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**United States**  
**Securities and Exchange Commission**  
Washington, D.C. 20549

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**Amendment No. 1**  
**to**  
**Form S-11**  
**FOR REGISTRATION**

*UNDER*  
*THE SECURITIES ACT OF 1933*  
*OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES*

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**Cherry Hill Mortgage Investment Corporation**  
(Exact Name of Registrant as Specified in Its Governing Instruments)

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Cherry Hill Mortgage Investment Corporation  
301 Harper Drive, Suite 110  
Moorestown, NJ 08057  
877.870.7005

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the registration statement becomes effective.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of this prospectus is expected to be made pursuant to Rule 434, check the following box.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting Company

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The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), shall determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated May 28, 2013

PRELIMINARY PROSPECTUS



**Common Stock**

Cherry Hill Mortgage Investment Corporation is a newly formed residential real estate finance company that will acquire, invest in and manage a portfolio of excess mortgage servicing rights, agency residential mortgage backed securities, prime jumbo mortgage loans and other residential mortgage assets. We will be managed by Cherry Hill Mortgage Management, LLC, or our Manager, an affiliate of Freedom Mortgage Corporation, or Freedom Mortgage, a privately held, independent mortgage company that originates and services mortgage loans nationwide.

This is our initial public offering of our common stock and no public market currently exists for our common stock. The initial public offering price per share of our common stock will be \$20.00 per share. All of the shares to be sold in this offering are being sold by Cherry Hill Mortgage Investment Corporation. We have applied to list our common stock on the New York Stock Exchange, or NYSE, under the symbol "CHMI."

Stanley Middleman, our Chairman and the founder of Freedom Mortgage, will purchase directly from us in a concurrent private placement \$20.0 million in shares of our common stock, at the public offering price. Mr. Middleman will not pay a placement fee.

We will elect and intend to qualify to be taxed as a real estate investment trust for U.S. federal income tax purposes, or a REIT. To assist us in qualifying as a REIT, among other purposes, our charter generally limits beneficial and constructive ownership of our shares by any person to no 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. In addition, our charter contains various other restrictions on the ownership and transfer shares of our common stock. See "Description of Common Stock—Restrictions on Ownership and Transfer."

We are an "emerging growth company" under the federal securities laws, and as such we have elected to comply with certain reduced public company reporting requirements in this prospectus and in future filings.

**Investing in our common stock involves risk. See "[Risk Factors](#)" beginning on page 26.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

	Per Share	Total
Public offering price	\$	\$
Underwriting discount(1)	\$	\$
Proceeds, before expenses, to us(2)	\$	\$

(1) Our Manager has agreed to pay the entire underwriting discount payable with respect to the shares of common stock sold in this offering. Our Manager will also pay certain of the underwriters a structuring fee equal to \$ ( % of the gross proceeds of this offering to us). See "Underwriting."

(2) See "Underwriting" for a detailed description of the compensation payable to the underwriters.

We have granted the underwriters the right to purchase up to an additional shares of our common stock from us at the initial public offering price within 30 days after the date of this prospectus to cover over-allotments of shares. The underwriters expect to deliver the shares of common stock to investors on or about , 2013. Our Manager has agreed to pay the entire underwriting discount and structuring fee with respect to any shares issued in connection with the over-allotment option.

Barclays

Morgan Stanley

Citigroup

UBS Investment Bank

The date of this prospectus is , 2013.

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You should rely only on the information contained in this prospectus or in any free writing prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any free writing prospectus prepared by us is accurate only as of their respective dates or on the date or dates which are specified in these documents. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

Until \_\_\_\_\_, 2013 (25 days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

## GLOSSARY

This glossary defines some of the terms that we use elsewhere in this prospectus and is not a complete list of all of the defined terms used herein.

“**Agency**” means a U.S. Government agency, such as Ginnie Mae, or a federally chartered corporation, such as Fannie Mae or Freddie Mac, that guarantees payments of principal and interest on MBS.

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

“**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 structured instruments representing interests in specified mortgage loan collateral. CMO securitizations consist of multiple classes, or tranches, of securities, with each tranche having specified characteristics, based on the rules described in the securitization documents governing the division of the monthly principal and interest distributions, including prepayments, from the underlying mortgage collateral among the various tranches.

“**conforming loan**” means a residential mortgage loan that conforms to the Agency underwriting guidelines and meets the funding criteria of Fannie Mae and Freddie Mac.

“**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. An MSR is made up of two components: a basic servicing fee and an excess servicing fee. The basic servicing fee is the amount of compensation for the performance of servicing duties, and the Excess MSR is the amount that exceeds the basic servicing fee.

“**Fannie Mae**” means the Federal National Mortgage Association.

“**FDIC**” means the Federal Deposit Insurance Corporation.

“**FHA**” means the Federal Housing Administration.

“**FHFA**” means the U.S. Federal Housing Finance Agency.

“**FHA/VA mortgage loan**” means a mortgage loan made to a borrower that is insured by FHA or guaranteed by VA.

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

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

“**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.

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“**HAMP**” means the Home Affordable Modification Program.

“**HARP**” means the Home Affordable Refinance Program.

“**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.

“**jumbo mortgage loan**” means a residential mortgage loan with an original principal balance in excess of the statutory conforming limit for GSE mortgage loans.

“**MBS**” means mortgage-backed securities.

“**MSR**” means a mortgage servicing right. An MSR is the right to service a mortgage loan or a pool of mortgage loans. 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.

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

“**non-Agency RMBS**” means RMBS that are not issued or guaranteed by an Agency, including investment grade (AAA through BBB rated) and non-investment grade (BB rated through unrated) classes.

“**prime jumbo mortgage loan**” means a mortgage loan that generally conforms to GSE underwriting guidelines, except that the mortgage balance exceeds the statutory conforming limit for a GSE mortgage loan.

“**REMIC**” means a real estate mortgage investment conduit.

