 2020, respectively. The $130.8 million decrease in unrealized loss on our investments in Servicing Related Assets was primarily due to changes in valuation inputs or assumptions and paydown of underlying loans.

Unrealized Gain (Loss) on Derivatives

Unrealized loss on derivatives for the year ended December 31, 2021 was approximately $1.7 million as compared to unrealized gain of approximately $48.1 million for the year ended December 31, 2020, which was primarily due to changes in interest rates and the composition of our derivatives relative to the prior year.

General and Administrative Expense

General and administrative expense for the year ended December 31, 2021 was $7.0 million as compared to $7.7 million for the year ended December 31, 2020. The $758,000 decrease was primarily due to higher professional fees related to market disruptions in the first quarter of 2020 due to the COVID-19 pandemic.

Net Income Allocated to Noncontrolling Interests in Operating Partnership

Net income allocated to noncontrolling interests in the Operating Partnership, which are LTIP-OP Units owned by our directors and officers and by certain other individuals who provide services to us through the Manager, represented approximately 2.0% and 1.8% of net income for the years ended December 31, 2021 and 2020, respectively. The increase relative to the prior year was due primarily to the issuance and sale of additional shares of our capital stock during the year.

For the period indicated below, our accumulated other comprehensive income (loss) changed as a result of the indicated gains and losses (dollars in thousands):

Accumulated Other Comprehensive Income (Loss)

	Year Ended December 31, 2021
Accumulated other comprehensive gain, December 31, 2020	$ 35,594
Other comprehensive loss	(28,067)
Accumulated other comprehensive gain, December 31, 2021	$ 7,527

	Year Ended December 31, 2020
Accumulated other comprehensive gain, December 31, 2019	$ 41,414
Other comprehensive loss	(5,820)
Accumulated other comprehensive gain, December 31, 2020	$ 35,594

Our GAAP equity changes as the values of our RMBS are marked to market each quarter, among other factors. The primary causes of mark to market changes are changes in interest rates and credit spreads. During the years ended December 31, 2021 and December 31, 2020, volatility and ultimate decreases in the 10 Year U.S. Treasury rate and widening of credit spreads caused a net unrealized loss on our RMBS in each of those periods, which is recorded in accumulated other comprehensive income (loss).

Non-GAAP Financial Measures

This Management's Discussion and Analysis of Financial Condition and Results of Operations section contains analysis and discussion of non-GAAP financial measures, including:

- earnings available for distribution; and

- earnings available for distribution per average common share.

Earnings available for distribution ("EAD") is a non-GAAP financial measure that we define as GAAP net income (loss), excluding realized gain (loss) on RMBS, realized and unrealized gain (loss) on derivatives, realized gain (loss) on acquired assets, realized and unrealized gain (loss) on investments in MSRs (net of any estimated MSR amortization) and any tax (benefit) expense on realized and unrealized gain (loss) on MSRs. MSR amortization refers to the portion of the change in fair value of the MSR that is primarily due to the realization of cashflows, runoff resulting from prepayments and an adjustment for any gain or loss on the capital used to purchase the MSR. EAD also includes interest rate swap periodic interest income (expense) and drop income on TBA dollar roll transactions, which are included in "Realized loss on derivatives, net" on the consolidated statements of income (loss). These items were subject to reclassification on the consolidated statements of income (loss) during the year ended December 31, 2021, and because of this the composition of certain line items in the EAD table have changed. However, there was no change in the EAD calculation resulting from these reclassifications as these items were included in EAD prior to the reclassification as well. EAD is adjusted to exclude outstanding LTIP-OP Units in our Operating Partnership and dividends paid on our preferred stock.

EAD is provided for purposes of potential comparability to other issuers that invest in residential mortgage-related assets. We believe providing investors with EAD, in addition to related GAAP financial measures, may provide investors some insight into our ongoing operational performance. However, the concept of EAD does have significant limitations, including the exclusion of realized and unrealized gains (losses), and given the apparent lack of a consistent methodology among issuers for defining EAD, it may not be comparable to similarly titled measures of other issuers, which define EAD differently from us and each other. As a result, EAD should not be considered a substitute for our GAAP net income (loss) or as a measure of our liquidity. While EAD is one indicia of the Company's earnings capacity, it is not the only factor considered in setting a dividend and is not the same as REIT taxable income which is calculated in accordance with the rules of the IRS.

For the three-month period ended December 31, 2021, the Company has enhanced the calculation of unrealized gain (loss) on investments in MSRs used to determine EAD. The enhancement backs out from unrealized gain (loss) on investments in MSRs used to calculate EAD the following MSR-related items: hedging income or expense, financing interest expense and any administrative servicing costs. The Company believes this enhancement better presents the EAD generated by investments in MSRs with the EAD generated by investments in RMBS. EAD for the year ended December 31, 2020 and for the first nine months of December 31, 2021 has not been adjusted to reflect the current period enhancement. If the enhanced calculation had been applied retroactively to the first nine months of the year ended December 31, 2021 and the year ended December 31, 2020, the Company would have reported EAD attributable to common stockholders per share of $1.09 and $1.57 for the years ended December 31, 2021 and December 31, 2020, respectively. The divergence in 2020 between the reported and the enhanced calculations was primarily concentrated in the first half of 2020 during the onset of the COVID-19 pandemic and was driven mostly by higher MSR financing expenses and lower MSR hedging income.

Earnings Available for Distribution

EAD for the years ended December 31, 2021 and 2020, as compared to the prior year, decreased by approximately $11.8 million and $3.8 million, respectively, or $0.72 and $0.24, per average common share, respectively, primarily due to a decrease in the size of the RMBS portfolio.

The following table reconciles the GAAP measure of net income (loss) to EAD and related per average common share amounts, for the periods indicated (dollars in thousands):

	Year Ended December 31,	
	2021	2020
Net Income (Loss)	$ 12,530	$ (53,218)
Realized loss (gain) on RMBS, net	(548)	4,640
Realized loss on derivatives, net [A]	26,763	22,826
Realized loss on investments in MSRs, net	-	11,347
Realized loss (gain) on acquired assets, net	(15)	690
Unrealized loss (gain) on derivatives, net	1,745	(48,055)
Unrealized loss (gain) on investments in MSRs, net of estimated MSR amortization	(16,358)	117,250
Tax (benefit) expense on realized and unrealized (loss) gain on MSRs	4,639	(14,797)
Total EAD:	$ 28,756	$ 40,683
EAD attributable to noncontrolling interests in Operating Partnership	(566)	(748)
Dividends on preferred stock	9,853	9,842
EAD Attributable to Common Stockholders	**$ 18,337**	**$ 30,093**
EAD Attributable to Common Stockholders, per Diluted Share	**$ 1.06**	**$ 1.78**
GAAP Net Income (Loss) Per Share of Common Stock, per Diluted Share	**$ 0.14**	**$ (3.67)**

(A) Excludes drop income on TBA dollar rolls of $13.1 million and $6.2 million and interest rate swap periodic interest income of $3.8 million and $5.8 million, and includes trading expenses of $539,000 and $853,000 for the years ended December 31, 2021 and December 31, 2020, respectively.

Our Portfolio

MSRs

Aurora's MSR portfolio of Fannie Mae and Freddie Mac MSRs have an aggregate UPB of approximately $20.8 billion as of December 31, 2021.

The following tables set forth certain characteristics of the mortgage loans underlying those MSRs as of the dates indicated (dollars in thousands):

MSR Collateral Characteristics

As of December 31, 2021

		Collateral Characteristics					
	Current Carrying Amount	Current Principal Balance	WA Coupon[A]	WA Servicing Fee[A]	WA Maturity (months)[A]	WA Loan Age (months)[A]	ARMs %[B]
MSRs	$ 218,727	$ 20,773,278	3.51%	0.25%	316	25	0.1%
MSR Total/Weighted Average	**$ 218,727**	**$ 20,773,278**	3.51%	0.25%	**316**	**25**	**0.1%**

As of December 31, 2020

	Current Carrying Amount	Current Principal Balance	WA Coupon(A)	WA Servicing Fee(A)	WA Maturity (months)(A)	WA Loan Age (months)(A)	ARMs %(B)
		Collateral Characteristics					
MSRs	$ 174,414	$ 21,641,277	3.92%	0.25%	316	25	0.2%
MSR Total/Weighted Average	**$ 174,414**	**$ 21,641,277**	3.92**%**	0.25**%**	**316**	**25**	**0.2%**

A) Weighted average coupon, servicing fee, maturity and loan age of the underlying residential mortgage loans in the pool are based on the unpaid principal balance.

(B) ARMs % represents the percentage of the total principal balance of the pool that corresponds to ARMs and hybrid ARMs.

RMBS

The following tables summarize the characteristics of our RMBS portfolio and certain characteristics of the collateral underlying our RMBS as of the dates indicated (dollars in thousands):

RMBS Characteristics

As of December 31, 2021

Asset Type	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Weighted Average Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)
RMBS										
Fannie Mae	$ 772,607	$ 554,151	$ 9,276	$ (3,650)	$ 559,777	76	(B)	3.09%	2.96%	27
Freddie Mac	484,479	391,700	5,260	(3,241)	393,719	45	(B)	3.02%	2.89%	28
Total/Weighted Average	**$ 1,257,086**	**$ 945,851**	**$ 14,536**	**$ (6,891)**	**$ 953,496**	**121**		**3.06%**	**2.93%**	**28**

As of December 31, 2020

Asset Type	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Weighted Average Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)
RMBS										
Fannie Mae	$ 840,175	$ 692,665	$ 22,530	$ (39)	$ 715,156	81	(B)	3.31%	3.17%	28
Freddie Mac	549,530	493,930	13,106	(82)	506,954	49	(B)	2.99%	2.87%	28
Private Label MBS	22,000	5,944	197	-	6,141	5	(B)	4.08%	4.08%	28
Total/Weighted Average	**$ 1,411,705**	**$ 1,192,539**	**$ 35,833**	**$ (121)**	**$ 1,228,251**	**135**		**3.18%**	**3.05%**	**28**

(A) See “Item 8. Consolidated Financial Statements and Supplementary Data—Note 9. Fair Value” regarding the estimation of fair value, which approximates carrying value for all securities.

(B) The Company used an implied AAA rating for the Agency RMBS. The Company’s private label RMBS were rated investment grade or better by at least one NRSRO as of December 31, 2020.

(C) The weighted average yield is based on the most recent gross monthly interest income, which is then annualized and divided by the book value of settled securities.

The following table summarizes the net interest spread of our RMBS portfolio as of the dates indicated:

Net Interest Spread

	December 31, 2021	December 31, 2020
Weighted Average Asset Yield	3.19%	2.49%
Weighted Average Interest Expense	0.73%	0.71%
Net Interest Spread	**2.46%**	**1.78%**

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments and other general business needs. Additionally, to maintain our status as a REIT under the Code, we must distribute annually at least 90% of our REIT taxable income. In 2017, the Internal Revenue Service issued a revenue procedure permitting “publicly offered” REITs to make elective stock dividends (i.e., dividends paid in a mixture of stock and cash), with at least 20% of the total distribution being paid in cash, to satisfy their REIT distribution requirements. In December 2021, the Internal Revenue Service issued a revenue procedure that temporarily reduces the minimum amount of the total distribution that must be paid in cash to 10% for distributions declared on or after November 1, 2021, and on or before June 30, 2022, provided certain other parameters detailed in the Revenue Procedure are satisfied. Pursuant to these revenue procedures, the Company has in the past elected to make distributions of its taxable income in a mixture of stock and cash.

Our primary sources of funds for liquidity consist of cash provided by operating activities (primarily income from our investments in RMBS and net servicing income from our MSRs), sales or repayments of RMBS and borrowings under repurchase agreements and our MSR financing arrangements. The COVID-19 pandemic has not adversely affected our ability to access these traditional sources of our funds on the same or reasonably similar terms as available before the pandemic.

In the future, sources of funds for liquidity may include additional MSR financing, warehouse agreements, securitizations and the issuance of equity or debt securities, when feasible. During the year ended December 31, 2021, we issued and sold 1,148,398 shares of our common stock under the Common Stock ATM Program. The shares were sold at a weighted average price of $8.9 per share for gross proceeds of approximately $10.2 million before fees of approximately $200,000. The net proceeds were used for general corporate purposes, including investment in RMBS. We did not issue and sell any common stock under the Common Stock ATM Program during the year ended December 31, 2020. We did not issue and sell any shares of Series A Preferred Stock under the Preferred Series A ATM Program during the years ended December 31, 2021 or 2020. In the past we have used, and we anticipate that in the future we will use a significant portion of the paydowns of these RMBS to purchase MSRs. We may also sell certain of these RMBS and deploy the net proceeds from such sales to the extent necessary to fund the purchase price of MSRs.

Our primary uses of funds are the payment of interest, management fees, outstanding commitments, other operating expenses, investments in new or replacement assets, margin calls and the repayment of borrowings, as well as dividends. Although we continue to maintain a higher level of unrestricted cash than prior to the pandemic, we expect to invest more of that unrestricted cash in our targeted assets if normalization of the economy continues. We may also use capital resources to repurchase additional shares of common stock under our stock repurchase program when we believe such repurchases are appropriate and/or the stock is trading at a significant discount to net asset value. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates.

As of the date of this filing, we believe we have sufficient liquid assets to satisfy all of our short-term recourse liabilities and to satisfy covenants in our financing documents. With respect to the next twelve months, we expect that our cash on hand combined with the cash flow provided by our operations will be sufficient to satisfy our anticipated liquidity needs with respect to our current investment portfolio, including related financings, potential margin calls and operating expenses. While it is inherently more difficult to forecast beyond the next twelve months, we currently expect to meet our long-term liquidity requirements through our cash on hand and, if needed, additional borrowings, proceeds received from repurchase agreements and similar financings, proceeds from equity offerings and the liquidation or refinancing of our assets.

Our operating cash flow differs from our net income due primarily to: (i) accretion of discount or premium on our RMBS, (ii) unrealized gains or losses on our Servicing Related Assets, and (iii) impairment on our securities, if any.

Repurchase Agreements

As of December 31, 2021, we had repurchase agreements with 33 counterparties and approximately $865.5 million of outstanding repurchase agreement borrowings from 13 of those counterparties, which were used to finance RMBS. As of December 31, 2021, our exposure (defined as the amount of cash and securities pledged as collateral, less the borrowing under the repurchase agreement) to any of the counterparties under the repurchase agreements did not exceed five percent of the Company’s equity. Under these agreements, which are uncommitted facilities, we sell a security to a counterparty and concurrently agree to repurchase the same security at a later date at the same price that we initially sold the security plus the interest charged. The sale price represents financing proceeds and the difference between the sale and repurchase prices represents interest on the financing. The price at which the security is sold generally represents the market value of the security less a discount or “haircut.” The weighted average haircut on our repurchase debt at December 31, 2021 was approximately 4.6%. During the term of the repurchase transaction, which can be as short as a few days, the counterparty holds the security and posts margin as collateral. The counterparty monitors and calculates what it estimates to be the value of the collateral during the term of the transaction. If this value declines by more than a de minimis threshold, the counterparty requires us to post additional collateral (or “margin”) in order to maintain the initial haircut on the collateral. This margin is typically required to be posted in the form of cash and cash equivalents. Furthermore, we are, from time to time, a party to derivative agreements or financing arrangements that may be subject to margin calls based on the value of such instruments.

Set forth below is the average aggregate balance of borrowings under the Company's repurchase agreements for each of the periods shown and the aggregate balance as of the end of each such period (dollars in thousands):

Repurchase Agreement Average and Maximum Amounts

Quarter Ended	Average Monthly Amount	Maximum Month-End Amount	Quarter Ending Amount
December 31, 2021	$ 830,099	$ 865,494	$ 865,494
September 30, 2021	$ 790,587	$ 821,540	$ 777,416
June 30, 2021	$ 858,269	$ 897,047	$ 897,047
March 31, 2021	$ 1,012,389	$ 1,118,231	$ 934,001
December 31, 2020	$ 1,303,927	$ 1,465,037	$ 1,149,978
September 30, 2020	$ 1,374,041	$ 1,419,991	$ 1,365,471
June 30, 2020	$ 1,286,998	$ 1,395,317	$ 1,395,317
March 31, 2020	$ 2,383,300	$ 1,565,232	$ 1,565,232

The decrease in the Company's borrowings under its repurchase agreements was primarily due to the sale of RMBS securities during 2020 and 2021.

These short-term borrowings were used to finance certain of our investments in RMBS. The RMBS repurchase agreements are guaranteed by the Company. The weighted average difference between the market value of the assets and the face amount of available financing for the RMBS repurchase agreements, or the haircut, was 4.6% and 5.0% as of December 31, 2021 and December 31, 2020, respectively. The following tables provide additional information regarding borrowings under our repurchase agreements (dollars in thousands):

Repurchase Agreement Characteristics

As of December 31, 2021

	RMBS Market Value	Repurchase Agreements	Weighted Average Rate
Less than one month	$ 297,720	$ 291,007	0.13%
One to three months	595,168	574,487	0.14%
Total/Weighted Average	**$ 892,888**	**$ 865,494**	**0.14%**

As of December 31, 2020

	RMBS Market Value	Repurchase Agreements	Weighted Average Rate
Less than one month	$ 484,920	$ 482,319	0.23%
One to three months	679,496	667,659	0.23%
Total/Weighted Average	**$ 1,164,416**	**$ 1,149,978**	**0.23%**

The amount of collateral as of December 31, 2021 and December 31, 2020, including cash, was $905.1 million and $1,208.8 million, respectively.

The weighted average term to maturity of our borrowings under repurchase agreements as of December 31, 2021 and December 31, 2020 was 38 days and 28 days, respectively.

MSR Financing

As of December 31, 2021, the Company had two separate MSR financing facilities: (i) the Freddie Mac MSR Revolver, which is a revolving credit facility for up to $100.0 million that is secured by all Freddie Mac MSRs owned by Aurora; and (ii) the Fannie Mae MSR Revolving Facility, which is a revolving credit facility for up to $150.0 million, that is secured by all Fannie Mae MSRs owned by Aurora. Both financing facilities are available for MSRs as well as certain servicing related advances associated with MSRs.

Freddie Mac MSR Revolver. In July 2018, the Company, Aurora and QRS V (collectively with Aurora and the Company, the “Borrowers”) entered into a $25.0 million revolving credit facility (the “Freddie Mac MSR Revolver”) pursuant to which Aurora pledged all of its existing and future MSRs on loans owned or securitized by Freddie Mac. The term of the Freddie Mac MSR Revolver is 364 days with the Borrowers’ option for two renewals for similar terms followed by a one-year term out feature with a 24-month amortization schedule. The Freddie Mac MSR Revolver was upsized to $45.0 million in September 2018. The Company also has the ability to request up to an additional $5.0 million of borrowings. On April 2, 2019, Aurora and QRS V entered into an amendment that increased the maximum amount of the Freddie Mac MSR Revolver to $100.0 million. In July 2021, the Borrowers entered into an amendment to the Freddie Mac MSR Revolver that extended the revolving period for an additional 364 days with the option for two more renewals of 364 days each. At the end of the revolving period, the outstanding amount will be converted to a one-year term loan. Amounts borrowed bear interest at an adjustable rate equal to a spread above one-month LIBOR. At December 31, 2021 and December 31, 2020, approximately $63.0 million and $47.5 million, respectively, was outstanding under the Freddie Mac MSR Revolver.