“**residential mortgage pass-through certificate**” is a security 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 mortgage-backed security.

“**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 Agency RMBS. Stripped securities include IOs and inverse IOs, each of which we may invest in subject to qualifying as a REIT.

“**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

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of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date.

“**UPB**” means unpaid principal balance.

“**U.S. Treasury**” means the U.S. Department of Treasury.

“**VA**” means the Department of Veterans Affairs.

“**whole loan**” is a direct investment in a whole residential mortgage loan as opposed to an investment in RMBS, CMO or other structured product that is backed by such a loan.

## SUMMARY

*This summary highlights some of the information in this prospectus. It does not contain all of the information that you should consider before investing in our common stock. You should read carefully the more detailed information set forth under “Risk Factors” and the other information included in this prospectus. Except where the context suggests otherwise, the terms “company,” “we,” “us,” and “our” refer to Cherry Hill Mortgage Investment Corporation, a Maryland corporation, and its subsidiaries, “our operating partnership” refers to Cherry Hill Operating Partnership, LP, a Delaware limited partnership, and “our Manager” refers to Cherry Hill Mortgage Management, LLC, our external manager. Unless indicated otherwise, the information in this prospectus assumes: (i) Stanley Middleman, our Chairman and the founder of Freedom Mortgage Corporation, purchases directly from us \$20.0 million in shares of our common stock in the concurrent private placement, at a price per share equal to the public offering price, without the payment of a placement fee or any underwriting discount or commission on those shares; and (ii) no exercise by the underwriters of their over-allotment option, as described on the cover page of this prospectus. We consider Mr. Middleman to be our promoter.*

### **Our Company**

Cherry Hill Mortgage Investment Corporation is a newly formed residential real estate finance company that will acquire, invest in and manage residential mortgage assets in the United States. We will be externally managed and advised by Cherry Hill Mortgage Management, LLC, or our Manager, an affiliate of Freedom Mortgage Corporation, or Freedom Mortgage. 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 intend to attain this objective by selectively constructing and actively managing a targeted portfolio of Excess MSR, Agency RMBS, prime jumbo mortgage loans and other stable and cashflowing residential mortgage assets. We will have a strategic alliance with Freedom Mortgage that we believe will provide us with frequent opportunities to acquire Excess MSRs. We will elect and intend to qualify to be taxed as a REIT beginning with our short taxable year ending December 31, 2013.

Our asset acquisition strategy will focus on acquiring a diversified portfolio of residential mortgage assets that balances the risk and reward opportunities our Manager observes in the marketplace. We expect to allocate a majority of our equity capital over time, on an unleveraged basis, to the acquisition of Excess MSRs, including through our acquisition, upon completion of this offering and the concurrent private placement, of an 85% participation interest in a portfolio of Excess MSRs related to a pool of mortgage loans originated by Freedom Mortgage after January 1, 2011 and pooled into Ginnie Mae-guaranteed Agency RMBS. We expect the initial pool to have an aggregate outstanding UPB of approximately \$7.8 billion as of the closing of this offering. We also intend to acquire Agency RMBS on a leveraged basis as part of our initial portfolio and our longer term strategy and, as the market for prime jumbo loans grows, we expect our portfolio to include this asset class as well. In addition, we may also invest opportunistically from time to time in other residential mortgage assets.

Freedom Mortgage, an affiliate of our Manager, is a privately held independent mortgage company founded in 1990 that originates and services mortgage loans nationwide. Freedom Mortgage is licensed to originate and service mortgage loans in all 50 states and the District of Columbia and has been a Fannie Mae-approved seller/servicer since April 1993 and a Ginnie Mae-approved issuer since September 1999. Freedom Mortgage was ranked the third largest single-family Ginnie Mae RMBS issuer for each of January 2013, February 2013 and March 2013 and ranked in the top 12 in this category for every month since January 2012. For the year ended December 31, 2012 and for the three month-period ended on March 31, 2013, Freedom Mortgage originated over \$13 billion and \$5 billion, respectively, of mortgage loans predominantly underwritten to Agency underwriting guidelines. Freedom Mortgage typically retains the MSRs on the mortgage loans it originates and is the primary servicer of mortgage loans with an outstanding UPB of approximately \$23.1 billion as of March 31, 2013.

Stanley Middleman, the founder, Chairman and Chief Executive Officer of Freedom Mortgage, serves as our Chairman. Our senior management team will be led by Jeffrey Lown II, our President and Chief Investment Officer and a nominee to our board of directors, and Martin J. Levine, our Chief Financial Officer, Secretary and Treasurer. Mr. Lown and Mr. Levine also serve as officers of our Manager and of Freedom Mortgage. Each member of our senior management team has more than 20 years of experience in the financial services industry, with a majority of that experience concentrated in the residential mortgage markets.

Our relationship with Freedom Mortgage provides us with access to Freedom Mortgage's leading origination and servicing platform and access to a predictable and proprietary source of Excess MSR acquisition opportunities, as well as other investment opportunities with respect to some of our other target assets. We believe our access to Freedom Mortgage and the deep network of relationships that our senior management team has established with other large originators, servicers and other participants in the residential mortgage industry provides us with access to an ongoing source of Excess MSRs and other asset acquisition and financing opportunities. As a result, we believe we can selectively construct and fund a diversified portfolio of high quality residential mortgage assets that generate attractive current yields and risk-adjusted total returns for our stockholders over the long-term under a variety of market conditions and economic cycles.

In addition to growth through new originations, Freedom Mortgage has made a substantial capital investment in customer retention, primarily through its retail production channel, which has allowed it to engage in significant levels of recapture originations—originations in which Freedom Mortgage refinances existing customers into new loans and also retains the servicing rights on these new loans post-refinancing. For the period from January 1, 2011 to March 31, 2013, Freedom Mortgage's monthly weighted average recapture rate with respect to FHA/VA mortgage loans in its servicing portfolio was 77%. In other words, approximately three out of every four Freedom Mortgage loans that were refinanced during that period, were refinanced by Freedom Mortgage. Since voluntary prepayments eliminate the MSRs, including the Excess MSRs, on the mortgage loans that have prepaid, recapture originations allow Freedom Mortgage to extend the longevity of the servicing fees paid on its MSRs and thereby replenish the MSRs and the related Excess MSRs on prepaid mortgage loans. By entering into recapture agreements with Freedom Mortgage, we will benefit from Freedom Mortgage's ability to obtain recapture originations. This will allow us to mitigate the impact of voluntary prepayments on the Excess MSRs we plan to acquire from Freedom Mortgage.

Upon completion of this offering and the concurrent private placement, we will enter into an Excess MSR acquisition and recapture agreement with Freedom Mortgage, pursuant to which we will acquire from Freedom Mortgage an 85% participation interest in the Excess MSRs, or our Initial Excess MSRs, related to a pool of Ginnie Mae-eligible (FHA/VA) mortgage loans originated by Freedom Mortgage after January 1, 2011. We expect the pool to which our Initial Excess MSRs relate, or the Initial Pool, to have an aggregate outstanding UPB of approximately \$7.8 billion as of the closing of this offering. The purchase price for our Initial Excess MSRs is approximately \$40.5 million and will be funded with a portion of the net proceeds of this offering and the concurrent private placement. Freedom Mortgage will continue to own the MSRs on, and will be the primary servicer of, the mortgage loans in the Initial Pool. Freedom Mortgage will also retain the remaining 15% participation interest in the Excess MSRs related to the Initial Pool. We will not have any servicing duties or advance obligations associated with the mortgage loans in the Initial Pool.

We expect the weighted average servicing fee on the Initial Pool to be 28 basis points. As the loan servicer, Freedom Mortgage will be paid a basic servicing fee of eight basis points on current mortgage loans and will be entitled to receive ancillary income from its servicing activities. Accordingly, we expect the weighted average excess servicing fee on the Initial Pool will be 20 basis points, of which we will be entitled to receive 17 basis points based on our 85% participation interest. We expect our unleveraged investment in our Initial Excess MSRs to generate positive earnings immediately following the closing of this offering. For a description of the representative characteristics of the mortgage loans expected to comprise the Initial Pool, see “—Our Portfolio—Our Initial Excess MSRs.”



In connection with our investment in our Initial Excess MSR, Freedom Mortgage will agree to certain restrictions on its ability to sell, transfer or otherwise encumber the MSR related to our Initial Excess MSR or its participation interest in those Excess MSRs. To the extent the mortgage loans in the Initial Pool are refinanced by Freedom Mortgage, Freedom Mortgage will also agree to replace our 85% participation interest in the Excess MSR on the mortgage loans in the Initial Pool that have been refinanced through its retail channel and will agree to certain other arrangements designed to replace our excess servicing fee revenues on an ongoing basis.

In addition to our investment in our Initial Excess MSR, we expect to source and acquire a substantial portion of our Excess MSR in partnership with Freedom Mortgage in the future and anticipate entering into additional acquisition and recapture agreements with Freedom Mortgage. Initially, the Excess MSR we intend to acquire from Freedom Mortgage will relate primarily to FHA/VA mortgage loans that have been pooled and sold into Ginnie Mae-guaranteed Agency RMBS, but we may also acquire Excess MSR that relate to other Agency-backed mortgage loans. We do not intend to acquire Excess MSR that relate to lower credit quality pools.

In connection with the completion of this offering, we will enter into a strategic alliance agreement with Freedom Mortgage and a flow and bulk Excess MSR purchase agreement, which we collectively refer to as our strategic alliance agreements. Under our strategic alliance agreements:

- Freedom Mortgage will be obligated in good faith to offer us, on a monthly flow basis, the right to co-invest at least 65% but not more than 85% in the Excess MSR related to Freedom Mortgage's MSR on mortgage loans pooled and sold by Freedom Mortgage on a servicing retained basis during the previous month; and
- Freedom Mortgage will be obligated in good faith to offer us the right to co-invest at least 40% but not more than 85% in the Excess MSR related to any MSR on mortgage loans Freedom Mortgage acquires through a bulk purchase from a third-party servicer.

Under our strategic alliance agreements, the amount of each co-investment in Excess MSR offered to us by Freedom Mortgage and the recapture terms related to the pool of loans underlying each co-investment in Excess MSR will be determined by us and Freedom Mortgage at the time our co-investment is made based on policies and procedures approved by our independent directors. We will not be obligated to purchase any Excess MSR offered to us by Freedom Mortgage pursuant to our strategic alliance agreements or otherwise. We believe our strategic alliance agreements provide us with a competitive advantage in that we will be able to source, acquire and construct a sizeable portfolio of income-generating Excess MSR without reliance on a competitive bidding process and which, with respect to Excess MSR generated from Freedom Mortgage originated loans, will benefit from Freedom Mortgage's recapture capabilities. We also intend to enter into agreements with other servicers from time to time for the acquisition of Excess MSR on a flow or bulk basis if our Manager identifies attractive acquisition opportunities that satisfy our investment criteria. We may choose to enter into such agreements in conjunction with Freedom Mortgage or independently.

See "Business—Our Company" for additional information regarding the terms of the purchase of our Initial Excess MSR and our strategic alliance agreements with Freedom Mortgage.

### **Our Market Opportunity**

We believe that the U.S. mortgage finance system is undergoing historic change. Significant increases in regulation and public policy are influencing which investors will have the inclination and the financial ability to hold residential mortgage assets. We believe that capital from non-bank servicers and investors in mortgage servicing assets will represent an increasing share of ownership of servicing assets in the years to come. We also believe that as banks pull back from the mortgage finance business, non-bank originators such as Freedom Mortgage are poised to continue to increase production and capture market share. Non-bank mortgage originators

will require efficient funding for MSR production. In addition, we believe that investors will continue to seek incremental spreads relative to U.S. Treasury Notes in a low yield environment and that mortgages represent an attractive total return investment opportunity.