Fannie Mae MSR Revolving Facility. In October 2021, Aurora and QRS III entered into a loan and security agreement (the “Fannie Mae MSR Revolving Facility”), to replace the Prior Fannie Mae MSR Financing Facility (as defined below). Under the Fannie Mae MSR Revolving Facility, Aurora and QRS III pledged their respective rights in all existing and future MSRs for loans owned or securitized by Fannie Mae to secure borrowings outstanding from time to time. The maximum credit amount outstanding at any one time under the Fannie Mae MSR Revolving Facility is $150.0 million. The revolving period is 24 months which may be extended by agreement with the lender. During the revolving period, borrowings bear interest at a rate equal to a spread over one-month LIBOR subject to a floor. At the end of the revolving period, the outstanding amount will be converted to a three-year term loan that will bear interest at a rate calculated at a spread over the rate for one-year interest rate swaps. The Company has guaranteed repayment of all indebtedness under the Fannie Mae MSR Revolving Facility. At December 31, 2021, approximately $83.0 million was outstanding under the Fannie Mae MSR Revolving Facility.

As noted above, the Fannie Mae MSR Revolving Facility replaced the Prior Fannie Mae MSR Financing Facility. In September 2019, Aurora and QRS III entered into a loan and security agreement (the “Prior Fannie Mae MSR Financing Facility”). Under the Prior Fannie Mae MSR Facility, Aurora and QRS III pledged their respective rights in all existing and future MSRs for loans owned or securitized by Fannie Mae to secure borrowings outstanding from time to time. The maximum credit amount outstanding at any one time under the facility was $200 million, of which $100 million was committed. Borrowings bore interest at a rate equal to a spread over one-month LIBOR subject to a floor. This facility was terminated and replaced in October 2021 with the Fannie Mae MSR Revolving Facility (as defined and discussed above). As a result, there was no outstanding balance under the Prior Fannie Mae MSR Financing Facility at December 31, 2021. Approximately $64.0 million was outstanding under the Prior Fannie Mae MSR Financing Facility at December 31, 2020.

Cash Flows

Operating and Investing Activities

Our operating activities provided cash of approximately $48.0 million and $62.4 million for the years ended December 31, 2021 and December 31, 2020, respectively. Our investing activities provided cash of approximately $166.5 million and $1,260.4 million for the years ended December 31, 2021 and December 31, 2020, respectively. The cash provided by our investing activities resulted from the sale of RMBS during the year ended December 31, 2020 in order to rebuild the Company's liquidity.

Dividends

U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income. We intend to make regular quarterly distributions of all or substantially all of our REIT taxable income to holders of our common and preferred stock out of assets legally available for this purpose, if and to the extent authorized by our board of directors. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our repurchase agreements and other debt payable. If our cash available for distribution is less than our REIT taxable income, we could be required to sell assets or borrow funds to make cash distributions, or, with respect to our common stock, we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. We will make distributions only upon the authorization of our board of directors. The amount, timing and frequency of distributions will be authorized by our board of directors based upon a variety of factors, including:

- actual results of operations;
- our level of retained cash flows;
- our ability to make additional investments in our target assets;
- restrictions under Maryland law;
- the terms of our preferred stock;
- any debt service requirements;
- our taxable income;
- the annual distribution requirements under the REIT provisions of the Code; and
- other factors that our board of directors may deem relevant.

Our ability to make distributions to our stockholders will depend upon the performance of our investment portfolio, and, in turn, upon our Manager's management of our business. Distributions will be made quarterly in cash to the extent that cash is available for distribution. We may not be able to generate sufficient cash available for distribution to pay distributions to our stockholders. In addition, our board of directors may change our distribution policy with respect to our common stock in the future. No assurance can be given that we will be able to make any other distributions to our stockholders at any time in the future or that the level of any distributions we do make to our stockholders will achieve a market yield or increase or even be maintained over time.

We make distributions based on a number of factors, including an estimate of taxable earnings. Dividends distributed and taxable income will typically differ from GAAP earnings due to items such as fair value adjustments, differences in premium amortization and discount accretion, and nondeductible general and administrative expenses. Our common dividend per share may be substantially different than our taxable earnings and GAAP earnings per share. Our GAAP earnings per share for the year ended December 31, 2021 were $0.14 and our GAAP loss per share for the year ended December 31, 2020 was $3.67.

Contractual Obligations

Our contractual obligations as of December 31, 2021 and December 31, 2020 included repurchase agreements, borrowings under our MSR financing arrangements, our Management Agreement with our Manager, and our subservicing agreements. Following the sale of the Ginnie Mae MSRs to Freedom Mortgage in June 2020, Freedom Mortgage continued to subservice certain loans that had been purchased from Ginnie Mae pools due to delinquency or default. These loans were subserviced by Freedom Mortgage pursuant to a subservicing agreement entered into on June 10, 2015. Freedom Mortgage ceased subservicing these loans during 2021 because these loans and any related advance claims had been rehabilitated or liquidated.

The following table summarizes our contractual obligations for borrowed money as of the dates indicated (dollars in thousands):

Contractual Obligations Characteristics
As of December 31, 2021

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Repurchase agreements					
Borrowings under repurchase agreements	$ 865,494	$ -	$ -	$ -	$ 865,494
Interest on repurchase agreement borrowings[(A)]	$ 135	$ -	$ -	$ -	$ 135
Freddie Mac MSR Revolver					
Borrowings under Freddie Mac MSR Revolver	$ 63,000	$ -	$ -	$ -	$ 63,000
Interest on Freddie Mac MSR Revolver borrowings	$ 1,954	$ -	$ -	$ -	$ 1,954
Fannie Mae MSR Revolving Facility					
Borrowings under Fannie Mae MSR Revolving Facility	$ -	$ 7,566	$ 75,434	$ -	$ 83,000
Interest on Fannie Mae MSR Revolving Facility	$ 3,156	$ 6,127	$ 4,941	$ -	$ 14,224

	As of December 31, 2020				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Repurchase agreements					
Borrowings under repurchase agreements	$ 1,149,978	$ -	$ -	$ -	$ 1,149,978
Interest on repurchase agreement borrowings(A)	$ 492	$ -	$ -	$ -	$ 492
Freddie Mac MSR Revolver					
Borrowings under Freddie Mac MSR Revolver	$ 47,500	$ -	$ -	$ -	$ 47,500
Interest on Freddie Mac MSR Revolver borrowings	$ 1,134	$ -	$ -	$ -	$ 1,134
Fannie Mae MSR Financing Facility					
Borrowings under Fannie Mae MSR Financing Facility	$ 64,000	$ -	$ -	$ -	$ 64,000
Interest on Fannie Mae MSR Financing Facility	$ 1,655	$ -	$ -	$ -	$ 1,655

(A) Interest expense is calculated based on the interest rate in effect at December 31, 2021 and December 31, 2020, respectively, and includes all interest expense incurred through those dates.

Management Agreement

The Management Agreement with our Manager provides that our Manager is entitled to receive a management fee, the reimbursement of certain expenses and, in certain circumstances, a termination fee. The management fee is an amount equal to 1.5% per annum of our stockholders' equity, adjusted as set forth in the Management Agreement, and calculated and payable quarterly in arrears. We will also be required to pay a termination fee equal to three times the average annual management fee earned by our Manager during the two four-quarter periods ending as of the end of the most recently completed fiscal quarter prior to the effective date of the termination. Such termination fee will be payable upon termination or non-renewal of the Management Agreement by us without cause or by our Manager if we materially breach the Management Agreement.

We pay all of our direct operating expenses, except those specifically required to be borne by our Manager under the Management Agreement. Our Manager is responsible for all costs incident to the performance of its duties under the Management Agreement. We believe that our Manager uses the proceeds from its management fee in part to pay the Services Provider for services provided under the Services Agreement. Our officers receive no cash compensation directly from us. Our Manager provides us with our officers. Our Manager is entitled to be reimbursed for an agreed upon portion of the costs of the wages, salary and other benefits with respect to our chief financial officer, and, prior to January 1, 2022, our general counsel, originally based on the percentages of their working time and efforts spent on matters related to the Company. The amount of the wages, salary and benefits reimbursed with respect to the officers our Manager provides to us is subject to the approval of the compensation committee of our board of directors.

The term of the Management Agreement expired on October 22, 2021 and was automatically renewed for a one-year term on such date and will be automatically renewed for a one-year term on each anniversary of such date thereafter unless terminated or not renewed as described below. Either we or our Manager may elect not to renew the Management Agreement upon expiration of its initial term or any renewal term by providing written notice of non-renewal at least 180 days, but not more than 270 days, before expiration. No such written notice of non-renewal was provided in 2021 and the Management Agreement's term was automatically extended until October 22, 2022. In the event we elect not to renew the term, we will be required to pay our Manager the termination fee described above. We may terminate the Management Agreement at any time for cause effective upon 30 days prior written notice of termination from us to our Manager, in which case no termination fee would be due. Our board of directors will review our Manager's performance prior to the automatic renewal of the Management Agreement and, as a result of such review, upon the affirmative vote of at least two-thirds of the members of our board of directors or of the holders of a majority of our outstanding common stock, we may terminate the Management Agreement based upon unsatisfactory performance by our Manager that is materially detrimental to us or a determination by our independent directors that the management fees payable to our Manager are not fair, subject to the right of our Manager to prevent such a termination by agreeing to a reduction of the management fees payable to our Manager. Upon any termination of the Management Agreement based on unsatisfactory performance or unfair management fees, we are required to pay our Manager the termination fee described above. Our Manager may terminate the Management Agreement, without payment of the termination fee, in the event we become regulated as an investment company under the Investment Company Act. Our Manager may also terminate the Management Agreement upon 60 days' written notice if we default in the performance of any material term of the Management Agreement and the default continues for a period of 30 days after written notice to us, whereupon we would be required to pay our Manager the termination fee described above.

Subservicing Agreements

As of December 31, 2021, Aurora had four subservicing agreements in place, one of which is with Freedom Mortgage. Following the sale of the Ginnie Mae MSRs to Freedom Mortgage in June 2020, Freedom Mortgage continued to subservice certain loans that had been purchased from Ginnie Mae pools due to delinquency or default. Freedom Mortgage ceased subservicing these loans during 2021 because these loans and any related advance claims had been rehabilitated or liquidated. One of the other subservicing agreements is with RoundPoint Mortgage Servicing Corporation ("RoundPoint"). Freedom Mortgage acquired RoundPoint and it became a wholly-owned subsidiary of Freedom Mortgage in August 2020. The agreements have varying initial terms (three years, for Freedom Mortgage, and two years for the other three sub-servicers) and are subject to automatic renewal for additional terms equal to the applicable initial term unless either party chooses not to renew. Each agreement may be terminated without cause by either party by giving notice as specified in the agreement. If an agreement is not renewed by the Company or terminated by the Company without cause, de-boarding fees will be due to the subservicer. Under each agreement, the subservicer agrees to service the applicable mortgage loans in accordance with applicable law and the requirements of the applicable Agency and the Company pays customary fees to the applicable subservicer for specified services.

Joint Marketing Recapture Agreement

We attempt to reduce the exposure of our MSRs to voluntary prepayments through the structuring of recapture agreements with Aurora's subservicers.

In May 2018, Aurora entered into a recapture purchase and sale agreement with RoundPoint, one of Aurora's subservicers and since August 2020, a wholly-owned subsidiary of Freedom Mortgage. Pursuant to this agreement, RoundPoint attempts to refinance certain mortgage loans underlying Aurora's MSR portfolio subserviced by RoundPoint as directed by Aurora. If a loan is refinanced, Freedom Mortgage will sell the loan to Fannie Mae or Freddie Mac, as applicable, retain the sale proceeds and transfer the related MSR to Aurora. The agreement continues in effect while the subservicing agreement remains in effect.

Inflation

Substantially all of our assets and liabilities are financial in nature. As a result, interest rates and other factors affect our performance more so than inflation, although inflation rates can often have a meaningful influence over the direction of interest rates. Furthermore, our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors primarily based on our REIT taxable income, and, in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We seek to manage our risks related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns through ownership of our capital stock. 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 earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our assets and our related financing obligations. In general, we finance the acquisition of certain of our assets through financings in the form of repurchase agreements and bank facilities. We expect to make use of additional MSR financing, as well as possibly warehouse facilities, securitizations, re-securitizations, and public and private equity and debt issuances in addition to transaction or asset specific funding arrangements. In addition, the values of our Servicing Related Assets are highly sensitive to changes in interest rates, historically increasing when rates rise and decreasing when rates decline. Subject to maintaining our qualification as a REIT, we attempt to mitigate interest rate risk and financing pricing risk through utilization of hedging instruments, primarily interest rate swap agreements and U.S. treasury futures, respectively. We may also use financial futures, options, interest rate cap agreements, and forward sales. These instruments are intended to serve as a hedge against future interest rate or pricing changes on our borrowings.

Interest Rate Effect on Net Interest Income

Our operating results depend in large part on differences between the income earned on our assets and our cost of borrowing and hedging activities. The costs of our borrowings are generally based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally will increase (1) while the yields earned on our leveraged fixed-rate mortgage assets will remain static and (2) at a faster pace than the yields earned on our leveraged adjustable-rate and hybrid adjustable-rate RMBS, which could result in a decline in our net interest spread and net interest margin. The severity of any such decline would depend on our asset/liability composition at the time as well as the magnitude and duration of the interest rate increase. Further, an increase in short-term interest rates could also have a negative impact on the market value of our assets, other than our Servicing Related Assets. A decrease in interest rates could have a negative impact on the market value of our Servicing Related Assets. If any of these events happen, we could experience a decrease in net income or incur a net loss during these periods, which could adversely affect our liquidity and results of operations.

Hedging techniques are partly based on assumed levels of prepayments of our assets, specifically our RMBS. If prepayments are slower or faster than assumed, the life of the investment will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions. Hedging strategies involving the use of derivatives are highly complex and may produce volatile returns.

Interest Rate Cap Risk

Any adjustable-rate RMBS that we acquire will generally be subject to interest rate caps, which potentially could cause such RMBS to acquire many of the characteristics of fixed-rate securities if interest rates were to rise above the cap levels. This issue will be magnified to the extent we acquire adjustable-rate and hybrid adjustable-rate RMBS that are not based on mortgages which are fully indexed. In addition, adjustable-rate and hybrid adjustable-rate RMBS may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on such assets than we would need to pay the interest cost on our related borrowings. To mitigate interest rate mismatches, we may utilize the hedging strategies discussed above under "—Interest Rate Risk." Actual economic conditions or implementation of decisions by our Manager may produce results that differ significantly from the estimates and assumptions used in our models.

Prepayment Risk; Extension Risk

The following tables summarize the estimated change in fair value of our MSRs as of the dates indicated given several parallel shifts in the discount rate and voluntary prepayment rate (dollars in thousands):

MSR Fair Value Changes

As of December 31, 2021

	(20)%	(10)%	-%	10%	20%
Discount Rate Shift in %					
Estimated FV	$ 233,342	$ 225,813	$ 218,727	$ 212,050	$ 205,749
Change in FV	$ 14,614	$ 7,085	$ -	$ (6,677)	$ (12,979)
% Change in FV	7%	3%	-	(3)%	(6)%
Voluntary Prepayment Rate Shift in %					
Estimated FV	$ 244,460	$ 231,026	$ 218,727	$ 207,458	$ 197,103
Change in FV	$ 25,732	$ 12,298	$ -	$ (11,270)	$ (21,624)
% Change in FV	12%	6%	-	(5)%	(10)%
Servicing Cost Shift in %					
Estimated FV	$ 225,480	$ 222,104	$ 218,727	$ 215,351	$ 211,975
Change in FV	$ 6,752	$ 3,376	$ -	$ (3,376)	$ (6,752)
% Change in FV	3%	2%	-	(2)%	(3)%

As of December 31, 2020

	(20)%	(10)%	-%	10%	20%
Discount Rate Shift in %					
Estimated FV	$ 184,906	$ 179,511	$ 174,414	$ 169,595	$ 165,031
Change in FV	$ 10,492	$ 5,096	$ -	$ (4,820)	$ (9,383)
% Change in FV	6%	3%	-	(3)%	(5)%
Voluntary Prepayment Rate Shift in %					
Estimated FV	$ 210,532	$ 191,603	$ 174,414	$ 158,811	$ 144,606
Change in FV	$ 36,117	$ 17,189	$ -	$ (15,603)	$ (29,808)
% Change in FV	21%	10%	-	(9)%	(17)%
Servicing Cost Shift in %					
Estimated FV	$ 180,274	$ 177,344	$ 174,414	$ 171,485	$ 168,555
Change in FV	$ 5,859	$ 2,930	$ -	$ (2,930)	$ (5,859)
% Change in FV	3%	2%	-	(2)%	(3)%

The following tables summarize the estimated change in fair value of our RMBS as of the dates indicated given several parallel shifts in interest rates (dollars in thousands):

RMBS Fair Value Changes

As of December 31, 2021

		Fair Value Change				
	December 31, 2021	**+25 Bps**	**+50 Bps**	**+75 Bps**	**+100 Bps**	**+150 Bps**
RMBS Portfolio						
RMBS, available-for-sale, net of swaps	$ 1,429,335					
RMBS Total Return (%)		(0.18)%	(0.49)%	(0.92)%	(1.44)%	(2.74)%
RMBS Dollar Return		**$ (2,584)**	**$ (7,016)**	**$ (13,110)**	**$ (20,635)**	**$ (39,125)**

As of December 31, 2020

		Fair Value Change				
	December 31, 2020	**+25 Bps**	**+50 Bps**	**+75 Bps**	**+100 Bps**	**+150 Bps**
RMBS Portfolio						
RMBS, available-for-sale, net of swaps	$ 1,570,182					
RMBS Total Return (%)		(0.07)%	(0.32)%	(0.74)%	(1.31)%	(2.81)%
RMBS Dollar Return		**$ (1,160)**	**$ (4,975)**	**$ (11,554)**	**$ (20,597)**	**$ (44,187)**

The sensitivity analysis is hypothetical and is presented solely to assist an analysis of the possible effects on the fair value under various scenarios. It is not a prediction of the amount or likelihood of a change in any particular scenario. In particular, the results are calculated by stressing a particular economic assumption independent of changes in any other assumption. In practice, changes in one factor may result in changes in another, which might counteract or amplify the sensitivities. In addition, changes in the fair value based on a 10% variation in an assumption generally may not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

Counterparty Risk

When we engage in repurchase transactions, we generally sell securities to lenders (i.e., the repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same securities 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 securities to the lender is less than the value of those securities (this difference is the haircut), if the lender defaults on its obligation to resell the same securities 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 securities). As of December 31, 2021, the Company's exposure (defined as the amount of cash and securities pledged as collateral, less the borrowing under the repurchase agreement) to any of the counterparties under the repurchase agreements did not exceed five percent of the Company's equity.

Our interest rate swaps and U.S. treasury futures contracts are required to be cleared on an exchange which greatly mitigates, but does not entirely eliminate, counterparty risk.

Our investments in Servicing Related Assets are dependent on the applicable mortgage sub-servicer to perform its sub-servicing obligations. If our sub-servicer fails to perform its obligations and is terminated by one or more Agencies as an approved servicer, the value of the MSRs being subserviced by that sub-servicer may be adversely affected. In addition, when we purchase MSRs from third parties, we rely, to a certain extent, on the ability and willingness of the sellers to perform their contractual obligations to remedy breaches of representations and warranties or to repurchase the affected loan and indemnify us for any losses.

Funding Risk

To the extent available on desirable terms, we expect to continue to finance our RMBS with repurchase agreement financing. We also anticipate continuing to finance our MSRs with bank loans secured by a pledge of those MSRs. Over time, as market conditions change, in addition to these financings, we may use other forms of leverage. Weakness in the financial markets, the residential mortgage markets and the economy generally could adversely affect one or more of our potential lenders and could cause one or more of our potential lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing.

Liquidity Risk

Our Servicing Related Assets, as well as some of the assets that may in the future comprise our portfolio, are not publicly traded. A portion of these assets may be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. The illiquidity of these assets may make it difficult for us to sell such assets if the need or desire arises, including in response to changes in economic and other conditions.

Credit Risk

Although we expect relatively low credit risk with respect to our portfolio of Agency RMBS, our investments in MSRs and any CMOs we may acquire expose us to the credit risk of borrowers.

Item 8. **Consolidated Financial Statements and Supplementary Data.**

Consolidated Financial Statements

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Cherry Hill Mortgage Investment Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Cherry Hill Mortgage Investment Corporation and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income (loss), comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 15, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosures to which it relates.

Valuation of servicing related assets at fair value

Description of the Matter	The Company invests in servicing related assets comprising mortgage servicing rights (MSRs) which have a balance of $219 million as of December 31, 2021 as included in Notes 5 and 9 to the consolidated financial statements. The Company records servicing related assets at fair value on a recurring basis with changes in fair value recognized in the income statement. These fair value estimates are based on valuation techniques used to estimate future cash flows that incorporate significant unobservable inputs and assumptions which include prepayment speeds, discount rates and cost to service.
	Auditing the valuation of servicing related assets is complex and required the use of a specialist due to the high degree of judgement in management’s assumptions which are unobservable in nature. Additionally, selecting and applying audit procedures to address the estimation uncertainty involves auditor subjectivity and industry-specific knowledge of servicing related assets including the current market conditions considered by a market participant.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated and tested the Company's processes and the design and operating effectiveness of internal controls addressing the valuation of servicing related assets including management’s review of the completeness and accuracy of the key inputs and data used in the valuation, management’s comparison of assumptions to independent third party data and the internal fair value mark to third party independent valuation firms ranges to evaluate the reasonableness of the fair values developed by the Company.
	To test the valuation of servicing related assets, our audit procedures included, among others, evaluating the Company’s use of the discounted cash flow valuation technique, validating the accuracy of model objective inputs by comparing the significant assumptions to current industry, market and economic trends. We involved our valuation specialists to assist in our evaluation of the Company’s model, valuation methodology, significant assumptions and to independently develop a range of fair values for the MSRs. We evaluated the knowledge, skill and ability and objectivity of management’s independent valuation firms engaged to evaluate the reasonableness of the fair values developed by the Company. We compared management’s assumptions and fair value estimates to the assumptions and fair value ranges developed by management’s valuation specialists and our independent range to assess management’s estimate of fair value and identify potential sources of contrary information. We evaluated the Company’s fair value disclosures included in Note 9 for consistency with US GAAP.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2012.
New York, New York

March 15, 2022

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands — except share data)

	December 31, 2021	December 31, 2020
Assets		
RMBS, available-for-sale, at fair value (including pledged assets of $892,888 and $1,164,416, respectively)	$ 953,496	$ 1,228,251
Investments in Servicing Related Assets, at fair value (including pledged assets of $218,727 and $174,414, respectively)	218,727	174,414
Cash and cash equivalents	63,916	83,892
Restricted cash	12,861	46,326
Derivative assets	10,518	15,970
Receivables and other assets	43,344	44,635
Total Assets	**$ 1,302,862**	**$ 1,593,488**
Liabilities and Stockholders' Equity		
Liabilities		
Repurchase agreements	$ 865,494	$ 1,149,978
Derivative liabilities	1,278	5,878
Notes payable	145,268	111,379
Dividends payable	7,056	6,725
Due to manager	1,889	3,217
Accrued expenses and other liabilities	3,061	3,745
Total Liabilities	**$ 1,024,046**	**$ 1,280,922**
Stockholders' Equity		
Series A Preferred stock, $0.01 par value per share, 100,000,000 shares authorized and 2,781,635 shares issued and outstanding as of December 31, 2021 and 100,000,000 shares authorized and 2,781,635 shares issued and outstanding as of December 31, 2020, liquidation preference of $69,541 as of December 31, 2021 and liquidation preference of $69,541 as of December 31, 2020	$ 67,311	$ 67,311
Series B Preferred stock, $0.01 par value per share, 100,000,000 shares authorized and 2,000,000 shares issued and outstanding as of December 31, 2021 and 100,000,000 shares authorized and 2,000,000 shares issued and outstanding as of December 31, 2020, liquidation preference of $50,000 as of December 31, 2021 and liquidation preference of $50,000 as of December 31, 2020	48,068	48,068
Common stock, $0.01 par value per share, 500,000,000 shares authorized and 18,261,848 shares issued and outstanding as of December 31, 2021 and 500,000,000 shares authorized and 17,076,858 shares issued and outstanding as of December 31, 2020	187	175
Additional paid-in capital	311,255	300,997
Accumulated Deficit	(158,483)	(141,980)
Accumulated other comprehensive income	7,527	35,594
Total Cherry Hill Mortgage Investment Corporation Stockholders' Equity	**$ 275,865**	**$ 310,165**
Non-controlling interests in Operating Partnership	2,951	2,401
Total Stockholders' Equity	**$ 278,816**	**$ 312,566**
Total Liabilities and Stockholders' Equity	**$ 1,302,862**	**$ 1,593,488**

See notes to consolidated financial statements.

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Income (Loss)
(in thousands — except per share data)

	Year Ended December 31,		
	2021	**2020**	**2019**
Income			
Interest income	$ 14,956	$ 42,841	$ 71,671
Interest expense	5,768	22,134	54,447
Net interest income	9,188	20,707	17,224
Servicing fee income	54,157	65,961	73,555
Servicing costs	13,624	22,640	17,404
Net servicing income	40,533	43,321	56,151
Other income (loss)			
Realized gain (loss) on RMBS, available-for-sale, net	548	(4,640)	902
Realized loss on investments in MSRs, net	-	(11,347)	-
Realized loss on derivatives, net	(9,339)	(9,977)	(3,939)
Realized gain (loss) on acquired assets, net	15	(690)	26
Unrealized gain (loss) on derivatives, net	(1,745)	48,055	(10,867)
Unrealized loss on investments in Servicing Related Assets	(11,062)	(141,900)	(106,772)
Total Income (Loss)	**28,138**	**(56,471)**	**(47,275)**
Expenses			
General and administrative expense	6,983	7,741	5,541
Management fee to affiliate	7,844	7,770	7,784
Total Expenses	**14,827**	**15,511**	**13,325**
Income (Loss) Before Income Taxes	**13,311**	**(71,982)**	**(60,600)**
Provision for (Benefit from) corporate business taxes	781	(18,764)	(9,925)
Net Income (Loss)	**12,530**	**(53,218)**	**(50,675)**
Net (income) loss allocated to noncontrolling interests in Operating Partnership	(247)	979	819
Dividends on preferred stock	9,853	9,842	9,353
Net Income (Loss) Applicable to Common Stockholders	**$ 2,430**	**$ (62,081)**	**$ (59,209)**
Net Income (Loss) Per Share of Common Stock			
Basic	$ 0.14	$ (3.67)	$ (3.53)
Diluted	$ 0.14	$ (3.67)	$ (3.53)
Weighted Average Number of Shares of Common Stock Outstanding			
Basic	17,324,362	16,901,537	16,775,113
Diluted	17,345,562	16,919,204	16,787,902

See notes to consolidated financial statements.

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

	Year Ended December 31,		
	2021	**2020**	**2019**
Net income (loss)	$ 12,530	$ (53,218)	$ (50,675)
Other comprehensive income (loss):			
Unrealized gain (loss) on RMBS, available-for-sale, net	(28,067)	(5,820)	79,814
Net other comprehensive income (loss)	(28,067)	(5,820)	79,814
Comprehensive income (loss)	**$ (15,537)**	**$ (59,038)**	**$ 29,139**
Comprehensive income (loss) attributable to noncontrolling interests in Operating Partnership	(306)	(1,086)	471
Dividends on preferred stock	9,853	9,842	9,353
Comprehensive income (loss) attributable to common stockholders	$ (25,084)	$ (67,794)	$ 19,315

See notes to consolidated financial statements.

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
(in thousands — except share data)

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Non-Controlling Interest in Operating Partnership	Total Stockholders' Equity
Balance, December 31, 2019	**16,660,655**	**$ 170**	**4,781,635**	**$ 115,281**	**$ 299,180**	**$ 41,414**	**$ (59,451)**	**$ 2,781**	**$ 399,375**
Issuance of common stock	558,734	5	-	-	3,565	-	-	-	3,570
Repurchase of common stock	(142,531)	-	-	-	(1,748)	-	-	-	(1,748)
Issuance of preferred stock	-	-	-	98	-	-	-	-	98
Conversion of OP units	-	-	-	-	-	-	-	(76)	(76)
Net Loss before dividends on preferred stock	-	-	-	-	-	-	(52,239)	(979)	(53,218)
Other Comprehensive Loss	-	-	-	-	-	(5,820)	-	-	(5,820)
LTIP-OP Unit awards	-	-	-	-	-	-	-	1,012	1,012
Distribution paid on LTIP-OP Units	-	-	-	-	-	-	-	(337)	(337)
Common dividends declared, $1.21 per share	-	-	-	-	-	-	(20,448)	-	(20,448)
Preferred Series A dividends declared, $2.05 per share	-	-	-	-	-	-	(5,718)	-	(5,718)
Preferred Series B dividends declared, $2.06 per share	-	-	-	-	-	-	(4,124)	-	(4,124)
Balance, December 31, 2020	**17,076,858**	**$ 175**	**4,781,635**	**$ 115,379**	**$ 300,997**	**$ 35,594**	**$ (141,980)**	**$ 2,401**	**$ 312,566**
Issuance of common stock	1,184,990	12	-	-	10,258	-	-	-	10,270
Conversion of OP units	-	-	-	-	-	-	-	(147)	(147)
Redemption of OP units for cash	-	-	-	-	-	-	-	(89)	(89)
Net Income before dividends on preferred stock	-	-	-	-	-	-	12,283	247	12,530
Other Comprehensive Loss	-	-	-	-	-	(28,067)	-	-	(28,067)
LTIP-OP Unit awards	-	-	-	-	-	-	-	900	900
Distribution paid on LTIP-OP Units	-	-	-	-	-	-	-	(361)	(361)
Common dividends declared, $1.08 per share	-	-	-	-	-	-	(18,930)	-	(18,930)
Preferred Series A dividends declared, $2.05 per share	-	-	-	-	-	-	(5,732)	-	(5,732)
Preferred Series B dividends declared, $2.06 per share	-	-	-	-	-	-	(4,124)	-	(4,124)
Balance, December 31, 2021	**18,261,848**	**$ 187**	**4,781,635**	**$ 115,379**	**$ 311,255**	**$ 7,527**	**$ (158,483)**	**$ 2,951**	**$ 278,816**

See notes to consolidated financial statements.

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2021	**2020**	**2019**
Cash Flows From Operating Activities			
Net income (loss)	$ 12,530	$ (53,218)	$ (50,675)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Realized (gain) loss on RMBS, available-for-sale, net	(548)	4,640	(902)
Unrealized loss on investments in Servicing Related Assets	11,062	141,900	106,772
Realized loss on investments in MSRs, net	-	11,347	-
Realized (gain) loss on acquired assets, net	(15)	690	(26)
Realized loss on derivatives, net	9,339	9,977	3,939
Unrealized (gain) loss on derivatives, net	1,745	(48,055)	10,867
Amortization of premiums on RMBS, available-for-sale	13,514	15,855	14,485
Amortization of deferred financing costs	188	387	652
LTIP-OP Unit awards	900	1,012	1,025
Changes in:			
Receivables and other assets, net	1,304	(9,654)	(11,086)
Due to affiliates	(1,328)	(372)	1,586
Accrued expenses and other liabilities, net	(684)	(12,124)	(4,764)
Net cash provided by operating activities	**$ 48,007**	**$ 62,385**	**$ 71,873**
Cash Flows From Investing Activities			
Purchase of RMBS	(583,617)	(982,901)	(1,088,758)
Principal paydown of RMBS	246,973	309,502	275,086
Proceeds from sale of RMBS	570,366	1,927,194	141,653
Proceeds from sale of MSRs	-	15,831	-
Acquisition of MSRs	(55,375)	(52,957)	(102,976)
Payments for settlement of derivatives	(11,826)	(1,028)	(505)
Proceeds from settlement of derivatives	-	44,757	19,129
Net cash provided by (used in) investing activities	**$ 166,521**	**$ 1,260,398**	**$ (756,371)**
Cash Flows From Financing Activities			
Borrowings under repurchase agreements	5,323,587	7,230,592	7,969,930
Repayments of repurchase agreements	(5,608,071)	(8,418,252)	(7,230,884)
Proceeds from derivative financing	1,595	(9,790)	(18,941)
Proceeds from bank loans	105,702	18,204	121,143
Principal paydown of bank loans	(72,000)	(74,201)	(112,350)
Dividends paid	(28,455)	(32,333)	(42,306)
LTIP-OP Units distributions paid	(361)	(337)	(513)
Conversion of OP units	(147)	(76)	(103)
Redemption of OP units for cash	(89)	-	-
Issuance of common stock, net of offering costs	10,270	3,570	4,112
Issuance of preferred stock, net of offering costs	-	98	49,642
Repurchase of common stock	-	(1,748)	(3,543)
Net cash provided by (used in) financing activities	**$ (267,969)**	**$ (1,284,273)**	**$ 736,187**
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	**$ (53,441)**	**$ 38,510**	**$ 51,689**
Cash, Cash Equivalents and Restricted Cash, Beginning of Period	**130,218**	**91,708**	**40,019**
Cash, Cash Equivalents and Restricted Cash, End of Period	**$ 76,777**	**$ 130,218**	**$ 91,708**
Supplemental Disclosure of Cash Flow Information			
Cash paid during the period for interest expense	$ 2,272	$ 16,687	$ 47,933
Cash paid during the period for income taxes	$ 58	$ 27	$ 256
Supplemental Schedule of Non-Cash Investing and Financing Activities			
Dividends declared but not paid	$ 7,056	$ 6,725	$ 8,768

See notes to consolidated financial statements.

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Note 1 — Organization and Operations

Cherry Hill Mortgage Investment Corporation (together with its consolidated subsidiaries, the “Company”) was organized in the state of Maryland on October 31, 2012 to invest in residential mortgage assets in the United States. Under the Company’s charter, the Company is authorized to issue up to 500,000,000 shares of common stock and 100,000,000 shares of preferred stock, each with a par value of $0.01 per share.

The accompanying consolidated financial statements include the accounts of the Company’s subsidiaries, Cherry Hill Operating Partnership, LP (the “Operating Partnership”), CHMI Sub-REIT, Inc. (the “Sub-REIT”), Cherry Hill QRS I, LLC, Cherry Hill QRS II, LLC, Cherry Hill QRS III, LLC (“QRS III”), Cherry Hill QRS IV, LLC (“QRS IV”), Cherry Hill QRS V, LLC (“QRS V”), CHMI Solutions, Inc. (“CHMI Solutions”) and Aurora Financial Group, Inc. (“Aurora”).

The Company is party to a management agreement (the “Management Agreement”) with Cherry Hill Mortgage Management, LLC (the “Manager”), a Delaware limited liability company established by Mr. Stanley Middleman. The Manager is a party to a Services Agreement with Freedom Mortgage Corporation (“Freedom Mortgage”) (in such capacity, the “Services Provider”), which is owned and controlled by Mr. Middleman. The Manager is owned by a “blind trust” for the benefit of Mr. Middleman. For a further discussion of the Management Agreement, see Note 7.

The Company has elected to be taxed as a real estate investment trust (“REIT”), as defined under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its short taxable year ended December 31, 2013. As long as the Company continues to comply with a number of requirements under federal tax law and maintains its qualification as a REIT, the Company generally will not be subject to U.S. federal income taxes to the extent that the Company distributes its taxable income to its stockholders on an annual basis and does not engage in prohibited transactions. However, certain activities that the Company may perform may cause it to earn income that will not be qualifying income for REIT purposes.

Effective January 1, 2020, the Operating Partnership contributed substantially all of its assets to the Sub-REIT in exchange for all of the common stock of the Sub-REIT. As a result of this contribution, the Sub-REIT is a wholly-owned subsidiary of the Operating Partnership and operations formerly conducted by the Operating Partnership through its subsidiaries are now conducted by the Sub-REIT through those same subsidiaries. The Sub-REIT elected to be taxed as a REIT under the Code commencing with the taxable year ended December 31, 2020.

Note 2 — Basis of Presentation and Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for financial information and pursuant to the requirements for reporting on Form 10-K. The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. All significant intercompany transactions and balances have been eliminated. The Company consolidates those entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity. The consolidated financial statements reflect all necessary and recurring adjustments for fair presentation of the results for the periods presented herein.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make a number of significant estimates and assumptions. These include estimates of the fair value of mortgage servicing rights ("MSRs" or "Servicing Related Assets"); residential mortgage-backed securities ("RMBS" or "securities") and derivatives; credit losses and other estimates that affect the reported amounts of certain assets, revenues, liabilities and expenses as of the date of, and for the periods covered by, the consolidated financial statements. It is likely that changes in these estimates will occur in the near term. The Company's estimates are inherently subjective. Actual results could differ from the Company's estimates, and the differences may be material.

Risks and Uncertainties

In the normal course of business, the Company encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on the Company's investments in RMBS, Servicing Related Assets and derivatives that results from a borrower's or derivative counterparty's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of investments in RMBS, Servicing Related Assets and derivatives due to changes in interest rates, spreads or other market factors, including prepayment speeds on the Company's RMBS and Servicing Related Assets. The Company is subject to the risks involved with real estate and real estate-related debt instruments. These include, among others, the risks normally associated with changes in the general economic climate, changes in the mortgage market, changes in tax laws, interest rate levels, and the availability of financing.

The Company also is subject to certain risks relating to its status as a REIT for U.S. federal income tax purposes. If the Company were to fail to qualify as a REIT in any taxable year, the Company would be subject to U.S. federal income tax on its REIT income, which could be material. Unless entitled to relief under certain statutory provisions, the Company would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost.

The COVID-19 pandemic continues to create substantial uncertainty for government policy makers and the Federal Reserve Board with consequent effects of the economy in the United States. While the economy has largely reopened, the increased presence of highly contagious variants of the virus has exacerbated supply chain issues that arose during the shutdown of various economies. Certain forbearance programs and prohibitions on foreclosures have been extended while others have expired adding to the concern of the consequences once all such programs end. As of December 31, 2021, 1.7% of borrowers on loans underlying the MSRs owned by Aurora are reflected as being in an active forbearance program, with 5.0% of those borrowers continuing to make their regular scheduled monthly payment. The Company continues to maintain an elevated level of unrestricted cash due to the continuing uncertainty regarding government policy and the economy. Based on information currently available to the Company, the Company continues to believe that it will be able to satisfy all of its servicing obligations in 2022.

Investments in RMBS

Classification – The Company classifies its investments in RMBS as securities available for sale. Although the Company generally intends to hold most of its securities until maturity, it may, from time to time, sell any of its securities as part of its overall management of its portfolio. Available-for-sale securities are carried at fair value.

Fair value is determined under the guidance of Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures* ("ASC 820"). Management's judgment is used to arrive at the fair value of the Company's RMBS investments, taking into account prices obtained from third-party pricing providers and other applicable market data. The third-party pricing providers use pricing models that generally incorporate such factors as coupons, primary and secondary mortgage rates, rate reset periods, issuer, prepayment speeds, credit enhancements and expected life of the security. The Company's application of ASC 820 guidance is discussed in further detail in Note 9.