We intend to capitalize on this opportunity by creating a tax-efficient entity through which public investors will be able to invest primarily in Excess MSRs, Agency RMBS and, over time, prime jumbo mortgage loans, as well as other residential mortgage assets depending on how market conditions evolve. We expect to benefit from Freedom Mortgage's origination and servicing abilities, operating and financial expertise and ability to engage in recapture originations by co-investing with Freedom Mortgage in Excess MSRs that we expect to generate attractive and consistent risk-adjusted returns for investors.

#### ***Excess MSRs***

Over the past two years, MSRs related to over \$750 billion, of the approximately \$10 trillion UPB of residential mortgages were sold or transferred. We believe that there are a number of factors in the current mortgage finance market that make servicing an increasingly unattractive asset class to banks, including higher operational requirements as well as a limit upon MSRs as part of bank regulatory capital. We expect these factors will continue to drive a shift in servicing from banks to independent mortgage companies through increases in market share of originations and the purchase of additional servicing assets. We further believe this will result in an increasing volume of MSR sales for some period of time. We believe that MSRs on more than \$2 trillion of UPB of mortgage loans could be sold over the next several years.

We expect that non-bank servicers such as Freedom Mortgage will need companies such as ours to co-invest in the Excess MSR portion of these investments. We therefore believe there are market opportunities for us to provide liquidity to Freedom Mortgage and other non-bank servicers that may seek to finance their MSRs by selling an interest in Excess MSRs. In addition to our Initial Excess MSRs, we expect to acquire additional Excess MSRs through (i) co-investments with Freedom Mortgage in Excess MSRs related to MSRs on mortgage loans pooled and sold by Freedom Mortgage on a servicing retained basis, (ii) co-investments with Freedom Mortgage in Excess MSRs related to MSRs that have been acquired by Freedom Mortgage in bulk purchases primarily from large bank originators and servicers and (iii) co-investments with other third-party servicers in Excess MSRs on a flow or bulk basis. In the future, subject to the receipt of appropriate licensing and Agency approvals, we may pursue flow and bulk acquisitions of MSRs through our wholly-owned taxable REIT subsidiary, or TRS.

We believe investing in Excess MSRs on an unleveraged basis could provide us with attractive risk-adjusted returns. We also believe our relationship with Freedom Mortgage will allow us to mitigate the negative impact of voluntary prepayments on Excess MSRs related to Freedom Mortgage-originated loans through Freedom Mortgage's ability to engage in recapture originations. In addition, we intend to try to structure similar types of recapture agreements with other servicers to the extent we enter into Excess MSR acquisition agreements with them.

#### ***Agency RMBS***

We believe that the Agency RMBS market presents opportunities for earning attractive risk-adjusted returns due to several factors, including attractive financing spreads and a steady demand for Agency RMBS. The spread between the cost of funding for, and the yield on, Agency RMBS assets continues to create attractive investment opportunities in this asset class. On December 12, 2012, the Federal Open Market Committee released a statement indicating that it would maintain the target range for the federal funds rate at 0% to 0.25% and that it continues to anticipate that economic conditions, including low rates of resource utilization and a subdued outlook for inflation over the medium term, are likely to warrant exceptionally low levels for the federal funds

rate at least through late 2014. Furthermore, although U.S. Government intervention such as Operation Twist in late 2011, the extension of the program in the summer of 2012 and the third round of quantitative easing, or QE3, announced in September 2012 suggest lower Agency RMBS spreads, we believe our Agency RMBS acquisition strategy targets pools that will continue to display attractive spread characteristics due to the lower inherent prepayment characteristics of those pools. As a result, we expect favorable Agency RMBS return dynamics on our target assets to continue for the foreseeable future.

In addition, investors continue to seek incremental spreads relative to U.S. Treasury Notes in a low yield environment, and financial institutions continue to prefer high quality, liquid Agency RMBS. Though recent economic data suggests an improvement in U.S. economic growth, we believe that there is still uncertainty primarily because of high unemployment, low levels of capacity utilization, the shadow inventory of real estate owned, or REO, assets, stagnant home prices in most markets and continued stress in the housing and construction markets, which all point to a muted recovery. As a result, we expect these factors should keep the yield curve relatively steep and promote continued demand for Agency RMBS.

#### ***Prime Jumbo Mortgage Loans***

Currently, the primary residential mortgage market is being supported by the U.S. Government's deep involvement through its conservatorship with Fannie Mae and Freddie Mac, and an indirect subsidization of the FHA. The housing finance reform report issued by the U.S. Treasury and HUD in February 2011 indicates an intent to reduce the U.S. Government's role in the residential mortgage market from current levels. The options outlined in the report all share a common objective of significantly increasing the role of private sector capital in bearing credit risk in the residential mortgage market. The October 2011 proposal by the Obama administration to have Fannie Mae and Freddie Mac sell tranches of RMBS that would not carry such entities' guaranty is another example of this trend. In addition, one of HUD's key budgetary principles for 2013 is to bring private capital back into the mortgage market. It is not yet possible to determine whether or when any of such proposals may be enacted, what form any final legislation or policies might take and how proposals, legislation or policies emanating from this report may impact our business, operations and financial condition.

We expect this process of privatizing mortgage credit risk will create investment opportunities consistent with our investment objectives. We believe our senior management team's capabilities in evaluating, acquiring and managing the risk associated with residential mortgage whole loans will provide us with an important advantage as this new market opportunity evolves and opportunities to acquire prime jumbo mortgage loans present themselves. We expect to take advantage of the network of relationships of our senior management team in the residential mortgage industry to identify opportunities for us to acquire prime jumbo mortgage loans. In the future, we expect to enter into a sourcing agreement with Freedom Mortgage in order to obtain access to a pipeline of prime jumbo mortgage loans originated by Freedom Mortgage and through which we can further diversify our portfolio of residential mortgage assets, grow our business and increase value for our stockholders.