Investment securities transactions are recorded on the trade date. At disposition, the net realized gain or loss is determined on the basis of the cost of the specific investment and is included in earnings. All RMBS purchased and sold in the years ended December 31, 2021 and December 31, 2020 were settled prior to year-end.

Revenue Recognition – Interest income from coupon payments is accrued based on the outstanding principal amount of the RMBS and their contractual terms. Premiums and discounts associated with the purchase of the RMBS are amortized and accreted, respectively, into interest income over the projected lives of the securities using the effective interest method. The Company's policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, consensus on prepayment speeds, and current market conditions. Adjustments are made for actual prepayment activity. We recognized interest receivable of approximately $2.3 million and $3.0 million at December 31, 2021 and December 31, 2020, respectively. Interest income receivable has been classified within "Receivables and other assets" on the consolidated balance sheets. For further discussion of Receivables and other assets, see Note 13.

Impairment **–** When the fair value of a security is less than its amortized cost basis as of the balance sheet date, the security's cost basis is considered impaired. If the Company determines that it intends to sell the security or it is more likely than not that it will be required to sell before recovery, the Company recognizes the difference between the fair value and amortized cost as a loss in the consolidated statements of income (loss). If the Company determines it does not intend to sell the security or it is not more likely than not it will be required to sell the security before recovery, the Company must evaluate the decline in the fair value of the impaired security and determine whether such decline resulted from a credit loss or non-credit related factors. In its assessment of whether a credit loss exists, the Company performs a qualitative assessment around whether a credit loss exists and if necessary, it compares the present value of estimated future cash flows of the impaired security with the amortized cost basis of such security. The estimated future cash flows reflect those that a "market participant" would use and typically include assumptions related to fluctuations in interest rates, prepayment speeds, default rates, collateral performance, and the timing and amount of projected credit losses, as well as incorporating observations of current market developments and events. Cash flows are discounted at an interest rate equal to the current yield used to accrete interest income. If the present value of estimated future cash flows is less than the amortized cost basis of the security, an expected credit loss exists and is included in provision for credit losses on securities in the consolidated statements of income (loss).

Investments in MSRs

Classification – The Company's MSRs represent the contractual right to service mortgage loans. The Company has elected the fair value option to record its investments in MSRs in order to provide users of the consolidated financial statements with better information regarding the effects of prepayment risk and other market factors on the MSRs. Under this election, the Company records a valuation adjustment on its investments in MSRs on a quarterly basis to recognize the changes in fair value of its MSRs in net income as described below.

Although transactions in MSRs are observable in the marketplace, the valuation includes unobservable market data inputs (prepayment speeds, delinquency levels, costs to service and discount rates). Changes in the fair value of MSRs are reported on the consolidated statements of income (loss). Fluctuations in the fair value of MSRs are recorded within "Unrealized gain (loss) on investments in Servicing Related Assets" on the consolidated statements of income (loss). Fair value is generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the MSRs and, therefore, may differ from their effective yields. In determining the valuation of MSRs in accordance with ASC 820, management uses internally developed models that are primarily based on observable market-based inputs but which also include unobservable market data inputs. The Company's application of ASC 820 guidance is discussed in further detail in Note 9.

Revenue Recognition – Mortgage servicing fee income represents revenue earned for servicing mortgage loans. The servicing fees are based on a contractual percentage of the outstanding principal balance and are recognized as revenue as the related mortgage payments are collected. Corresponding costs to service are charged to expense as incurred. Servicing fee income received and servicing expenses incurred are reported on the consolidated statements of income (loss). Float income from custodial accounts associated with MSRs of $900,000 and $2.6 million for the years ended December 31, 2021 and December 31, 2020, respectively, is included in “Net interest income” on the consolidated statements of income (loss). Late fees and ancillary income of $1.5 million and $1.2 million for the years ended December 31, 2021 and December 31, 2020, respectively, are included in “Servicing fee income” on the consolidated statements of income (loss).

As an owner of MSRs, the Company may be obligated to fund advances of principal and interest payments due to third-party owners of the loans underlying the MSRs, but not yet received from the individual borrowers. These advances are reported as servicing advances within the “Receivables and other assets” line item on the consolidated balance sheets. Reimbursable servicing advances, other than principal and interest advances, also have been classified within “Receivables and other assets” on the consolidated balance sheets. Advances on Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”) MSRs made in accordance with the relevant guidelines are generally recoverable. As a result, the Company has determined that no reserves for unrecoverable advances for the related underlying loans are necessary at December 31, 2021 and December 31, 2020. For further discussion on the Company’s receivables and other assets, including the Company’s servicing advances, see Note 13.

As a result of the Company’s investments in MSRs, it is obligated from time to time to repurchase an underlying loan from the applicable agency for which it is being serviced due to an alleged breach of a representation or warranty. Loans acquired in this manner are recorded at the purchase price less any principal recoveries and are then offered for sale.

Derivatives and Hedging Activities

Derivative transactions include swaps, swaptions, U.S. treasury futures and “to-be-announced” securities (“TBAs”). A TBA contract is an agreement to purchase or sell, for future delivery, an Agency MBS with a specified issuer, term and coupon. Swaps and swaptions are entered into by the Company solely for interest rate risk management purposes. TBAs and U.S. treasury futures are used to manage duration risk as well as basis risk and pricing risk on the Company’s financing facilities for MSRs. The decision as to whether or not a given transaction/position (or portion thereof) is economically hedged is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including restrictions imposed by the Code on REITs. In determining whether to economically hedge a risk, the Company may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as economic hedges are entered into with a view towards minimizing the potential for economic losses that could be incurred by the Company. Generally, derivatives entered into are not intended to qualify as hedges under GAAP, unless specifically stated otherwise.

From time to time, the Company enters into a TBA dollar roll which represents a transaction where TBA contracts with the same terms but different settlement dates are simultaneously bought and sold. The TBA contract settling in the later month typically prices at a discount to the earlier month contract with the difference in price commonly referred to as the “drop”. The drop is a reflection of the expected net interest income from an investment in similar Agency MBS, net of an implied financing cost, that would be foregone as a result of settling the contract in the later month rather than in the earlier month. The drop between the current settlement month price and the forward settlement month price occurs because in the TBA dollar roll market, the party providing the financing is the party that would retain all principal and interest payments accrued during the financing period. Accordingly, drop income on TBA dollar rolls generally represents the economic equivalent of the net interest income earned on the underlying Agency MBS less an implied financing cost. TBA dollar roll transactions are accounted for under GAAP as a series of derivatives transactions.

The Company’s bi-lateral derivative financial instruments contain credit risk to the extent that its counterparties may be unable to meet the terms of the agreements. The Company reduces such risk by limiting its exposure to any one counterparty. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. The Company’s interest rate swaps and U.S. treasury futures are required to be cleared on an exchange, which further mitigates, but does not eliminate, credit risk. Management does not expect any material losses as a result of default by other parties to its derivative financial instruments.

Classification – All derivatives, including TBAs, are recognized as either assets or liabilities on the consolidated balance sheets and measured at fair value. The fair value of TBA derivatives is determined using methods similar to those used to value Agency MBS. Due to the nature of these instruments, they may be in a receivable/asset position or a payable/liability position at the end of an accounting period. Derivative amounts payable to, and receivable from, the same party under a contract may be offset as long as the following conditions are met: (i) each of the two parties owes the other determinable amounts; (ii) the reporting party has the right to offset the amount owed with the amount owed by the other party; (iii) the reporting party intends to offset; and (iv) the right to offset is enforceable by law. The Company reports the fair value of derivative instruments gross of cash paid or received pursuant to credit support agreements, and fair value may be reflected on a net counterparty basis when the Company believes a legal right of offset exists under an enforceable master netting agreement. For further discussion on offsetting assets and liabilities, see Note 8.

Revenue Recognition – With respect to derivatives that have not been designated as hedges, any payments under, or fluctuations in the fair value of, such derivatives have been recognized currently in “Realized gain (loss) on derivatives, net” and “Unrealized gain (loss) on derivatives, net” in the consolidated statements of income (loss). Interest rate swap periodic interest income (expense) is included in “Realized loss on derivatives, net” in the consolidated statements of income (loss).

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid short-term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits. Restricted cash represents the Company’s cash held by counterparties (i) as collateral against the Company’s derivatives (approximately $664,000 and $2.0 million at December 31, 2021 and December 31, 2020, respectively) and (ii) as collateral for borrowings under its repurchase agreements (approximately $12.2 million and $44.4 million at December 31, 2021 and December 31, 2020, respectively).

The Company’s centrally cleared interest rate swaps require that the Company post an “initial margin” amount determined by the clearing exchange, which is generally intended to be set at a level sufficient to protect the exchange from the interest rate swap’s maximum estimated single-day price movement. The Company also exchanges “variation margin” based upon daily changes in fair value, as measured by the exchange. As a result of amendments to rules governing certain central clearing activities, the exchange of variation margin is a settlement of the interest rate swap, as opposed to pledged collateral. The Company has accounted for the receipt or payment of variation margin on interest rate swaps as a direct reduction or increase to the carrying value of the interest rate swap asset or liability. At December 31, 2021 and December 31, 2020, approximately $45.6 million and $48.2 million, respectively, of variation margin was reported as a decrease to the interest rate swap asset, at fair value.

Due to Manager

The sum under “Due to manager” on the consolidated balance sheets represents amounts due to the Manager pursuant to the Management Agreement. For further information on the Management Agreement, see Note 7.

Income Taxes

The Company elected to be taxed as a REIT under Code Sections 856 through 860 beginning with its short taxable year ended December 31, 2013. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate income tax rates to the extent that it annually distributes less than 100% of its taxable income. The Company’s taxable REIT subsidiary (“TRS”), CHMI Solutions, as well as CHMI Solutions’s wholly-owned subsidiary, Aurora, are subject to U.S. federal income taxes on their taxable income. To maintain qualification as a REIT, the Company must distribute at least 90% of its annual REIT taxable income to its stockholders and meet certain other requirements such as assets it may hold, income it may generate and its stockholder composition. In 2017, the Internal Revenue Service issued a revenue procedure permitting “publicly offered” REITs to make elective stock dividends (i.e., dividends paid in a mixture of stock and cash), with at least 20% of the total distribution being paid in cash, to satisfy their REIT distribution requirements. In December 2021, the Internal Revenue Service issued a revenue procedure that temporarily reduces the minimum amount of the total distribution that must be paid in cash to 10% for distributions declared on or after November 1, 2021, and on or before June 30, 2022, provided certain other parameters detailed in the Revenue Procedure are satisfied. Pursuant to these revenue procedures, the Company has in the past elected to make distributions of its taxable income in a mixture of stock and cash.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. ASC 740 requires the recording of deferred income taxes that reflect the net tax effect of temporary differences between the carrying amounts of the Company's assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, including operating loss carry forwards. 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 of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date. The Company assesses its tax positions for all open tax years and determines if it has any material unrecognized liabilities in accordance with ASC 740. The Company records these liabilities to the extent it deems them more-likely-than-not to be incurred. The Company records interest and penalties related to income taxes within the provision for income taxes in the consolidated statements of income (loss). The Company has not incurred any interest or penalties.

Realized Gain (Loss) on RMBS

The following table presents realized gains and losses on RMBS for the periods indicated (dollars in thousands):

	Year Ended December 31,		
	2021	**2020**	**2019**
Realized gain (loss) on RMBS, net			
Gain on RMBS	$ 5,653	$ 34,071	$ 1,285
Loss on RMBS	(5,105)	(38,711)	(383)
Net realized gain (loss) on RMBS (A)	**$ 548**	**$ (4,640)**	**$ 902**

(A) Reclassified from accumulated other comprehensive income into earnings.

Repurchase Agreements and Interest Expense

The Company finances its investments in RMBS with short-term borrowings under master repurchase agreements. Borrowings under the repurchase agreements are generally short-term debt due within one year. These borrowings generally bear interest rates offered by the "lending" counterparty from time to time for the term of the proposed repurchase transaction (e.g. 30 days, 60 days etc.) of a specified margin over one-month LIBOR. The repurchase agreements represent uncommitted financing. Borrowings under these agreements are treated as collateralized financing transactions and are carried at their contractual amounts, as specified in the respective agreements. Interest is recorded at the contractual amount on an accrual basis.

Dividends Payable

Because the Company is organized as a REIT under the Code, it is required by law to distribute annually at least 90% of its REIT taxable income, which it does in the form of quarterly dividend payments. The Company accrues the dividend payable on outstanding shares on the accounting date, which causes an offsetting reduction in retained earnings.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period resulting from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. For the Company's purposes, comprehensive income represents net income (loss), as presented in the consolidated statements of income (loss), adjusted for unrealized gains or losses on RMBS, which are designated as available for sale.

Recent Accounting Pronouncements

Reference Rate Reform - In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform, which provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. While the Company currently does not have any hedging relationships, the Company's debt facilities incorporate LIBOR as the reference rate. Certain of these facilities mature prior to the phase out of LIBOR while others have provisions in place that provide for an alternative to LIBOR upon its phase out. If a facility is silent on a fall back, the transition will be governed by market approaches prevailing at the time. The ASU was effective immediately for all entities and expires after December 31, 2022. The Company is currently evaluating the effect this guidance will have on its consolidated financial statements.

Changes in Presentation

During the year ended December 31, 2021, the Company changed its presentation of certain line items on the consolidated statements of income (loss), consolidated statements of comprehensive income (loss) and consolidated statements of cash flows to better reflect changes in the business and how the Company is viewed and managed. Specifically, drop income on TBA dollar rolls and interest rate swap periodic interest income (expense) are presented in "Realized loss on derivatives, net" on the consolidated statements of income (loss). Drop income on TBA dollar rolls and interest rate swap periodic interest income (expense) were historically presented in "Interest income" and "Interest expense", respectively, on the consolidated statements of income (loss). Prior period amounts and respective notes have been reclassified to be consistent with the current period presentation. Such reclassifications had no impact on net income or net comprehensive income.

In addition to the above, certain other prior period amounts have been reclassified to conform to current period presentation.

Note 3 — Segment Reporting

The Company conducts its business through the following segments: (i) investments in RMBS; (ii) investments in Servicing Related Assets; and (iii) "All Other," which consists primarily of general and administrative expenses, including fees paid to the Company's directors and management fees and reimbursements paid to the Manager pursuant to the Management Agreement (see Note 7). For segment reporting purposes, the Company does not allocate interest income on short-term investments or general and administrative expenses.

Summary financial data with respect to the Company's segments is given below, together with the data for the Company as a whole (dollars in thousands):

	Servicing Related Assets	RMBS	All Other	Total
Income Statement				
Year Ended December 31, 2021				
Interest income	$ 376	$ 14,580	$ -	$ 14,956
Interest expense	4,484	1,284	-	5,768
Net interest income (expense)	(4,108)	13,296	-	9,188
Servicing fee income	54,157	-	-	54,157
Servicing costs	13,624	-	-	13,624
Net servicing income	40,533	-	-	40,533
Other income (expense)	(34,103)	12,520	-	(21,583)
Other operating expenses	3,040	717	11,070	14,827
Provision for corporate business taxes	781	-	-	781
Net Income (Loss)	$ (1,499)	$ 25,099	$ (11,070)	$ 12,530
Year Ended December 31, 2020				
Interest income	$ 2,661	$ 40,180	$ -	$ 42,841
Interest expense	5,357	16,777	-	22,134
Net interest income (expense)	(2,696)	23,403	-	20,707
Servicing fee income	65,961	-	-	65,961
Servicing costs	22,640	-	-	22,640
Net servicing income	43,321	-	-	43,321
Other expense	(95,864)	(24,635)	-	(120,499)
Other operating expenses	3,457	852	11,202	15,511
Benefit from corporate business taxes	(18,764)	-	-	(18,764)
Net Loss	$ (39,932)	$ (2,084)	$ (11,202)	$ (53,218)
Year Ended December 31, 2019				
Interest income	$ 2,819	$ 68,852	$ -	$ 71,671
Interest expense	3,445	51,002	-	54,447
Net interest income (expense)	(626)	17,850	-	17,224
Servicing fee income	73,555	-	-	73,555
Servicing costs	17,404	-	-	17,404
Net servicing income	56,151	-	-	56,151
Other expense	(100,483)	(20,167)	-	(120,650)
Other operating expenses	1,971	873	10,481	13,325
Benefit from corporate business taxes	(9,925)	-	-	(9,925)
Net Loss	$ (37,004)	$ (3,190)	$ (10,481)	$ (50,675)

	Servicing Related Assets	RMBS	All Other	Total
Balance Sheet				
December 31, 2021				
Investments	$ 218,727	$ 953,496	$ -	$ 1,172,223
Other assets	44,506	21,611	64,522	130,639
Total assets	263,233	975,107	64,522	1,302,862
Debt	145,268	865,494	-	1,010,762
Other liabilities	1,847	1,411	10,026	13,284
Total liabilities	147,115	866,905	10,026	1,024,046
Net assets	$ 116,118	$ 108,202	$ 54,496	$ 278,816
December 31, 2020				
Investments	$ 174,414	$ 1,228,251	$ -	$ 1,402,665
Other assets	51,063	55,260	84,500	190,823
Total assets	225,477	1,283,511	84,500	1,593,488
Debt	111,379	1,149,978	-	1,261,357
Other liabilities	2,392	6,370	10,803	19,565
Total liabilities	113,771	1,156,348	10,803	1,280,922
Net assets	$ 111,706	$ 127,163	$ 73,697	$ 312,566

Note 4 — Investments in RMBS

At December 31, 2021, the Company's investments in RMBS consist solely of Agency RMBS. The Company's investments in RMBS may also include, from time to time, any of the following: Collateralized mortgage obligations ("CMOs"), which are either loss share securities issued by Fannie Mae or Freddie Mac; or non-Agency RMBS, sometimes called "private label MBS," which are structured debt instruments representing interests in specified pools of mortgage loans subdivided into multiple classes, or tranches, of securities, with each tranche having different maturities or risk profiles and different ratings by one or more nationally recognized statistical rating organizations ("NRSRO"). All of the Company's RMBS are classified as available-for-sale and are, therefore, reported at fair value. Beginning on January 1, 2020, upon the adoption of ASU 2016-13, *Financial Instruments-Credit Losses*, credit related impairment, if any, is included in provision (reversal) for credit losses on securities in the consolidated statements of income (loss). All other changes in fair value are recorded in other comprehensive income (loss).

The following is a summary of the Company's investments in RMBS as of the dates indicated (dollars in thousands):

Summary of RMBS Assets

As of December 31, 2021

			Gross Unrealized				Weighted Average			
Asset Type	**Original Face Value**	**Book Value**	**Gains**	**Losses**	**Carrying Value(A)**	**Number of Securities**	**Rating**	**Coupon**	**Yield(C)**	**Maturity (Years)**
RMBS										
Fannie Mae	$ 772,607	$ 554,151	$ 9,276	$ (3,650)	$ 559,777	76	(B)	3.09%	2.96%	27
Freddie Mac	484,479	391,700	5,260	(3,241)	393,719	45	(B)	3.02%	2.89%	28
Total/Weighted Average	**$ 1,257,086**	**$ 945,851**	**$ 14,536**	**$ (6,891)**	**$ 953,496**	**121**		**3.06%**	**2.93%**	**28**

As of December 31, 2020

			Gross Unrealized				Weighted Average			
Asset Type	**Original Face Value**	**Book Value**	**Gains**	**Losses**	**Carrying Value(A)**	**Number of Securities**	**Rating**	**Coupon**	**Yield(C)**	**Maturity (Years)**
RMBS										
Fannie Mae	$ 840,175	$ 692,665	$ 22,530	$ (39)	$ 715,156	81	(B)	3.31%	3.17%	28
Freddie Mac	549,530	493,930	13,106	(82)	506,954	49	(B)	2.99%	2.87%	28
Private Label MBS	22,000	5,944	197	-	6,141	5	(B)	4.08%	4.08%	28
Total/Weighted Average	**$ 1,411,705**	**$ 1,192,539**	**$ 35,833**	**$ (121)**	**$ 1,228,251**	**135**		**3.18%**	**3.05%**	**28**

(A) See Note 9 regarding the estimation of fair value, which approximates carrying value for all securities.
(B) The Company used an implied AAA rating for the Agency RMBS. Private label RMBS were rated investment grade or better by at least one NRSRO as of December 31, 2020.
(C) The weighted average yield is based on the most recent gross monthly interest income, which is then annualized and divided by the book value of settled securities.

Summary of RMBS Assets by Maturity

As of December 31, 2021

Years to Maturity	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Weighted Average Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)
Over 10 Years	$ 1,257,086	$ 945,851	$ 14,536	$ (6,891)	$ 953,496	121	(B)	3.06%	2.93%	28
Total/Weighted Average	**$ 1,257,086**	**$ 945,851**	**$ 14,536**	**$ (6,891)**	**$ 953,496**	**121**		**3.06%**	**2.93%**	**28**

As of December 31, 2020

Years to Maturity	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Weighted Average Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)
Over 10 Years	$ 1,411,705	$ 1,192,539	$ 35,833	$ (121)	$ 1,228,251	135	(B)	3.18%	3.05%	28
Total/Weighted Average	**$ 1,411,705**	**$ 1,192,539**	**$ 35,833**	**$ (121)**	**$ 1,228,251**	**135**		**3.18%**	**3.05%**	**28**

(A) See Note 9 regarding the estimation of fair value, which approximates carrying value for all securities.
(B) The Company used an implied AAA rating for the Agency RMBS. Private label RMBS were rated investment grade or better by at least one NRSRO as of December 31, 2020.
(C) The weighted average yield is based on the most recent gross monthly interest income, which is then annualized and divided by the book value of settled securities.

At December 31, 2021 and December 31, 2020, the Company pledged Agency RMBS with a carrying value of approximately $892.9 million and $1,164.4 million, respectively, as collateral for borrowings under repurchase agreements. At December 31, 2021 and December 31, 2020, the Company did not have any securities purchased from and financed with the same counterparty that did not meet the conditions of ASC 860, *Transfers and Servicing*, to be considered linked transactions and, therefore, classified as derivatives.

Based on management's analysis of the Company's securities, the performance of the underlying loans and changes in market factors, management determined that unrealized losses as of the balance sheet date on the Company's securities were primarily the result of changes in market factors, rather than issuer-specific credit impairment. The Company performed analyses in relation to such securities, using management's best estimate of their cash flows, which support its belief that the carrying values of such securities were fully recoverable over their expected holding periods. Such market factors include changes in market interest rates and credit spreads and certain macroeconomic events, none of which will directly impact the Company's ability to collect amounts contractually due. Management continually evaluates the credit status of each of the Company's securities and the collateral supporting those securities. This evaluation includes a review of the credit of the issuer of the security (if applicable), the credit rating of the security (if applicable), the key terms of the security (including credit support), debt service coverage and loan to value ratios, the performance of the pool of underlying loans and the estimated value of the collateral supporting such loans, including the effect of local, industry and broader economic trends and factors. Significant judgment is required in this analysis. In connection with the above, the Company weighs the fact that a substantial majority, if not all, of its investments in RMBS are guaranteed by U.S. government agencies or U.S. government sponsored enterprises.

Both credit related and non-credit related unrealized losses on securities that the Company (i) intends to sell, or (ii) will more likely than not be required to sell before recovering their cost basis, are recognized in earnings. The Company did not record an allowance for credit losses on the balance sheet at December 31, 2021 and December 31, 2020, or any impairment charges in earnings during the years ended December 31, 2021 and December 31, 2020.

The following tables summarize the Company's securities in an unrealized loss position as of the dates indicated (dollars in thousands):

RMBS Unrealized Loss Positions

As of December 31, 2021

						Weighted Average			
Duration in Loss Position	**Original Face Value**	**Book Value**	**Gross Unrealized Losses**	**Carrying Value(A)**	**Number of Securities**	**Rating**	**Coupon**	**Yield(C)**	**Maturity (Years)**
Less than Twelve Months	$ 612,547	$ 611,306	$ (6,783)	$ 604,523	56	(B)	2.76%	2.62%	29
Twelve or More Months	6,629	6,022	(108)	5,914	1	(B)	3.00%	2.83%	28
Total/Weighted Average	**$ 619,176**	**$ 617,328**	**$ (6,891)**	**$ 610,437**	**57**		**2.77%**	**2.62%**	**29**

As of December 31, 2020

						Weighted Average			
Duration in Loss Position	**Original Face Value**	**Book Value**	**Gross Unrealized Losses**	**Carrying Value(A)**	**Number of Securities**	**Rating**	**Coupon**	**Yield(C)**	**Maturity (Years)**
Less than Twelve Months	$ 55,656	$ 57,945	$ (121)	$ 57,824	4	(B)	3.00%	2.82%	29
Total/Weighted Average	**$ 55,656**	**$ 57,945**	**$ (121)**	**$ 57,824**	**4**		**3.00%**	**2.82%**	**29**

(A) See Note 9 regarding the estimation of fair value, which approximates carrying value for all securities.
(B) The Company used an implied AAA rating for the Agency RMBS. The Company's private label RMBS were rated investment grade or better by at least one NRSRO as of December 31, 2020.
(C) The weighted average yield is based on the most recent gross monthly interest income, which is then annualized and divided by the book value of settled securities.

Note 5 — Investments in Servicing Related Assets

MSRs

Aurora's portfolio of Servicing Related Assets consists of Fannie Mae and Freddie Mac MSRs with an aggregate UPB of approximately $20.8 billion as of December 31, 2021.

The following is a summary of the Company's Servicing Related Assets as of the dates indicated (dollars in thousands):

Servicing Related Assets Summary

As of December 31, 2021

	Unpaid Principal Balance	Carrying Value(A)	Weighted Average Coupon	Weighted Average Maturity (Years)(B)	Year to Date Changes in Fair Value Recorded in Other Income (Loss)
MSRs	$ 20,773,278	$ 218,727	3.51%	26.3	$ (11,062)
MSR Total/Weighted Average	**$ 20,773,278**	**$ 218,727**	3.51%	26.3	**$ (11,062)**

As of December 31, 2020

	Unpaid Principal Balance	Carrying Value(A)	Weighted Average Coupon	Weighted Average Maturity (Years)(B)	Year to Date Changes in Fair Value Recorded in Other Income (Loss)
MSRs	$ 21,641,277	$ 174,414	3.92%	26.3	$ (141,900)
MSR Total/Weighted Average	**$ 21,641,277**	**$ 174,414**	3.92%	26.3	**$ (141,900)**

(A) See Note 9 regarding the estimation of fair value, which approximates carrying value for all pools.
(B) Weighted average maturity of the underlying residential mortgage loans in the pool is based on the unpaid principal balance.

The tables below summarize the geographic distribution for the states representing 5% or greater of the aggregate UPB of the residential mortgage loans underlying the Servicing Related Assets as of the dates indicated:

Geographic Concentration of Servicing Related Assets

As of December 31, 2021

	Percentage of Total Outstanding Unpaid Principal Balance
California	13.8%
Virginia	9.3%
New York	8.8%
Maryland	6.9%
Texas	6.2%
North Carolina	5.6%
All other	49.4%
Total	100.0%

As of December 31, 2020

	Percentage of Total Outstanding Unpaid Principal Balance
California	11.1%
Virginia	8.4%
New York	7.7%
Maryland	6.7%
Texas	5.8%
North Carolina	5.5%
All other	54.8%
Total	100.0%

Geographic concentrations of investments expose the Company to the risk of economic downturns within the relevant states. Any such downturn in a state where the Company holds significant investments could affect the underlying borrower's ability to make the mortgage payment and, therefore, could have a meaningful, negative impact on the Company's Servicing Related Assets.

Note 6 — Equity and Earnings per Common Share

Common and Preferred Stock

On October 9, 2013, the Company completed an initial public offering (the "IPO") and a concurrent private placement of its common stock. The Company did not conduct any activity prior to the IPO and the concurrent private placement.

The Company's 8.20% Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock") ranks senior to the Company's common stock with respect to rights to the payment of dividends and the distribution of assets upon the Company's liquidation, dissolution or winding up. The Series A 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 by the holders of the Series A Preferred Stock into the Company's common stock in connection with certain changes of control. The Series A Preferred Stock is not redeemable by the Company prior to August 17, 2022, except under circumstances intended to preserve the Company's qualification as a REIT for U.S. federal income tax purposes and except upon the occurrence of certain changes of control. On and after August 17, 2022, the Company may, at its option, redeem the Series A 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 to, but not including, the date fixed for redemption. If the Company does not exercise its rights to redeem the Series A Preferred Stock upon certain changes in control, the holders of the Series A Preferred Stock have the right to convert some or all of their shares of Series A Preferred Stock into a number of shares of the Company's common stock based on a defined formula, subject to a share cap, or alternative consideration. The share cap on each share of Series A Preferred Stock is 2.62881 shares of common stock, subject to certain adjustments. The Company pays cumulative cash dividends at the rate of 8.20% per annum of the $25.00 per share liquidation preference (equivalent to $2.05 per annum per share) on the Series A Preferred Stock, in arrears, on or about the 15th day of January, April, July and October of each year.

The Company’s 8.250% Series B Fixed-to-Floating Rate Cumulative Redeemable Stock, par value $0.01 per share (the “Series B Preferred Stock”) ranks senior to the Company’s common stock with respect to rights to the payment of dividends and the distribution of assets upon the Company’s liquidation, dissolution or winding up, and on parity with the Company’s Series A Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon the Company’s liquidation, dissolution or winding up. 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 by the holders of the Series B Preferred Stock into the Company’s common stock in connection with certain changes of control. The Series B Preferred Stock is not redeemable by the Company prior to April 15, 2024, except under circumstances intended to preserve the Company’s qualification as a REIT for U.S. federal income tax purposes and except upon the occurrence of certain changes of control. On and after April 15, 2024, 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 to, but not including, the date fixed for redemption. If the Company does not exercise its rights to redeem the Series B Preferred Stock upon certain changes in control, the holders of the Series B Preferred Stock have the right to convert some or all of their shares of Series B Preferred Stock into a number of shares of the Company’s common stock based on a defined formula, subject to a share cap, or alternative consideration. The share cap on each share of Series B Preferred Stock is 2.68962 shares of common stock, subject to certain adjustments. Holders of Series B Preferred Stock will be entitled to receive cumulative cash dividends (i) from and including February 11, 2019 to, but excluding, April 15, 2024 at a fixed rate equal to 8.250% per annum of the $25.00 per share liquidation preference (equivalent to $2.0625 per annum per share) and (ii) from and including April 15, 2024, at a floating rate equal to three-month LIBOR plus a spread of 5.631% per annum. Dividends are payable quarterly in arrears on the 15th day of each January, April, July and October, when and as authorized by the Company’s board of directors and declared by the Company.

On April 28, 2020, the Company issued 527,010 shares of Common Stock in partial payment of the previously declared cash dividend of $0.40 per share of Common Stock.

Common Stock ATM Program

In August 2018, the Company instituted an at-the-market offering program (the “Common Stock ATM Program”) of up to $50.0 million of its common stock. Under the Common Stock ATM Program, the Company may, but is not obligated to, sell shares of common stock from time to time through one or more selling agents. The Common Stock ATM Program has no set expiration date and may be renewed or terminated by the Company at any time. During the year ended December 31, 2021, the Company issued and sold 1,148,398 shares of common stock under the Common Stock ATM Program. The shares were sold at a weighted average price of $8.88 per share for gross proceeds of approximately $10.2 million before fees of approximately $200,000. During the year ended December 31, 2020, the Company did not issue any shares of common stock under the Common Stock ATM Program.

Preferred Stock ATM Program

In April 2018, the Company instituted an at-the-market offering program (the “Preferred Series A ATM Program”) of up to $35.0 million of its Series A Preferred Stock. Under the Preferred Series A ATM Program, the Company may, but is not obligated to, sell shares of Series A Preferred Stock from time to time through one or more selling agents. The Preferred Series A ATM Program has no set expiration date and may be renewed or terminated by the Company at any time. During the years ended December 31, 2021 and December 31, 2020, the Company did not issue any shares of Series A Preferred Stock under the Preferred Series A ATM Program.

Share Repurchase Program

In September 2019, the Company instituted a share repurchase program that allows for the repurchase of up to an aggregate of $10.0 million of the Company’s common stock. Shares may be repurchased from time to time through privately negotiated transactions or open market transactions, pursuant to a trading plan in accordance with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, or by any combination of such methods. The manner, price, number and timing of share repurchases are subject to a variety of factors, including market conditions and applicable SEC rules. The share repurchase program does not require the purchase of any minimum number of shares, and, subject to SEC rules, purchases may be commenced or suspended at any time without prior notice. During the year ended December 31, 2021, the Company did not repurchase any shares of its common stock pursuant to the share repurchase program. During the year ended December 31, 2020, the Company repurchased 142,531 shares of its common stock at a weighted average purchase price of $12.96 per share and paid brokers commissions of approximately $4,300 on such repurchases.

Equity Incentive Plan

During 2013, the board of directors approved and the Company adopted the Cherry Hill Mortgage Investment Corporation 2013 Equity Incentive Plan (the “2013 Plan”). The 2013 Plan provides for the grant of options to purchase shares of the Company’s common stock, stock awards, stock appreciation rights, performance units, incentive awards and other equity-based awards, including long term incentive plan units (“LTIP-OP Units”) of the Operating Partnership.

LTIP-OP Units are a special class of partnership interest in the Operating Partnership. LTIP-OP Units may be issued to eligible participants for the performance of services to or for the benefit of the Operating Partnership. Initially, LTIP-OP Units do not have full parity with the Operating Partnership's common units of limited partnership interest ("OP Units") with respect to liquidating distributions; however, LTIP-OP Units receive, whether vested or not, the same per-unit distributions as OP Units and are allocated their pro-rata share of the Operating Partnership's net income or loss. Under the terms of the LTIP-OP Units, the Operating Partnership will revalue its assets upon the occurrence of certain specified events, and any increase in the Operating Partnership's valuation from the time of grant of the LTIP-OP Units until such event will be allocated first to the holders of LTIP-OP Units to equalize the capital accounts of such holders with the capital accounts of the holders of OP Units. Upon equalization of the capital accounts of the holders of LTIP-OP Units with the other holders of OP Units, the LTIP-OP Units will achieve full parity with OP Units for all purposes, including with respect to liquidating distributions. If such parity is reached, vested LTIP-OP Units may be converted into an equal number of OP Units at any time and, thereafter, enjoy all the rights of OP Units, including redemption rights. Each LTIP-OP Unit awarded is deemed equivalent to an award of one share of the Company's common stock under the 2013 Plan and reduces the 2013 Plan's share authorization for other awards on a one-for-one basis.

An LTIP-OP Unit and a share of common stock of the Company have substantially the same economic characteristics in as much as they effectively share equally in the net income or loss of the Operating Partnership. Holders of LTIP-OP Units that have reached parity with OP Units have the right to redeem their LTIP-OP Units, subject to certain restrictions. The redemption is required to be satisfied in cash, or at the Company's option, the Company may purchase the OP Units for common stock, calculated as follows: one share of the Company's common stock, or cash equal to the fair value of a share of the Company's common stock at the time of redemption, for each LTIP-OP Unit. When an LTIP-OP Unit holder redeems an OP Unit (as described above), non-controlling interest in the Operating Partnership is reduced and the Company's equity is increased.

LTIP-OP Units vest ratably over the first three annual anniversaries of the grant date. The fair value of each LTIP-OP Unit was determined based on the closing price of the Company's common stock on the applicable grant date in all other cases.

The following table sets forth the number of shares of the Company's common stock as well as LTIP-OP Units and the values thereof (based on the closing prices on the respective dates of grant) granted under the 2013 Plan. Except as otherwise indicated, all shares are fully vested.

Equity Incentive Plan Information

	LTIP-OP Units				**Shares of Common Stock**		**Number of Securities Remaining Available For Future Issuance Under**	**Weighted Average Issuance**
	Issued	**Forfeited**	**Converted**	**Redeemed**	**Issued**	**Forfeited**	**Equity Compensation Plans**	**Price**
December 31, 2019	(290,275)	916	18,917	-	(76,664)	3,155	1,156,049	
Number of securities issued or to be issued upon exercise	(51,572)(A)	-	9,500	-	(31,724)	-	(73,796)	$ 8.83
December 31, 2020	(341,847)	916	28,417	-	(108,388)	3,155	1,082,253	
Number of securities issued or to be issued upon exercise	(49,800)(B)	-	16,378	-	(36,592)(C)	-	(70,014)	$ 9.77
Number of securities redeemed	-	-	-	9,054	-	-	-	
December 31, 2021	(391,647)	916	44,795	9,054	(144,980)	3,155	1,012,239	

(A) Subject to forfeiture in certain circumstances prior to January 2, 2023.
(B) Subject to forfeiture in certain circumstances prior to January 4, 2024.
(C) Subject to forfeiture in certain circumstances prior to June 17, 2022.

The Company recognized approximately $1.1 million and $1.0 million in share-based compensation expense in the years ended December 31, 2021 and December 31, 2020, respectively. There was approximately $513,000 of total unrecognized share-based compensation expense as of December 31, 2021, which was related to unvested LTIP-OP Units and directors compensation paid in stock subject to forfeiture. This unrecognized share-based compensation expense is expected to be recognized ratably over the remaining vesting period of up to three years. The aggregate expense related to the LTIP-OP Unit grants is presented as “General and administrative expense” in the Company’s consolidated statements of income (loss).

Non-Controlling Interests in Operating Partnership

Non-controlling interests in the Operating Partnership in the accompanying consolidated financial statements relate to LTIP-OP Units and OP Units issued upon conversion of LTIP-OP Units, in either case, held by parties other than the Company.

As of December 31, 2021, the non-controlling interest holders in the Operating Partnership owned 341,287 LTIP-OP Units, or approximately 1.97% of the units of the Operating Partnership. Pursuant to ASC 810, *Consolidation*, changes in a parent’s ownership interest (and transactions with non-controlling interest unit holders in the Operating Partnership) while the parent retains its controlling interest in its subsidiary should be accounted for as equity transactions. The carrying amount of the non-controlling interest will be adjusted to reflect the change in its ownership interest in the subsidiary, with the offset to equity attributable to the Company.

Earnings per Common Share

The Company is required to present both basic and diluted earnings per common share (“EPS”). Basic EPS is calculated by dividing net income applicable to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is calculated by dividing net income applicable to common stockholders by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period. In accordance with ASC 260, *Earnings Per Share*, if there is a loss from continuing operations, the common stock equivalents are deemed anti-dilutive and earnings (loss) per share is calculated excluding the potential common shares.