#### **Our Manager and Freedom Mortgage**

##### ***Our Manager***

We will be externally managed by Cherry Hill Mortgage Management, LLC, a newly organized Delaware limited liability company formed in November 2012 and an affiliate of Freedom Mortgage. We have entered into a management agreement with our Manager, pursuant to which our Manager has agreed to conduct our day-to-day operations. As an externally managed company, we will depend on the diligence, experience and skill of our Manager for the selection, acquisition, structuring, interest rate risk mitigation and monitoring of our target assets and associated borrowings. The management agreement requires our Manager to manage our business affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of

directors. Pursuant to the terms of our management agreement, our Manager provides us with our senior management team, including a President and Chief Investment Officer, a Chief Financial Officer and a Senior Portfolio Manager. Our Manager and Freedom Mortgage are parties to a services agreement. We do not have any employees whom we compensate directly with salaries or other compensation; however, we expect to reimburse our Manager for the costs of wages, salaries and benefits incurred by our Manager with respect to certain of our officers to the extent they are dedicated to us. See “Our Manager and the Management Agreement” for a discussion of our management agreement and the services agreement.

The members of our senior management team also serve as officers of our Manager. This senior management team has substantial experience in the financial services industry, with a particular focus on the residential mortgage markets. Mr. Middleman, our Chairman, is the sole member of our Manager and the sole stockholder, sole director and chief executive officer of Freedom Mortgage. Mr. Middleman founded Freedom Mortgage in 1990 and has over 27 years of mortgage industry expertise. His business vision, asset management approach and marketing strategy have resulted in Freedom Mortgage’s growth from a regionally-based mortgage business to a leading national private mortgage origination and servicing business. In addition to Mr. Middleman, the members of our and our Manager’s team that are responsible for implementing our asset acquisition and financing strategies include: Mr. Lown, our President and Chief Investment Officer, who has over 20 years of combined experience in the financial services industry and the residential mortgage markets; Mr. Levine, our Chief Financial Officer, Secretary and Treasurer, who has over 30 years of combined experience in the financial services industry and the residential mortgage markets; and Julian Evans, our Senior Portfolio Manager, who has more than 14 years of combined experience in the financial services industry and the residential mortgage markets.

Prior to joining Freedom Mortgage in 2012, Mr. Lown built an extensive career in the residential mortgage sector where he held senior roles in mortgage trading, banking and risk management at UBS Securities LLC and Citigroup, including management of a mortgage origination business at UBS Securities LLC from 2006 to 2008. In addition, Mr. Lown has served as a senior advisor to the Office of Thrift Supervision. Mr. Levine joined Freedom Mortgage in 2012 as an Executive Vice President in charge of servicing oversight and financial reporting. Over the past 20 years, Mr. Levine has held various senior executive positions for both privately held and publicly traded residential and commercial real estate-related investment companies. Mr. Levine is a member of the American Institute of Certified Public Accountants. Mr. Evans joined Freedom Mortgage in April 2013 as a Senior Vice President and as our Manager’s Senior Portfolio Manager. Mr. Evans most recently served as Head of the MBS Sector Team and Senior Portfolio Manager for Deutsche Asset Management where he led a team that managed RMBS assets for institutional, insurance and retail clients.

#### ***Freedom Mortgage***

Founded in 1990 by Mr. Middleman, our Chairman, and headquartered in Mount Laurel, New Jersey, Freedom Mortgage is a privately held, full-service, residential mortgage originator and servicer licensed in all 50 states and the District of Columbia with over 2,100 employees as of March 31, 2013. Freedom Mortgage has been a Fannie Mae-approved seller/servicer since April 1993 and a Ginnie Mae-approved issuer since September 1999. Freedom Mortgage was ranked the third largest single-family Ginnie Mae RMBS issuer for each of January 2013, February 2013 and March 2013 and ranked in the top 12 in this category since January 2012. For the year ended December 31, 2012 and for the three month-period ended on March 31, 2013, Freedom Mortgage originated over \$13 billion and \$5 billion, respectively, of mortgage loans predominantly underwritten to Agency underwriting guidelines. Freedom Mortgage typically retains the MSRs on the mortgage loans it originates and is the primary servicer of mortgage loans with an outstanding UPB of approximately \$23.1 billion as of March 31,

2013. Freedom Mortgage maintains a national footprint to support lending activities across all 50 states and the District of Columbia through its wholesale, retail and correspondent channels.

- Wholesale Production Channel.* Loans originated through its wholesale production channel are sourced and submitted to Freedom Mortgage through a network of over 2,500 independent mortgage brokers. Loans originated through Freedom Mortgage's wholesale channel are underwritten by Freedom Mortgage employees and according to Freedom Mortgage's underwriting guidelines, which adhere to the Agency guidelines. As of March 31, 2013, Freedom Mortgage had six regional offices, 91 account executives and over 700 employees dedicated to underwriting and closing loans originated through its wholesale production channel. Freedom Mortgage prohibits the independent mortgage brokers in its wholesale production channel from soliciting existing customers for a period of time after origination. For the year ended December 31, 2012 and the three-month period ended March 31, 2013, wholesale originations represented the largest percentage of its originations at approximately 58% and 50%, respectively, of Freedom Mortgage's total origination volume.
- Retail Production Channel.* Retail originations represent mortgage loans originated directly to the borrower, which Freedom Mortgage sources mainly from its centralized call centers, the largest of which is housed at its corporate headquarters in New Jersey. Freedom Mortgage utilizes its retail call centers as its first line of defense in customer retention through recapture originations. As of March 31, 2013, Freedom Mortgage's retail production channel employed over 750 employees throughout three call centers located in New Jersey, Indiana and California. For the year ended December 31, 2012 and the three-month period ended March 31, 2013, retail originations represented approximately 29% and 39%, respectively, of Freedom Mortgage's total origination volume.
- Correspondent Production Channel.* Freedom Mortgage purchases loans from third-party independent mortgage originators. The loans are underwritten to Freedom Mortgage's guidelines and acquired at an agreed upon price subject to Freedom Mortgage's satisfactory review and approval. As of March 31, 2013, Freedom Mortgage maintained active relationships with 31 different banks and mortgage originators for sourcing loan originations through its correspondent channel. Freedom Mortgage's correspondent production channel targets predominantly loans used for the purchase of a home. For the year ended December 31, 2012 and the three-month period ended March 31, 2013, correspondent originations represented approximately 13% and 11%, respectively, of Freedom Mortgage's total origination volume.