The following table presents basic and diluted earnings per share of common stock for the periods indicated (dollars in thousands, except per share data):

Earnings per Common Share Information

	Year Ended December 31,		
	2021	**2020**	**2019**
Numerator:			
Net income (loss)	$ 12,530	$ (53,218)	$ (50,675)
Net (income) loss allocated to noncontrolling interests in Operating Partnership	(247)	979	819
Dividends on preferred stock	9,853	9,842	9,353
Net income (loss) applicable to common stockholders	$ 2,430	$ (62,081)	$ (59,209)
Denominator:			
Weighted average common shares outstanding	17,324,362	16,901,537	16,775,113
Weighted average diluted shares outstanding	17,345,562	16,919,204	16,787,902
Basic and Diluted EPS:			
Basic	$ 0.14	$ (3.67)	$ (3.53)
Diluted	$ 0.14	$ (3.67)	$ (3.53)

There were no participating securities or equity instruments outstanding that were anti-dilutive for purposes of calculating earnings per share for the periods presented.

Note 7 — Transactions with Related Parties

Manager

The Company has entered into the Management Agreement with the Manager, pursuant to which the Manager provides for the day-to-day management of the Company's operations. The Management Agreement requires the Manager to manage the Company's business affairs in conformity with the policies that are approved and monitored by the Company's board of directors. Pursuant to the Management Agreement, the Manager, under the supervision of the Company's board of directors, formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of the Company's assets and provides certain advisory, administrative and managerial services in connection with the operations of the Company. For performing these services, the Company pays the Manager the management fee which is payable in cash quarterly in arrears, in an amount equal to 1.5% per annum of the Company's stockholders' equity (as defined in the Management Agreement). The term of the Management Agreement expires on October 22, 2022 and will be automatically renewed for a one-year term on such date and on each anniversary of such date thereafter unless terminated or not renewed as described below. Either the Company or the Manager may elect not to renew the Management Agreement upon expiration of its initial term or any renewal term by providing written notice of non-renewal at least 180 days, but not more than 270 days, before expiration. No such written notice of non-renewal was provided in 2021. In the event the Company elects not to renew the term, the Company will be required to pay the Manager a termination fee equal to three times the average annual management fee amount earned by the Manager during the two four-quarter periods ending as of the end of the most recently completed fiscal quarter prior to the non-renewal. The Company may terminate the Management Agreement at any time for cause effective upon 30 days prior written notice of termination from the Company to the Manager, in which case no termination fee would be due. The Company's board of directors will review the Manager's performance prior to the automatic renewal of the Management Agreement and, as a result of such review, upon the affirmative vote of at least two-thirds of the members of the Company's board of directors or of the holders of a majority of the Company's outstanding common stock, the Company may terminate the Management Agreement based upon unsatisfactory performance by the Manager that is materially detrimental to the Company or a determination by the Company's independent directors that the management fees payable to the Manager are not fair, subject to the right of the Manager to prevent such a termination by agreeing to a reduction of the management fees payable to the Manager. Upon any termination of the Management Agreement based on unsatisfactory performance or unfair management fees, the Company would be required to pay the Manager the termination fee described above. The Manager may terminate the Management Agreement in the event that the Company becomes regulated as an investment company under the Investment Company Act of 1940, as amended, in which case the Company would not be required to pay the termination fee described above. The Manager may also terminate the Management Agreement upon 60 days' written notice if the Company defaults in the performance of any material term of the Management Agreement and the default continues for a period of 30 days after written notice to the Company, whereupon the Company would be required to pay the Manager the termination fee described above.

The Manager is a party to a services agreement (the "Services Agreement") with Freedom Mortgage (in such capacity, the "Services Provider"), pursuant to which the Services Provider provides to the Manager personnel and payroll and benefits administration services as needed by the Manager to carry out its obligations and responsibilities under the Management Agreement. The Company is a named third-party beneficiary to the Services Agreement and, as a result, has, as a non-exclusive remedy, a direct right of action against the Services Provider in the event of any breach by the Manager of any of its duties, obligations or agreements under the Management Agreement that arise out of or result from any breach by the Services Provider of its obligations under the Services Agreement. The Services Agreement will terminate upon the termination of the Management Agreement.

The Management Agreement between the Company and the Manager was negotiated between related parties, and the terms, including fees payable, may not be as favorable to the Company as if it had been negotiated with an unaffiliated third party. At the time the Management Agreement was negotiated, both the Manager and the Services Provider were controlled by Mr. Stanley Middleman. In 2016, ownership of the Manager was transferred to CHMM Blind Trust, a grantor trust for the benefit of Mr. Middleman.

The Management Agreement provides that the Company will reimburse the Manager for (i) various expenses incurred by the Manager or its officers, and agents on the Company's behalf, including costs of software, legal, accounting, tax, administrative and other similar services rendered for the Company by providers retained by the Manager and (ii) an agreed upon portion of the compensation paid to specified officers of the Company. The amounts under "Due to Manager" on the consolidated balance sheets consisted of the following for the periods indicated (dollars in thousands):

Management Fees and Compensation Reimbursement to Manager

	Year Ended December 31,		
	2021	2020	2019
Management fees	$ 6,844	$ 6,794	$ 6,832
Compensation reimbursement	1,000	976	952
Total	**$ 7,844**	**$ 7,770**	**$ 7,784**

Subservicing Agreement

Following the sale of the Ginnie Mae MSRs to Freedom Mortgage in June 2020 as described below, Freedom Mortgage continued to subservice certain loans that had been purchased from Ginnie Mae pools due to delinquency or default. These loans were subserviced by Freedom Mortgage pursuant to a subservicing agreement entered into on June 10, 2015. Freedom Mortgage ceased subservicing these loans during 2021 because these loans and any related advance claims had been rehabilitated or liquidated.

In August 2020, Freedom Mortgage acquired RoundPoint Mortgage Servicing Corporation ("RoundPoint"), one of Aurora's subservicers and a seller of Fannie Mae and Freddie Mac MSRs pursuant to a flow purchase agreement with Aurora. The subservicing agreement with RoundPoint had an initial term of two years and is subject to automatic renewal for additional terms equal to the initial term unless either party chooses not to renew. The subservicing agreement may be terminated without cause by either party by giving notice as specified in the agreement. If the agreement is not renewed by Aurora or terminated by Aurora without cause, de-boarding fees will be due to the subservicer. Under the subservicing agreement, the sub-servicer agrees to service the applicable mortgage loans in accordance with applicable law. During the years ended December 31, 2021 and December 31, 2020, Aurora paid RoundPoint $7.2 million and $11.4 million, respectively, in servicing costs. Aurora had servicing receivables of $493,000 and $227,000 from RoundPoint as of December 31, 2021 and December 31, 2020, respectively. The flow purchase agreement provides that RoundPoint may offer, and Aurora may purchase mortgage servicing rights from time to time on loans originated through RoundPoint's network of loan sellers. RoundPoint's sellers sell the loans to Fannie Mae or Freddie Mac and sell the mortgage servicing rights to RoundPoint which sells the MSR to Aurora. RoundPoint then subservices the loans for Aurora pursuant to the subservicing agreement.

During the year ended December 31, 2021, Aurora purchased MSRs with an aggregate UPB of approximately $2.6 billion from RoundPoint pursuant to the flow agreement for a purchase price of $21.4 million. During the year ended December 31, 2020, Aurora purchased MSRs with an aggregate UPB of approximately $6.2 billion from RoundPoint pursuant to the flow agreement for a purchase price of $50.5 million.

Joint Marketing Recapture Agreement

In May 2018, Aurora entered into a recapture purchase and sale agreement with RoundPoint, one of Aurora's subservicers and since August 2020, a wholly-owned subsidiary of Freedom Mortgage. Pursuant to this agreement, RoundPoint attempts to refinance certain mortgage loans underlying Aurora's MSR portfolio subserviced by RoundPoint as directed by Aurora. If a loan is refinanced, Freedom Mortgage will sell the loan to Fannie Mae or Freddie Mac, as applicable, retain the sale proceeds and transfer the related MSR to Aurora. The agreement continues in effect while the subservicing agreement remains in effect.

Other Transactions with Related Persons

Aurora leases three employees from Freedom Mortgage and reimburses Freedom Mortgage on a monthly basis.

On June 30, 2020, Aurora sold its portfolio of Ginnie Mae MSRs with a carrying value of approximately $15.7 million to Freedom Mortgage pursuant to a Loan Servicing Purchase and Sale Agreement, dated as of that date, between Freedom Mortgage as buyer and Aurora as seller for proceeds of approximately $15.8 million. The Company recorded a realized loss of $11.3 million on the sale which includes $11.5 million of previously incurred unrealized losses in market value through the six-month period ended June 30, 2020. The sale is part of the Company's servicing related assets segment. The sale was approved by the Nominating and Corporate Governance Committee of the Company's board of directors which consists solely of independent directors. The proceeds were used in part to pay off in full a $11.2 million term loan facility financing the Ginnie Mae MSRs and a related advancing facility, with the balance of the proceeds available for general corporate purposes.

The Ginnie Mae MSRs were originally acquired from Freedom Mortgage pursuant to the loan servicing purchase and sale agreement with Freedom Mortgage, dated as of December 15, 2016. As a result of the sale of these MSRs back to Freedom Mortgage the remaining holdback payable under the original purchase agreement of approximately $757,000 was applied to reduce the original cost of acquisition and included within "Realized loss on investments in MSRs, net" on the consolidated statements of income (loss) for the year ended December 31, 2020.

Note 8 — Derivative Instruments

Interest Rate Swap Agreements, Swaptions, TBAs and Treasury Futures

In order to help mitigate exposure to higher short-term interest rates in connection with borrowings under its repurchase agreements, the Company enters into interest rate swap agreements and swaption agreements. Interest rate swap agreements establish an economic fixed rate on related borrowings because the variable-rate payments received on the interest rate swap agreements largely offset interest accruing on the related borrowings, leaving the fixed-rate payments to be paid on the interest rate swap agreements as the Company's effective borrowing rate, subject to certain adjustments including changes in spreads between variable rates on the interest rate swap agreements and actual borrowing rates. A swaption is an option granting its owner the right but not the obligation to enter into an underlying swap. The Company's interest rate swap agreements and swaptions have not been designated as qualifying hedging instruments for GAAP purposes.

In order to help mitigate duration risk and manage basis risk and the pricing risk under the Company's financing facilities, the Company utilizes U.S. treasury futures and forward-settling purchases and sales of RMBS where the underlying pools of mortgage loans are TBAs. Pursuant to these TBA transactions, the Company agrees to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. Unless otherwise indicated, references to U.S. treasury futures include options on U.S. treasury futures.

The following table summarizes the outstanding notional amounts of derivative instruments as of the dates indicated (dollars in thousands):

Derivatives	**December 31, 2021**	**December 31, 2020**
Notional amount of interest rate swaps	$ 1,448,000	$ 1,451,900
Notional amount of swaptions	40,000	70,000
Notional amount of TBAs, net	439,000	332,000
Notional amount of U.S. treasury futures	80,600	110,000
Total notional amount	**$ 2,007,600**	**$ 1,963,900**

The following table presents information about the Company's interest rate swap agreements as of the dates indicated (dollars in thousands):

	Notional Amount	Fair Value	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
December 31, 2021	$ 1,448,000	$ 9,883	0.50%	0.73%	6.1
December 31, 2020	$ 1,451,900	$ 4,913	0.45%	0.84%	6.4

The following table presents information about the Company's interest rate swaption agreements as of the dates indicated (dollars in thousands):

	Notional Amount	Fair Value	Weighted Average Underlying Pay Rate	Weighted Average Underlying Receive Rate(A)	Weighted Average Underlying Years to Maturity(B)	Weighted Average Years to Expiration
December 31, 2021	$ 40,000	$ 183	1.90%	LIBOR-BBA%%	8.0	0.4
December 31, 2020	$ 70,000	$ 798	1.32%	LIBOR-BBA%%	10.6	0.5

(A) Floats in accordance with LIBOR.
(B) Weighted average years to maturity of the underlying swaps from the reporting date.

The following tables present information about the Company's TBA derivatives as of the dates indicated (dollars in thousands):

As of December 31, 2021

Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Fair Value	Net Carrying Value
Purchase contracts	$ 970,500	$ 988,173	$ 987,146	$ (1,026)
Sale contracts	(531,500)	(544,346)	(544,327)	19
Net TBA derivatives	$ 439,000	$ 443,827	$ 442,819	$ (1,007)

As of December 31, 2020

Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Fair Value	Net Carrying Value
Purchase contracts	$ 875,000	$ 904,653	$ 911,393	$ 6,740
Sale contracts	(543,000)	(564,934)	(567,544)	(2,610)
Net TBA derivatives	$ 332,000	$ 339,719	$ 343,849	$ 4,130

The following tables present information about the Company's U.S. treasury futures agreements as of the dates indicated (dollars in thousands):

As of December 31, 2021

Maturity	Notional Amount - Long	Notional Amount - Short	Fair Value
2 years	$ -	$ (85,000)	$ 63
5 years	-	(15,000)	(53)
10 years	19,400	-	(63)
Total	$ 19,400	$ (100,000)	$ (53)

As of December 31, 2020

Maturity	Notional Amount - Long	Notional Amount - Short	Fair Value
5 years	$ 85,000	$ -	$ 252
10 years	25,000	-	-
Total	$ 110,000	$ -	$ 252

The Company did not have any U.S. treasury futures options agreements as of December 31, 2020. The following table presents information about the Company's U.S. treasury futures options agreements as of the dates indicated (dollars in thousands):

As of December 31, 2021

Maturity	Notional Amount - Long	Notional Amount - Short	Fair Value
10 years	$ 60,000	$ (60,000)	$ 234
Total	$ 60,000	$ (60,000)	$ 234

The following table presents information about realized gain (loss) on derivatives, which is included on the consolidated statements of income (loss) for the periods indicated (dollars in thousands):

Derivatives	Consolidated Statements of Income (Loss) Location	Year Ended December 31, 2021	2020	2019
Interest rate swaps	Realized loss on derivatives, net	$ (884)	$ (60,056)	$ (27,057)
Swaptions	Realized loss on derivatives, net	(1,028)	(505)	(1,544)
TBAs	Realized loss on derivatives, net	(4,668)	2,756	3,918
U.S. Treasury futures	Realized loss on derivatives, net	(6,572)	42,010	14,881
Total		**$ (13,152)**	**$ (15,795)**	**$ (9,802)**

Offsetting Assets and Liabilities

The Company has netting arrangements in place with all of its derivative counterparties pursuant to standard documentation developed by the International Swaps and Derivatives Association and the Securities Industry and Financial Markets Association. Under GAAP, if the Company has a valid right of offset, it may offset the related asset and liability and report the net amount. The Company presents interest rate swaps, swaptions and U.S. treasury futures assets and liabilities on a gross basis in its consolidated balance sheets, but in the case of interest rate swaps, net of variation margin. The Company presents TBA assets and liabilities on a net basis in its consolidated balance sheets. The Company presents repurchase agreements in this section even though they are not derivatives because they are subject to master netting arrangements. However, repurchase agreements are presented on a gross basis. Additionally, the Company does not offset financial assets and liabilities with the associated cash collateral on the consolidated balance sheets.

The following tables present information about the Company's assets and liabilities that are subject to master netting arrangements or similar agreements and can potentially be offset on the Company's consolidated balance sheets as of the dates indicated (dollars in thousands):

Offsetting Assets and Liabilities

As of December 31, 2021

	Gross Amounts of Recognized Assets or Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets and Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet: Cash Collateral Received (Pledged)	Net Amount
Assets						
Interest rate swaps	$ 10,101	$ -	$ 10,101	$ (10,101)	$ -	$ -
Interest rate swaptions	183	-	183	(183)	-	-
TBAs	338	(338)	-	-	-	-
U.S. treasury futures options	234	-	234	430	(664)	-
Total Assets	**$ 10,856**	**$ (338)**	**$ 10,518**	**$ (9,854)**	**$ (664)**	**$ -**
Liabilities						
Repurchase agreements	$ 865,494	$ -	$ 865,494	$ (853,297)	$ (12,197)	$ -
Interest rate swaps	218	-	218	(218)	-	-
TBAs	1,345	(338)	1,007	(1,007)	-	-
U.S. treasury futures	53	-	53	(53)	-	-
Total Liabilities	**$ 867,110**	**$ (338)**	**$ 866,772**	**$ (854,575)**	**$ (12,197)**	**$ -**

As of December 31, 2020

	Gross Amounts of Recognized Assets or Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets and Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Consolidated Balance Sheet: Cash Collateral Received (Pledged)	Net Amount
Assets						
Interest rate swaps	$ 10,791	$ -	$ 10,791	$ (10,791)	$ -	$ -
Interest rate swaptions	798	-	798	(798)	-	-
TBAs	6,740	(2,611)	4,129	(4,129)	-	-
U.S. treasury futures	252	-	252	1,717	(1,969)	-
Total Assets	**$ 18,581**	**$ (2,611)**	**$ 15,970**	**$ (14,001)**	**$ (1,969)**	**$ -**
Liabilities						
Repurchase agreements	$ 1,149,978	$ -	$ 1,149,978	$ (1,105,621)	$ (44,357)	$ -
Interest rate swaps	5,878	-	5,878	(5,878)	-	-
TBAs	2,611	(2,611)	-	-	-	-
Total Liabilities	**$ 1,158,467**	**$ (2,611)**	**$ 1,155,856**	**$ (1,111,499)**	**$ (44,357)**	**$ -**

Note 9 — Fair Value

Fair Value Measurements

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices available in active markets (i.e., observable inputs) and the lowest priority to data lacking transparency (i.e., unobservable inputs). Additionally, ASC 820 requires an entity to consider all aspects of nonperformance risk, including the entity's own credit standing, when measuring the fair value of a liability.

ASC 820 establishes a three level hierarchy to be used when measuring and disclosing fair value. An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. Following is a description of the three levels:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the measurement date under current market conditions. Additionally, the entity must have the ability to access the active market and the quoted prices cannot be adjusted by the entity.

Level 2 inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs that are observable or can be corroborated by observable market data by correlation or other means for substantially the full-term of the assets or liabilities.

Level 3 unobservable inputs are supported by little or no market activity. The unobservable inputs represent the assumptions that management believes market participants would use to price the assets and liabilities, including risk. Generally, Level 3 assets and liabilities are valued using pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation.

Recurring Fair Value Measurements

The following is a description of the methods used to estimate the fair values of the Company's assets and liabilities measured at fair value on a recurring basis, as well as the basis for classifying these assets and liabilities as Level 2 or 3 within the fair value hierarchy. The Company's valuations consider assumptions that it believes a market participant would consider in valuing the assets and liabilities, the most significant of which are disclosed below. The Company reassesses and periodically adjusts the underlying inputs and assumptions used in the valuations for recent historical experience, as well as for current and expected relevant market conditions.

<u>RMBS</u>

The Company holds a portfolio of RMBS that are classified as available for sale and are carried at fair value in the consolidated balance sheets. The Company determines the fair value of its RMBS based upon prices obtained from third-party pricing providers. The third-party pricing providers use pricing models that generally incorporate such factors as coupons, primary and secondary mortgage rates, rate reset period, issuer, prepayment speeds, credit enhancements and expected life of the security. As a result, the Company classified 100% of its RMBS as Level 2 fair value assets at December 31, 2021 and December 31, 2020.

MSRs

The Company, through its subsidiary Aurora, holds a portfolio of MSRs that are reported at fair value in the consolidated balance sheets. The Company uses a discounted cash flow model to estimate the fair value of these assets. Although MSR transactions are observable in the marketplace, the valuation includes unobservable market data inputs (prepayment speeds, delinquency levels, costs to service and discount rates). As a result, the Company classified 100% of its MSRs as Level 3 fair value assets at December 31, 2021 and December 31, 2020.