The following table sets forth certain information regarding Freedom Mortgage's loan production for the periods indicated:

	Three Months Ended March 31,	Year Ended December 31,				
	2013	2012	2011	2010	2009	2008
Origination volume (dollars in millions):						
Wholesale	2,720	7,865	2,214	2,191	4,377	3,962
Retail	2,130	3,980	1,103	1,017	1,241	551
Correspondent	623	1,811	266	85	179	185
Total(1)	\$ 5,473	\$ 13,657	\$ 3,583	\$ 3,294	\$ 5,798	\$ 4,697
Weighted average FICO score(2)	714	720	718	707	668	660
Weighted average LTV (%) (2)	87.59	87.41	86.39	89.72	90.34	87.94

- (1) Totals may not add up due to rounding.  
(2) Reflects a non-zero weighted average.

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Freedom Mortgage has experienced substantial growth in its servicing portfolio in 2012. Freedom Mortgage retained MSR on mortgage loans originated and sold with an ending UPB of approximately \$23.1 billion as of March 31, 2013, an approximate 118% increase compared to mortgage loans originated and sold with an ending UPB of approximately \$10.6 billion as of December 31, 2011. The recent growth in Freedom Mortgage's servicing portfolio is primarily attributable to the increase in Freedom Mortgage's origination volumes and its retention of MSR on newly originated mortgage loans.

As the primary servicer, Freedom Mortgage services loans in accordance with Agency requirements and is responsible for performing all servicing functions, such as collecting payments, handling customer service requests, remitting monies to investors, maintaining escrow accounts, paying hazard insurance and property taxes and administering defaulted loans.

Freedom Mortgage has a long-standing relationship with LoanCare Servicing Center, Inc., or LoanCare, currently the sub-servicer for all of the mortgage loans in Freedom Mortgage's servicing portfolio. LoanCare is a division of FNF Servicing, Inc., a subsidiary of Fidelity National Financial, Inc. (NYSE: FNF). LoanCare is licensed to service mortgage loans in all 50 states and the District of Columbia. The sub-servicing fees and any expense reimbursement paid to LoanCare are borne solely by Freedom Mortgage and will have no impact on us. Freedom Mortgage has the right to terminate its sub-servicing relationship with LoanCare and to engage other sub-servicers or service the mortgage loans in its servicing portfolio directly.

The following table provides certain information regarding Ginnie Mae-eligible (FHA/VA) mortgage loans originated by Freedom Mortgage after January 1, 2011, which underlie a portion of the MSR in Freedom Mortgage's servicing portfolio and which we believe are representative of the mortgage loans underlying the Excess MSR we intend to acquire pursuant to our agreements with Freedom Mortgage:

	<u>As of</u> <u>March 31, 2013</u>	<u>As of</u> <u>December 31, 2012</u>	<u>As of</u> <u>December 31, 2011</u>
Aggregate UPB	\$ 12.9 billion	\$ 9.6 billion	\$ 1.6 billion
Average UPB	\$ 194,232	\$ 194,276	\$ 192,270
Weighted average coupon	3.62%	3.76%	4.34%
30-59 days delinquent (1)	1.6%	1.9%	1.6%
60-89 days delinquent(1)	0.4%	0.5%	0.3%
90+ days delinquent(1)	0.7%	0.7%	0.3%
Weighted average servicing fee	28 basis points	29 basis points	26 basis points

(1) Percentage of aggregate UPB.

Currently, we believe Freedom Mortgage is in good standing with Ginnie Mae and Fannie Mae, as well as state and federal regulators. Freedom Mortgage has complied in all material respects with specific program requirements for HUD-assisted programs and has been well in excess of HUD's adjusted net worth requirements for each of the last five years.

## Our Competitive Strengths

We believe the following competitive strengths uniquely position us to implement our business strategy:

- *Proprietary Source of Excess MSR*s. We intend to capitalize on our relationship with Freedom Mortgage to source opportunities to acquire Excess MSRs on a monthly flow basis as well as on a bulk basis. The ability to source attractively priced Excess MSRs for our portfolio through our relationship with Freedom Mortgage reduces our reliance on purchasing these assets through a competitive bidding process, which we believe allows us to acquire these assets on a more cost-effective and consistent basis than we would through a competitive bidding process.
- *Ability to Mitigate Excess MSR*s Prepayment Risk with Recaptured Loans. Freedom Mortgage has a proven ability to engage in recapture originations. For the period from January 1, 2011 to March 31, 2013, Freedom Mortgage's monthly weighted average recapture rate (based on the numbers of loans) with respect to FHA/VA mortgage loans in its servicing portfolio was 77%. Recapture originations allow Freedom Mortgage to extend the longevity of its servicing-related cash flows, including the excess servicing spreads on the Excess MSRs we plan to acquire from Freedom Mortgage. We will capitalize on Freedom Mortgage's recapture origination capabilities by entering into recapture agreements with Freedom Mortgage as part of our strategic alliance, which will help us to mitigate the negative impact of voluntary prepayments on our Excess MSRs, and thus increase the returns we are able to provide to our stockholders. We believe Freedom Mortgage's retention of MSRs and its co-investment with us in Excess MSRs will align its interest with ours to try to maximize recapture.
- *Initial Portfolio of Income-Generating Excess MSR*s. Upon completion of this offering and the concurrent private placement, we intend to acquire our Initial Excess MSRs from Freedom Mortgage. We expect our Initial Excess MSRs to generate positive earnings with no leverage immediately after the completion of this offering. See "—Our Initial Portfolio—Initial Excess MSRs."
- *Access to Freedom Mortgage's Existing Servicing Platform*. We believe our relationship with Freedom Mortgage will provide us with unique, real-time insights into and access to residential mortgage market information, particularly with respect to Excess MSRs, that will enhance our ability to make investment decisions related to our target assets. In addition, non-servicers such as our company cannot own the basic servicing fee component of an MSR directly and would therefore need to co-invest with a servicer such as Freedom Mortgage in order to invest in the Excess MSR component. We believe that the number of strong, scalable non-bank servicers such as Freedom Mortgage is limited and that non-servicers will face difficulties in investing in Excess MSRs without having a relationship or partnership with a quality servicer.
- *Flexibility Across Asset Classes*. Our asset acquisition strategy is opportunistic and flexible, which will enable us to adapt to shifts in economic, real estate and capital market conditions and to exploit inefficiencies in the residential mortgage market as attractive investment opportunities arise. Consistent with this strategy, our investment decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different economic and capital market conditions. We believe this approach will allow us to identify undervalued opportunities in different market cycles across our target assets.
- *Experienced Management Team with Extensive Knowledge of the Mortgage Industry*. Our Manager has assembled a senior management team, each with more than 20 years of experience in the financial services industry, with a majority of that experience concentrated in the residential mortgage markets. This experience includes evaluating and acquiring mortgage servicing rights, originating mortgage loans, performing asset valuation analysis and trading and managing portfolios of mortgage assets, including RMBS, through a variety of economic cycles. Our senior management team also has significant experience in financing and hedging mortgage-related assets and liabilities. See

“Management” and “Our Manager and the Management Agreement” for additional information regarding the experience of our senior management team.

- *Disciplined Security Selection Process.* In order to generate balanced returns on our investments, we intend to construct a portfolio with a focus on managing the various associated risks, such as duration and cash flow risk, by selecting securities that have favorable prepayment characteristics and through the liability hedging strategy we will employ.
- *Alignment of Interests Between Our Stockholders, Mr. Middleman, Freedom Mortgage and Our Manager.* Mr. Middleman, our Chairman and the founder of Freedom Mortgage, will purchase directly from us in the concurrent private placement \$20.0 million in shares of our common stock, at a price per share equal to the public offering price. These shares and any other shares of our common stock Mr. Middleman and his affiliates may acquire during the lock-up period will be subject to a lock-up agreement between Mr. Middleman and the underwriters for one year after the closing of this offering. As a result, the economic interests of Mr. Middleman and his affiliates, including Freedom Mortgage and our Manager, will be significantly aligned with those of our stockholders. In addition, through its retention of MSR to which our Excess MSR relate and its co-investment in Excess MSR with us, Freedom Mortgage’s economic interest will be further aligned with the interests of our stockholders.

### **Our Strategy**

We intend to utilize an opportunistic strategy to seek to provide investors with attractive current yields and risk-adjusted total returns by:

- allocating a majority of our equity capital, over time and on an unleveraged basis, to the acquisition of Excess MSR through:
  - flow purchases from or bulk purchases with Freedom Mortgage pursuant to the terms of our strategic alliance agreements; and
  - flow purchases from or bulk purchases with third-party servicers other than Freedom Mortgage;
- taking advantage of opportunities in the Agency RMBS market by acquiring Agency RMBS on a leveraged basis;
- over time, as the market for prime jumbo mortgage loans grows, taking advantage of opportunities in this market by purchasing these assets from, or potentially in partnership with, Freedom Mortgage; and
- opportunistically mitigating our prepayment, interest rate and, to a lesser extent, credit risk by using recapture agreements and a variety of hedging instruments.

Our strategy is adaptable to changing market environments, subject to compliance with the income and other tests that we must satisfy to qualify as a REIT and maintain our exclusion from regulation as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. As a result, although we intend initially to focus on the acquisition and management of Excess MSR assets on an unleveraged basis and Agency RMBS on a leveraged basis, our acquisition and management decisions will depend on prevailing market conditions and our targeted asset classes may vary over time in response to market conditions.

### **Our Targeted Asset Classes**

Our targeted asset classes currently include:

- Excess MSR;



- Agency RMBS, including residential mortgage pass-through certificates, CMOs and TBAs;
- prime jumbo mortgage loans; and
- other residential mortgage assets, including non-Agency RMBS.

## **Our Initial Portfolio**

### ***Initial Excess MSRs***

Upon completion of this offering and the concurrent private placement, we will enter into an Excess MSR acquisition and recapture agreement with Freedom Mortgage, pursuant to which we will acquire from Freedom Mortgage an 85% participation interest in our Initial Excess MSRs. These Excess MSRs will relate to a pool of Ginnie Mae-eligible (FHA/VA) mortgage loans originated by Freedom Mortgage after January 1, 2011. We expect the pool to which our Initial Excess MSRs relate, to have an aggregate outstanding UPB of approximately \$7.8 billion as of the closing of this offering. The purchase price for our Initial Excess MSRs is approximately \$40.5 million and will be funded with a portion of the net proceeds of this offering and the concurrent private placement. The purchase price for our Initial Excess MSRs takes into account our target yield for the investment, which has been risk adjusted for prepayment, recapture and delinquency assumptions. Freedom Mortgage will continue to own the MSRs on, and will be the primary servicer of, the mortgage loans in the Initial Pool. Freedom Mortgage will also retain the remaining 15% participation interest in the Excess MSRs related to the Initial Pool. We will not have any servicing duties or advance obligations associated with the mortgage loans in the Initial Pool. We expect our investment in our Initial Excess MSRs to generate positive earnings with no leverage immediately following the closing of this offering.