Derivative Instruments

The Company enters into a variety of derivative instruments as part of its economic hedging strategies. The Company executes interest rate swaps, swaptions, TBAs and U.S. treasury futures. The Company utilizes third-party pricing providers to value its derivative instruments. The third-party pricing providers use their own pricing models that incorporate a multitude of factors such as the absolute levels of interest rates, shape of the yield curve, forward market expectations of the curve, internal economist projections, OIS and Libor, FOMC policy, coupon, strike, the rate reset period and the expected life of the security. As a result, the Company classified 100% of its derivative instruments as Level 2 fair value assets and liabilities at December 31, 2021 and December 31, 2020.

Both the Company and the derivative counterparties under their netting arrangements are required to post cash collateral based upon the net underlying market value of the Company’s open positions with the counterparties. Posting of cash collateral typically occurs daily, subject to certain dollar thresholds. Due to the existence of netting arrangements, as well as frequent cash collateral posting at low posting thresholds, credit exposure to the Company and/or counterparties is considered materially mitigated. The Company’s interest rate swaps and U.S. treasury futures are required to be cleared on an exchange, which further mitigates, but does not eliminate, credit risk. Based on the Company’s assessment, there is no requirement for any additional adjustment to derivative valuations specifically for credit.

The following tables present the Company’s assets and liabilities measured at fair value on a recurring basis as of the dates indicated (dollars in thousands).

Recurring Fair Value Measurements

As of December 31, 2021

	Level 1	Level 2	Level 3	Carrying Value
Assets				
RMBS				
Fannie Mae	$ -	$ 559,777	$ -	$ 559,777
Freddie Mac	-	393,719	-	393,719
RMBS total	-	953,496	-	953,496
Derivative assets				
Interest rate swaps	-	10,101	-	10,101
Interest rate swaptions	-	183	-	183
U.S. treasury futures options	-	234	-	234
Derivative assets total	-	10,518	-	10,518
Servicing related assets	-	-	218,727	218,727
Total Assets	**$ -**	**$ 964,014**	**$ 218,727**	**$ 1,182,741**
Liabilities				
Derivative liabilities				
Interest rate swaps	-	218	-	218
TBAs, net	-	1,007	-	1,007
U.S. treasury futures	-	53	-	53
Derivative liabilities total	-	1,278	-	1,278
Total Liabilities	**$ -**	**$ 1,278**	**$ -**	**$ 1,278**

As of December 31, 2020

	Level 1	Level 2	Level 3	Carrying Value
Assets				
RMBS				
Fannie Mae	$ -	$ 715,156	$ -	$ 715,156
Freddie Mac	-	506,954	-	506,954
Private Label MBS	-	6,141	-	6,141
RMBS total	-	1,228,251	-	1,228,251
Derivative assets				
Interest rate swaps	-	10,791	-	10,791
Interest rate swaptions	-	798	-	798
TBAs, net	-	4,129	-	4,129
U.S. treasury futures	-	252	-	252
Derivative assets total	-	15,970	-	15,970
Servicing related assets	-	-	174,414	174,414
Total Assets	**$ -**	**$ 1,244,221**	**$ 174,414**	**$ 1,418,635**
Liabilities				
Derivative liabilities				
Interest rate swaps	-	5,878	-	5,878
Derivative liabilities total	-	5,878	-	5,878
Total Liabilities	**$ -**	**$ 5,878**	**$ -**	**$ 5,878**

The Company may be required to measure certain assets or liabilities at fair value from time to time. These periodic fair value measures typically result from application of certain impairment measures under GAAP. These items would constitute nonrecurring fair value measures under ASC 820. As of December 31, 2021 and December 31, 2020, the Company did not have any assets or liabilities measured at fair value on a nonrecurring basis in the periods presented.

Level 3 Assets and Liabilities

The valuation of Level 3 assets and liabilities requires significant judgment by management. The Company estimates the fair value of its Servicing Related Assets based on internal pricing models rather than quotations and compares the results of these internal models against the results from models generated by third-party pricing providers. The third-party pricing providers and management rely on inputs such as market price quotations from market makers (either market or indicative levels), original transaction price, recent transactions in the same or similar instruments, and changes in financial ratios or cash flows to determine fair value. Level 3 instruments may also be discounted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by third-party pricing providers and management in the absence of market information. Assumptions used by third-party pricing providers and management due to lack of observable inputs may significantly impact the resulting fair value and, therefore, the Company's consolidated financial statements. The Company's management reviews all valuations that are based on pricing information received from third-party pricing providers. As part of this review, prices are compared against other pricing or input data points in the marketplace, along with internal valuation expertise, to ensure the pricing is reasonable.

Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant change to estimated fair values. The determination of estimated cash flows used in pricing models is inherently subjective and imprecise. It should be noted that minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values, and that the fair values reflected below are indicative of the interest rate and credit spread environments as of December 31, 2021 and December 31, 2020 and do not take into consideration the effects of subsequent changes in market or other factors.

The tables below present the reconciliation for the Company's Level 3 assets (Servicing Related Assets) measured at fair value on a recurring basis as of the dates indicated (dollars in thousands):

Level 3 Fair Value Measurements

As of December 31, 2021

	Level 3 MSRs
Balance at December 31, 2020	**$ 174,414**
Purchases and sales:	
Purchases	56,638
Other changes (A)	(1,263)
Purchases, sales and principal paydowns:	$ 55,375
Changes in Fair Value due to:	
Changes in valuation inputs or assumptions used in valuation model	61,881
Other changes in fair value (B)	(72,943)
Unrealized gain (loss) included in Net Income	$ (11,062)
Balance at December 31, 2021	**$ 218,727**

As of December 31, 2020

	Level 3 MSRs
Balance at December 31, 2019	**$ 291,111**
Purchases and sales:	
Purchases	54,439
Sales	(27,754)
Other changes (A)	(1,482)
Purchases and sales:	$ 25,203
Changes in Fair Value due to:	
Changes in valuation inputs or assumptions used in valuation model	(8,318)
Other changes in fair value (B)	(133,582)
Unrealized gain (loss) included in Net Income	$ (141,900)
Balance at December 31, 2020	**$ 174,414**

(A) Represents purchase price adjustments, principally contractual prepayment protection, and changes due to the Company's repurchase of the underlying collateral.
(B) Represents changes due to realization of expected cash flows and estimated MSR runoff.

The tables below present information about the significant unobservable inputs used in the fair value measurement of the Company's Servicing Related Assets classified as Level 3 fair value assets as of the dates indicated (dollars in thousands):

Fair Value Measurements

As of December 31, 2021

	Fair Value	Valuation Technique	Unobservable Input (A)	Range	Weighted Average (B)
MSRs	$ 218,727	Discounted cash flow	Constant prepayment speed	5.0% - 19.1%	11.5%
			Uncollected payments	0.4% - 2.5%	0.6%
			Discount rate		7.2%
			Annual cost to service, per loan		$ 76
TOTAL	**$ 218,727**				

As of December 31, 2020

	Fair Value	Valuation Technique	Unobservable Input (A)	Range	Weighted Average (B)
MSRs	$ 174,414	Discounted cash flow	Constant prepayment speed	5.0% - 38.0%	15.4%
			Uncollected payments	0.3% - 2.6%	0.6%
			Discount rate		6.1%
			Annual cost to service, per loan		$ 76
TOTAL	**$ 174,414**				

(A) Significant increases (decreases) in any of the inputs in isolation may result in significantly lower (higher) fair value measurements. A change in the assumption used for discount rates may be accompanied by a directionally similar change in the assumption used for the probability of uncollected payments and a directionally opposite change in the assumption used for prepayment rates.
(B) Weighted averages for unobservable inputs are calculated based on the unpaid principal balance of the portfolios.

Fair Value of Financial Assets and Liabilities

In accordance with ASC 820, the Company is required to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the consolidated balance sheets, for which fair value can be estimated. The following describes the Company's methods for estimating the fair value for financial instruments.

- RMBS available for sale securities, Servicing Related Assets, derivative assets and derivative liabilities are recurring fair value measurements; carrying value equals fair value. See discussion of valuation methods and assumptions within the "Fair Value Measurements" section of this footnote.

- Cash and cash equivalents and restricted cash have a carrying value which approximates fair value because of the short maturities of these instruments.

- The carrying value of servicing receivables, repurchase agreements and corporate debt that mature in less than one year generally approximates fair value due to the short maturities. The Company does not hold any repurchase agreements that are considered long-term.

Corporate debt that matures in more than one year consists solely of financing secured by Aurora's Servicing Related Assets. All of the Company's debt is revolving and bears interest at adjustable rates. The Company considers that the amount of the corporate debt generally approximates fair value. The fixed rate portion of the financing for all of the Company's Servicing Related Assets was paid in full on June 30, 2020.

Note 10 — Commitments and Contingencies

The commitments and contingencies of the Company as of December 31, 2021 and December 31, 2020 are described below.

Management Agreement

The Company pays the Manager a quarterly management fee, calculated and payable quarterly in arrears, equal to the product of one quarter of the 1.5% management fee annual rate and the stockholders' equity, adjusted as set forth in the Management Agreement as of the end of such fiscal quarter. The Manager relies on Freedom Mortgage to provide the Manager with the necessary resources and personnel to conduct the Company's operations. For further discussion regarding the management fee, see Note 7.

Legal and Regulatory

From time to time, the Company may be subject to potential liability under laws and government regulations and various claims and legal actions arising in the ordinary course of business. Liabilities are established for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts established for those claims. The Company has established immaterial reserves for these possible matters. Based on information currently available, management is not aware of any legal or regulatory claims that would have a material effect on the Company’s consolidated financial statements.

Commitments to Purchase/Sell RMBS

As of December 31, 2021 and December 31, 2020, the Company held forward TBA purchase and sale commitments, respectively, with counterparties, which are forward Agency RMBS trades, whereby the Company committed to purchasing or selling a pool of securities at a particular interest rate. As of the date of the trade, the mortgage-backed securities underlying the pool that will be delivered to fulfill a TBA trade are not yet designated. The securities are typically “to be announced” 48 hours prior to the established trade settlement date.

As of December 31, 2021 and December 31, 2020, the Company was not obligated to purchase or sell any RMBS securities.

Acknowledgment Agreements

In connection with the Fannie Mae MSR Financing Facility (as defined below in Note 12), entered into by Aurora and QRS III, those parties also entered into an acknowledgment agreement with Fannie Mae. Pursuant to that agreement, Fannie Mae consented to the pledge by Aurora and QRS III of their respective interests in MSRs for loans owned or securitized by Fannie Mae, and acknowledged the security interest of the lender in those MSRs. See Note 12—Notes Payable for a description of the Fannie Mae MSR Financing Facility and the financing facility it replaced.

In connection with the Freddie Mac MSR Revolver (as defined below in Note 12), Aurora, QRS V, and the lender, with a limited joinder by the Company, entered into an acknowledgement agreement with Freddie Mac pursuant to which Freddie Mac consented to the pledge of the Freddie Mac MSRs securing the Freddie Mac MSR Revolver. Aurora and the lender also entered into a consent agreement with Freddie Mac pursuant to which Freddie Mac consented to the pledge of Aurora’s rights to reimbursement for advances on the underlying loans. See Note 12—Notes Payable for a description of the Freddie Mac MSR Revolver.

Note 11 — Repurchase Agreements

The Company had outstanding approximately $865.5 million and $1.1 billion of borrowings under its repurchase agreements as of December 31, 2021 and December 31, 2020, respectively. The Company’s obligations under these agreements had weighted average remaining maturities of 38 days and 28 days as of December 31, 2021 and December 31, 2020, respectively. RMBS and cash have been pledged as collateral under these repurchase agreements (see Note 4).

The repurchase agreements had the following remaining maturities and weighted average rates as of the dates indicated (dollars in thousands):

Repurchase Agreements Characteristics

As of December 31, 2021

	Repurchase Agreements	Weighted Average Rate
Less than one month	$ 291,007	0.13%
One to three months	574,487	0.14%
Total/Weighted Average	**$ 865,494**	**0.14%**

As of December 31, 2020

	Repurchase Agreements	Weighted Average Rate
Less than one month	$ 482,319	0.23%
One to three months	667,659	0.23%
Total/Weighted Average	**$ 1,149,978**	**0.23%**

There were no overnight or demand securities as of December 31, 2021 or December 31, 2020.

Note 12 — Notes Payable

As of December 31, 2021, the Company had two separate MSR financing facilities: (i) the Freddie Mac MSR Revolver, which is revolving credit facility for up to $100.0 million that is secured by all Freddie Mac MSRs owned by Aurora; and (ii) the Fannie Mae MSR Revolving Facility, which is a revolving credit facility for up to $150.0 million, that is secured by all Fannie Mae MSRs owned by Aurora. Both financing facilities are available for MSRs as well as certain servicing related advances associated with MSRs.

Freddie Mac MSR Revolver. In July 2018, the Company, Aurora and QRS V (collectively with Aurora and the Company, the “Borrowers”) entered into a $25.0 million revolving credit facility (the “Freddie Mac MSR Revolver”) pursuant to which Aurora pledged all of its existing and future MSRs on loans owned or securitized by Freddie Mac. The term of the Freddie Mac MSR Revolver is 364 days with the Borrowers’ option for two renewals for similar terms followed by a one-year term out feature with a 24-month amortization schedule. The Freddie Mac MSR Revolver was upsized to $45.0 million in September 2018. The Company also has the ability to request up to an additional $5.0 million of borrowings. On April 2, 2019, Aurora and QRS V entered into an amendment that increased the maximum amount of the Freddie Mac MSR Revolver to $100.0 million. In July 2021, the Borrowers entered into an amendment to the Freddie Mac MSR Revolver that extended the revolving period for an additional 364 days with the option for two more renewals of 364 days each. At the end of the revolving period, the outstanding amount will be converted to a one-year term loan. Amounts borrowed bear interest at an adjustable rate equal to a spread above one-month LIBOR. At December 31, 2021 and December 31, 2020, approximately $63.0 million and $47.5 million, respectively, was outstanding under the Freddie Mac MSR Revolver.

Fannie Mae MSR Revolving Facility. In October 2021, Aurora and QRS III entered into a loan and security agreement (the “Fannie Mae MSR Revolving Facility”), to replace the Prior Fannie Mae MSR Financing Facility (as defined below). Under the Fannie Mae MSR Revolving Facility, Aurora and QRS III pledged their respective rights in all existing and future MSRs for loans owned or securitized by Fannie Mae to secure borrowings outstanding from time to time. The maximum credit amount outstanding at any one time under the Fannie Mae MSR Revolving Facility is $150.0 million. The revolving period is 24 months which may be extended by agreement with the lender. During the revolving period, borrowings bear interest at a rate equal to a spread over one-month LIBOR subject to a floor. At the end of the revolving period, the outstanding amount will be converted to a three-year term loan that will bear interest at a rate calculated at a spread over the rate for one-year interest rate swaps. The Company has guaranteed repayment of all indebtedness under the Fannie Mae MSR Revolving Facility. At December 31, 2021, approximately $83.0 million was outstanding under the Fannie Mae MSR Revolving Facility.

As noted above, the Fannie Mae MSR Revolving Facility replaced the Prior Fannie Mae MSR Financing Facility. In September 2019, Aurora and QRS III entered into a loan and security agreement (the "Prior Fannie Mae MSR Financing Facility"). Under the Prior Fannie Mae MSR Facility, Aurora and QRS III pledged their respective rights in all existing and future MSRs for loans owned or securitized by Fannie Mae to secure borrowings outstanding from time to time. The maximum credit amount outstanding at any one time under the facility was $200 million, of which $100 million was committed. Borrowings bore interest at a rate equal to a spread over one-month LIBOR subject to a floor. This facility was terminated and replaced in October 2021 with the Fannie Mae MSR Revolving Facility (as defined and discussed above). As a result, there was no outstanding balance under the Prior Fannie Mae MSR Financing Facility at December 31, 2021. Approximately $64.0 million was outstanding under the Prior Fannie Mae MSR Financing Facility at December 31, 2020.

The outstanding long-term borrowings had the following remaining maturities as of the dates indicated (dollars in thousands):

Long-Term Borrowings Repayment Characteristics

As of December 31, 2021

	2022	2023	2024	2025	2026	Total
Freddie Mac MSR Revolver						
Borrowings under Freddie Mac MSR Revolver	$ 63,000	$ -	$ -	$ -	$ -	$ 63,000
Fannie Mae MSR Revolving Facility						
Borrowings under Fannie Mae MSR Revolving Facility	-	571	6,994	7,261	68,174	83,000
Total	**$ 63,000**	**$ 571**	**$ 6,994**	**$ 7,261**	$ 68,174	**$ 146,000**

As of December 31, 2020

	2021	2022	2023	2024	2025	Total
Freddie Mac MSR Revolver						
Borrowings under Freddie Mac MSR Revolver	$ 47,500	$ -	$ -	$ -	$ -	$ 47,500
Fannie Mae MSR Financing Facility						
Borrowings under Fannie Mae MSR Financing Facility	64,000	-	-	-	-	64,000
Total	**$ 111,500**	**$ -**	**$ -**	**$ -**	$ -	**$ 111,500**

Note 13 — Receivables and Other Assets

The assets comprising "Receivables and other assets" as of December 31, 2021 and December 31, 2020 are summarized in the following table (dollars in thousands):

Receivables and Other Assets

	December 31, 2021	December 31, 2020
Servicing advances	$ 17,609	$ 18,253
Interest receivable	2,393	3,119
Deferred tax receivable	20,614	21,523
Other receivables	2,728	1,740
Total other assets	**$ 43,344**	**$ 44,635**

The Company only records as an asset those servicing advances that the Company deems recoverable.

Note 14 — Accrued Expenses and Other Liabilities

The liabilities comprising “Accrued expenses and other liabilities” as of December 31, 2021 and December 31, 2020 are summarized in the following table (dollars in thousands):

Accrued Expenses and Other Liabilities

	December 31, 2021	December 31, 2020
Accrued interest payable	$ 996	$ 1,008
Accrued expenses	2,065	2,737
Total accrued expenses and other liabilities	**$ 3,061**	**$ 3,745**

Note 15 — Summarized Quarterly Results (Unaudited)

The following tables present information about the Company's quarterly operating results for the periods indicated below (dollars in thousands):

Summarized Quarterly Results

	2021			
	December 31,	**September 30,**	**June 30,**	**March 31,**
Income				
Interest income	$ 4,529	$ 3,600	$ 3,526	$ 3,301
Interest expense	1,534	1,439	1,341	1,454
Net interest income	2,995	2,161	2,185	1,847
Servicing fee income	13,030	13,839	13,748	13,540
Servicing costs	3,390	3,080	4,072	3,082
Net servicing income	9,640	10,759	9,676	10,458
Other income (loss)				
Realized gain (loss) on RMBS, available-for-sale, net	(1,479)	(1,050)	983	2,094
Realized gain (loss) on derivatives, net	(4,688)	1,420	(5,531)	(540)
Realized gain (loss) on acquired assets, net	-	(19)	29	5
Unrealized gain (loss) on derivatives, net	8,233	(5,467)	3,548	(8,059)
Unrealized loss on investments in Servicing Related Assets	(5,111)	(7,914)	(20,501)	22,464
Total Income (Loss)	**9,590**	**(110)**	**(9,611)**	**28,269**
Expenses				
General and administrative expense	1,547	1,936	1,883	1,617
Management fee to affiliate	1,975	1,959	1,949	1,961
Total Expenses	**3,522**	**3,895**	**3,832**	**3,578**
Income (Loss) Before Income Taxes	**6,068**	**(4,005)**	**(13,443)**	**24,691**
Provision for (Benefit from) corporate business taxes	(637)	(215)	(1,830)	3,463
Net Income (Loss)	**6,705**	**(3,790)**	**(11,613)**	**21,228**
Net (income) loss allocated to noncontrolling interests in Operating Partnership	(130)	77	240	(434)
Dividends on preferred stock	2,463	2,462	2,465	2,463
Net Income (Loss) Applicable to Common Stockholders	**$ 4,112**	**$ (6,175)**	**$ (13,838)**	**$ 18,331**
Net Income (Loss) Per Share of Common Stock				
Basic	$ 0.23	$ (0.36)	$ (0.81)	$ 1.07
Diluted	$ 0.23	$ (0.36)	$ (0.81)	$ 1.07
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	17,963,555	17,185,872	17,073,943	17,065,735
Diluted	17,983,769	17,206,086	17,096,124	17,087,959

	2020			
	December 31,	September 30,	June 30,	March 31,
Income				
Interest income	$ 6,367	$ 8,020	$ 9,052	$ 19,402
Interest expense	1,605	1,787	4,942	13,800
Net interest income	4,762	6,233	4,110	5,602
Servicing fee income	14,045	14,365	18,032	19,519
Servicing costs	4,940	5,266	6,594	5,840
Net servicing income	9,105	9,099	11,438	13,679
Other income (loss)				
Realized gain (loss) on RMBS, available-for-sale, net	7,950	6,722	(1,769)	(17,543)
Realized loss on investments in MSRs, net	-	-	(11,347)	-
Realized gain (loss) on derivatives, net	2,653	(3,923)	7,370	(16,077)
Realized gain (loss) on acquired assets, net	(93)	(95)	(548)	46
Unrealized gain (loss) on derivatives, net	(3,266)	3,702	(4,581)	52,200
Unrealized loss on investments in Servicing Related Assets	(10,050)	(20,972)	(17,025)	(93,853)
Total Income (Loss)	**11,061**	**766**	**(12,352)**	**(55,946)**
Expenses				
General and administrative expense	1,392	1,635	1,635	3,079
Management fee to affiliate	1,842	1,989	1,974	1,965
Total Expenses	**3,234**	**3,624**	**3,609**	**5,044**
Income (Loss) Before Income Taxes	**7,827**	**(2,858)**	**(15,961)**	**(60,990)**
Provision for (Benefit from) corporate business taxes	(1,216)	(2,116)	(3,278)	(12,154)
Net Income (Loss)	**9,043**	**(742)**	**(12,683)**	**(48,836)**
Net (income) loss allocated to noncontrolling interests in Operating Partnership	(168)	10	227	910
Dividends on preferred stock	2,463	2,459	2,461	2,459
Net Income (Loss) Applicable to Common Stockholders	**$ 6,412**	**$ (3,191)**	**$ (14,917)**	**$ (50,385)**
Net Income (Loss) Per Share of Common Stock				
Basic	$ 0.38	$ (0.19)	$ (0.88)	$ (3.03)
Diluted	$ 0.38	$ (0.19)	$ (0.88)	$ (3.03)
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	17,054,634	17,054,634	16,882,077	16,611,440
Diluted	17,076,858	17,076,858	16,895,408	16,624,229

Basic and diluted net income (loss) per share of common stock are computed independently based on the weighted average number of shares of common stock outstanding during each period. Accordingly, the sum of the quarterly net income (loss) per share amounts may not agree to the total for the year.

Note 16 — Income Taxes

The Company elected to be taxed as a REIT under Code Sections 856 through 860 beginning with its short taxable year ended December 31, 2013. As a REIT, the Company generally will not be subject to U.S. federal income tax to the extent that it distributes its taxable income to its stockholders. To maintain qualification as a REIT, the Company must distribute at least 90% of its annual REIT taxable income to its stockholders and meet certain other requirements such as assets it may hold, income it may generate and its stockholder composition. It is the Company's policy to distribute all or substantially all of its REIT taxable income. To the extent there is any undistributed REIT taxable income at the end of a year, the Company can elect to distribute such shortfall within the next year as permitted by the Code.

Effective January 1, 2014, CHMI Solutions elected to be taxed as a corporation for U.S. federal income tax purposes; prior to this date, CHMI Solutions was a disregarded entity for U.S. federal income tax purposes. CHMI Solutions has jointly elected with the Company, the ultimate beneficial owner of CHMI Sub-REIT, to be treated as a TRS of the Company, and all activities conducted through CHMI Solutions and its wholly-owned subsidiary, Aurora, are subject to federal and state income taxes. CHMI Solutions files a consolidated tax return with Aurora and is fully taxed as a U.S. C-Corporation.

The state and local tax jurisdictions for which the Company is subject to tax filing obligations recognize the Company's status as a REIT, and therefore, the Company generally does not pay income tax in such jurisdictions. CHMI Solutions and Aurora are subject to U.S. federal, state and local income taxes.

The components of the Company's income tax expense (benefit) are as follows for the periods indicated below (dollars in thousands):

	Year Ended December 31,		
	2021	2020	2019
Current federal income tax benefit	$ (127)	$ -	$ -
Deferred federal income tax expense (benefit)	1,180	(16,783)	(8,403)
Deferred state income tax expense (benefit)	(272)	(1,981)	(1,522)
Provision for (benefit from) Corporate Business Taxes	**$ 781**	**$ (18,764)**	**$ (9,925)**

The following is a reconciliation of the statutory federal rate to the effective rate, for the periods indicated below (dollars in thousands):

	Year Ended December 31,					
	2021		2020		2019	
Computed income tax expense (benefit) at federal rate	$ 2,795	21.0%	$ (15,116)	21.0%	$ (12,724)	21.0%
State tax expense (benefit), net of federal tax, if applicable	120	0.9%	(1,893)	2.6%	(664)	1.1%
Tax provision due to state tax rate change	(413)	(3.1)%	(87)	0.1%	(858)	1.4%
Permanent differences in taxable income from GAAP pre-tax income	185	1.4%	-	-%	-	-%
Provision to return adjustment	(6)	-%	(15)	-%	5	(0.0)%
REIT income not subject to tax (benefit)	(1,900)	(14.3)%	(1,653)	2.4%	4,316	(7.1)%
Provision for (benefit from) Corporate Business Taxes/Effective Tax Rate[(A)]	**$ 781**	**5.9%**	**$ (18,764)**	**26.1%**	**$ (9,925)**	**16.4%**

(A) The provision for income taxes is recorded at the TRS level.

The Company's consolidated balance sheets contain the following income taxes recoverable and deferred tax assets, which are recorded at the TRS level (dollars in thousands):

	Year Ended December 31,		
	2021	2020	2019
Income taxes recoverable			
Federal income taxes recoverable	$ (128)	$ -	$ -
Income taxes recoverable	$ (128)	$ -	$ -

	Year Ended December 31,		
	2021	2020	2019
Deferred tax assets			
Deferred tax - mortgage servicing rights	$ (10,539)	$ (15,176)	$ (995)
Deferred tax - net operating loss	(10,075)	(6,347)	(1,763)
Total net deferred tax assets	$ (20,614)	$ (21,523)	$ (2,758)

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. The Company's net operating losses ("NOLs") were created subsequent to 2017 and can be carried forward indefinitely pursuant to the Tax Cuts and Jobs Act passed on December 22, 2017 ("2017 Tax Act"). As of December 31, 2021, the Company believes it is more likely than not that it will fully realize its deferred tax assets. Deferred tax assets are included in "Receivables and other assets" in the consolidated balance sheets.

Based on the Company's evaluation, the Company has concluded that there are no significant liabilities for unrecognized tax benefits required to be reported in the Company's consolidated financial statements. Additionally, there were no amounts accrued for penalties or interest as of or during the periods presented in these consolidated financial statements.

The Company's 2020, 2019 and 2018 federal, state and local income tax returns remain open for examination by the relevant authorities.

Distributions to stockholders generally will be primarily taxable as ordinary income, although a portion of such distributions may be designated as qualified dividend income or may constitute a return of capital. The Company furnishes annually to each stockholder a statement setting forth distributions paid during the preceding year and their U.S. federal income tax treatment.

Common Stock distributions were taxable as follows:

	Year Ended December 31,					
	2021		2020		2019	
Dividends per share	$ 1.08	(A)	$ 1.34	(B)	$ 1.93	(C)
Ordinary income	-	%	20	%	85	%
Long-term capital gain	-	%	-	%	-	%
Return of capital	100	%	80	%	15	%

(A) The entire $0.27 per share dividend declared in December 2021 and paid in January 2022 is treated as received by stockholders in 2022
(B) The entire $0.27 per share dividend declared in December 2020 and paid in January 2021 is treated as received by stockholders in 2021
(C) The entire $0.40 per share dividend declared in December 2019 and paid in January 2020 is treated as received by stockholders in 2020

Series A Preferred Stock distributions were as follows:

	Year Ended December 31,					
	2021		2020		2019	
Dividends per share	$ 2.05	(A)	$ 2.05	(B)	$ 1.54	(C)
Ordinary income	10	%	100	%	100	%
Long-term capital gain	-	%	-	%	-	%
Return of capital	90	%	-	%	-	%

(A) The entire $0.51 per share dividend declared in December 2021 and paid in January 2022 is treated as received by stockholders in 2022
(B) The entire $0.51 per share dividend declared in December 2020 and paid in January 2021 is treated as received by stockholders in 2021
(C) The entire $0.51 per share dividend declared in December 2019 and paid in January 2020 is treated as received by stockholders in 2020

Series B Preferred Stock distributions were as follows:

	Year Ended December 31,					
	2021		2020		2019	
Dividends per share	$ 2.06	(A)	2.06	(B)	1.40	(C)
Ordinary income	10	%	100	%	100	%
Long-term capital gain	-	%	-	%	-	%
Return of capital	90	%	-	%	-	%

(A) The entire $0.52 per share dividend declared in December 2021 and paid in January 2022 is treated as received by stockholders in 2022
(B) The entire $0.52 per share dividend declared in December 2020 and paid in January 2021 is treated as received by stockholders in 2021
(C) The entire $0.52 per share dividend declared in December 2019 and paid in January 2020 is treated as received by stockholders in 2020

Note 17 — Subsequent Events

Events subsequent to December 31, 2021 were evaluated and no additional events were identified requiring further disclosure in the consolidated financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. The Company’s President and Chief Executive Officer and the Company’s Chief Financial Officer have evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. The Company’s disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company’s President and Chief Executive Officer and the Company’s Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting. There have been no changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers and effected by the Company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- 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.

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 the 2013 Internal Control-Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2021.

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

Ernst & Young LLP, an independent registered public accounting firm, has audited the financial statements included in this Annual Report on Form 10-K and issued its report on the effectiveness of our internal control over financial reporting as of December 31, 2021, which is included herein.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Cherry Hill Mortgage Investment Corporation

Opinion on Internal Control Over Financial Reporting

We have audited Cherry Hill Mortgage Investment Corporation and subsidiaries' internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Cherry Hill Mortgage Investment Corporation and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of income (loss), comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and our report dated March 15, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (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.

/s/ Ernst & Young LLP

New York, New York
March 15, 2022

Item 9B. Other Information

None

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to the Company’s Definitive Proxy Statement on Schedule 14A relating to its annual meeting of stockholders (the “Proxy Statement”), to be filed with the SEC within 120 days after December 31, 2021.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2021.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 403 of Regulation S-K is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2021.

The information required by Item 201(d) of Regulation S-K is included in Item 5 of Part II of this Annual Report on Form 10-K and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2021.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2021.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Documents filed as part of the report

The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements.

The consolidated financial statements of the Company, together with the independent registered public accounting firm's report thereon, are set forth in this Annual Report on Form 10-K and are incorporated herein by reference. See "Item 8. Consolidated Financial Statements and Supplementary Data," filed herewith, for a list of financial statements.

2. Financial Statement Schedule.

All financial statement schedules have been omitted because the required information is not applicable or deemed not material, or the required information is presented in the consolidated financial statements and/or in the notes to the consolidated financial statements filed in response to Item 8 of this Annual Report on Form 10-K.

3. Exhibits.

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of Cherry Hill Mortgage Investment Corporation (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Company's Registration Statement on Form S-11 (Registration No. 333-188214) filed with the SEC on June 10, 2013).
3.2	Amended and Restated Bylaws of Cherry Hill Mortgage Investment Corporation (incorporated by reference to Exhibit 3.2 to Amendment No. 2 to the Company's Registration Statement on Form S-11 (Registration No. 333-188214) filed with the SEC on June 10, 2013).
3.3	Articles Supplementary designating the Company's 8.20% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form 8-A (File No. 001-36099) filed with the SEC on August 16, 2017).
3.4	Articles Supplementary classifying and designating 1,270,000 additional shares of the Company's 8.20% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-36099) filed with the SEC on April 5, 2018).
3.5	Articles Supplementary designating the Company's 8.250% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form 8-A (File No. 001-36099) filed with the SEC on February 8, 2019).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Company's Registration Statement on Form S-11 (Registration No. 333-188214) filed with the SEC on May 29, 2013).
4.2	Description of Registrant's Securities (incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K (File No. 001-36099) filed with the SEC on February 27, 2020).

10.4	Amended and Restated Management Agreement, entered into as of September 24, 2013, by and among Cherry Hill Mortgage Investment Corporation and its consolidated subsidiaries and Cherry Hill Mortgage Management, LLC (incorporated by reference to Exhibit 10.5 to Amendment No. 4 to the Company's Registration Statement on Form S-11 (Registration No. 333-188214) filed with the SEC on September 26, 2013).
10.5	Amendment No. 1, entered into as of October 22, 2015, to Amended and Restated Management Agreement, entered into as of September 24, 2013, by and among Cherry Hill Mortgage Investment Corporation and its consolidated subsidiaries and Cherry Hill Mortgage Management, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-36099) filed with the SEC on October 23, 2015).
10.7+	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.6 to Amendment No. 1 to the Company's Registration Statement on Form S-11 (Registration No. 333-188214) filed with the SEC on May 29, 2013).
10.8+	Cherry Hill Mortgage Investment Corporation 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 to Amendment No. 2 to the Company's Registration Statement on Form S-11 (Registration No. 333-188214) filed with the SEC on June 10, 2013).
10.9	Agreement of Limited Partnership of Cherry Hill Operating Partnership, LP, dated as of April 25, 2013 (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to the Company's Registration Statement on Form S-11 (Registration No. 333-188214) filed with the SEC on May 29, 2013).
10.10	First Amendment to Agreement of Limited Partnership of Cherry Hill Operating Partnership, LP, dated August 16, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-36099) filed with the SEC on August 16, 2017).
10.11	Second Amendment to Agreement of Limited Partnership of Cherry Hill Operating Partnership, LP, dated April 5, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-36099) filed with the SEC on April 5, 2018).
10.12	Third Amendment to Agreement of Limited Partnership of Cherry Hill Operating Partnership, LP, dated February 8, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-36099) filed with the SEC on February 8, 2019).
10.13+	Form of LTIP Unit Vesting Agreement (incorporated by reference to Exhibit 10.9 to Amendment No. 2 to the Company's Registration Statement on Form S-11 (Registration No. 333-188214) filed with the SEC on June 10, 2013).
10.14+	Form of Unrestricted Non-Employee Director Stock Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-36099) filed with the SEC on January 27, 2014).
10.15+	Form of Restricted Non-Employee Director Stock Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-36099) filed with the SEC on January 27, 2014).
21.1*	Subsidiaries of Cherry Hill Mortgage Investment Corporation.
23.1*	Consent of Ernst & Young LLP.
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.

31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99.1	Services Agreement, dated May 1, 2013, between Cherry Hill Mortgage Management, LLC and Freedom Mortgage Corporation (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to the Company's Registration Statement on Form S-11 (Registration No. 333-188214) filed with the SEC on May 29,2013.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	Inline XBRL Taxonomy Definition Linkbase
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase
104*	Cover Page Interactive Data File - cover page XBRL tags are embedded within the Inline XBRL document

* Filed herewith.

\+ This document has been identified as a management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

None.

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.

Cherry Hill Mortgage Investment Corporation

Date: March 15, 2022	By:	/s/ Jeffrey Lown II
		Jeffrey Lown II President and Chief Executive Officer and Director (Principal Executive 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.

Date: March 15, 2022	By:	/s/ Jeffrey Lown II Jeffrey Lown II President and Chief Executive Officer and Director (Principal Executive Officer)
Date: March 15, 2022	By:	/s/ Michael Hutchby Michael Hutchby Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)
Date: March 15, 2022	By:	/s/ Joseph Murin Joseph Murin Director
Date: March 15, 2022	By:	/s/ Regina M. Lowrie Regina M. Lowrie Director
Date: March 15, 2022	By:	/s/ Robert C. Mercer, Jr. Robert C. Mercer, Jr. Director

Exhibit 21.1

Subsidiaries of the Registrant

Subsidiary	Jurisdiction of Formation
Cherry Hill Operating Partnership, LP	Delaware
CHMI-Sub REIT, Inc.	Maryland
Cherry Hill QRS I, LLC	Delaware
Cherry Hill QRS II, LLC	Delaware
Cherry Hill QRS III, LLC	Delaware
Cherry Hill QRS IV, LLC	Delaware
Cherry Hill QRS V, LLC	Delaware
CHMI Solutions, Inc.	Delaware
Aurora Financial Group Inc.	New Jersey

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- Registration Statement (Form S-3 No. 333-251078) of Cherry Hill Mortgage Investment Corporation,
- Registration Statement (Form S-8 No. 333-191600) pertaining to the 2013 Equity Incentive Plan of Cherry Hill Mortgage Investment Corporation;

of our reports dated March 15, 2022, with respect to the consolidated financial statements of Cherry Hill Mortgage Investment Corporation and the effectiveness of internal control over financial reporting of Cherry Hill Mortgage Investment Corporation included in this Annual Report (Form 10-K) of Cherry Hill Mortgage Investment Corporation for the year ended December 31, 2021.

/s/ Ernst & Young LLP
New York, New York
March 15, 2022

Exhibit 31.1

CERTIFICATIONS

I, Jeffrey Lown, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cherry Hill Mortgage Investment Corporation (the ''Registrant'');

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

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

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

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 15, 2022

By: /s/ Jeffrey Lown II

Name: Jeffrey Lown II
Title: President and Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Michael Hutchby, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cherry Hill Mortgage Investment Corporation (the ‘‘Registrant’’);

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

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

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

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

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

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: March 15, 2022

By: /s/ Michael Hutchby

Name: Michael Hutchby
Title: Chief Financial Officer, Secretary and Treasurer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the annual report on Form 10-K of Cherry Hill Mortgage Investment Corporation (the ‘‘Company’’) for the year ended December 31, 2021 to be filed with Securities and Exchange Commission on or about the date hereof (the ‘‘report’’), I, Jeffrey Lown II, President, Chief Executive Officer and Director of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

Date: March 15, 2022

By: /s/ Jeffrey Lown II
Name: Jeffrey Lown II
Title: President and Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the annual report on Form 10-K of Cherry Hill Mortgage Investment Corporation (the ‘‘Company’’) for the year ended December 31, 2021 to be filed with Securities and Exchange Commission on or about the date hereof (the ‘‘report’’), I, Michael Hutchby, Chief Financial Officer, Secretary and Treasurer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

Date: March 15, 2022

By: /s/ Michael Hutchby
Name: Michael Hutchby
Title: Chief Financial Officer, Secretary and Treasurer
(Principal Financial Officer)