In January 2013, Freedom Mortgage set aside a pool of FHA/VA mortgage loans with an aggregate outstanding UPB of \$9.6 billion at January 31, 2013, from which the Initial Pool will be derived. Substantially all of these mortgage loans are fully amortizing FRMs. At March 31, 2013, the pool of FHA/VA mortgage loans set aside for the formation of the Initial Pool had an aggregate outstanding UPB of \$8.9 billion. Due primarily to additional prepayments, we expect that the aggregate UPB of the FHA/VA mortgage loan pool set aside for the formation of the Initial Pool will decrease and that, upon completion of the offering, the aggregate outstanding UPB of such pool will be at least \$7.8 billion. As we cannot predict which loans will prepay, the composition of the Initial Pool will not be determined until shortly before the closing of this offering. We expect the weighted average servicing fee on the Initial Pool to be 28 basis points. As the loan servicer, Freedom Mortgage will be paid a basic servicing fee of eight basis points on current mortgage loans and will be entitled to receive ancillary income from its servicing activities. Accordingly, we expect the weighted average excess servicing fee on the Initial Pool will be 20 basis points, of which we will be entitled to receive 17 basis points based on our 85% participation interest.

Set forth below are certain summary characteristics, as of March 31, 2013, for the FHA/VA mortgage loans set aside by Freedom Mortgage for the formation of the Initial Pool. We believe the characteristics set forth in the table below are representative of the characteristics of the Initial Pool as it will be constituted at the closing of this offering. Although we expect the Initial Pool to look substantially similar to the pool described below (other than the Aggregate UPB), the precise characteristics of the mortgage loans in the Initial Pool will not be

determined until the completion of this offering and may vary from those set forth below:

	As of March 31, 2013
Aggregate UPB	\$ 8.9 billion
Average UPB	\$ 194,482
Fully amortizing FRMs(1)	98.8%
Fully amortizing ARMs(1)	1.2%
Weighted average note rate	3.65%
Weighted average gross servicing fee	28 basis points
Weighted average remaining term	342 months
Weighted average seasoning	7 months
Weighted average FICO(2)	705
Weighted average LTV(2)	92%
Constant Prepayment Rate(3)	36.8%
Top-five states:(1)	
California	19%
Florida	7%
Texas	5%
New Jersey	5%
Colorado	4%
Delinquency (30+ days)(1)	3%
Aggregate UPB of mortgage loans in foreclosure	\$ 23.4 million

(1) As a percentage of aggregate UPB.

(2) Reflects a non-zero weighted average.

(3) Constant Prepayment Rate for the period from January 31, 2013 through March 31, 2013.

#### **Agency RMBS**

In addition to our investment in our Initial Excess MSRs, we plan to invest the remainder of the net proceeds of this offering and the concurrent private placement in Agency RMBS, primarily through the acquisition of Agency whole-pools, on a leveraged basis. While we intend to invest in both Agency RMBS backed by FRMs and hybrid-ARMs, we expect to be initially invested primarily in Agency whole-pools backed by 30-year, 20-year and 15-year FRMs that offer favorable prepayment and duration characteristics. We believe these types of Agency RMBS are readily available in the market. We believe seasoned pools, low loan balance pools and HARP loan pools have strong call protection characteristics. We also believe new production, unseasoned, current coupon pools are attractive due to low initial prepayment characteristics.

#### **Our Asset Acquisition Process**

Our asset acquisition process benefits from the resources and professionals of our Manager and Freedom Mortgage. The process will be managed by our Manager's Investment Committee, which will include, among others: Mr. Middleman, the founder, Chairman and Chief Executive Officer of Freedom Mortgage, who also serves as our Chairman; Mr. Lown, our President and Chief Investment Officer; and Mr. Levine, our Chief Financial Officer, Secretary and Treasurer. Mr. Lown and Mr. Levine also serve as officers of our Manager and of Freedom Mortgage. The Investment Committee will operate under investment guidelines and meet periodically to develop a set of preferences for the composition of our portfolio. The primary focus of our Manager's Investment Committee will be to review and approve our investment policies and our portfolio composition and related compliance with our guidelines. Our Manager's Investment Committee will have authority delegated by our board of directors to authorize transactions consistent with our investment guidelines. Any transactions deviating in a material way from these guidelines must be approved by our board of directors.

### **Interest Rate Hedging and Risk Management**

We intend to opportunistically manage our interest rate risk by using various hedging strategies. Subject to qualifying and maintaining our qualification as a REIT and maintaining our exclusion from regulation as an investment company under the Investment Company Act, we may utilize certain derivative financial instruments and other hedging instruments to mitigate interest rate risk we expect to arise from our repurchase agreement financings associated with our Agency RMBS. The interest rate hedging instruments that we intend to use include, without limitation: interest rate swaps (floating-to-fixed, fixed-to-floating, or more complex swaps such as floating-to-inverse floating, callable or non-callable); CMOs; TBAs; U.S. treasury securities; swaptions, caps, floors and other derivatives on interest rates; futures and forward contracts; and options on any of the foregoing.

### **Our Financing Strategies and Use of Leverage**

We do not currently intend to leverage our investments in Excess MSR assets and will use a portion of the net proceeds of this offering and the concurrent private placement to finance the acquisition of our Initial Excess MSRs. We intend to finance our Agency 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 will primarily consist of repurchase transactions under master repurchase agreements. Our repurchase transactions will be collateralized by our Agency RMBS, and we may be required to post additional collateral with our counterparties from time to time in the event of a margin call. See “Risk Factors—Risks Related to Our Business—Adverse market developments could cause our lenders to require us to pledge additional assets as 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.”

As of the date of this prospectus, we have negotiated and anticipate entering into repurchase agreements with multiple counterparties, including affiliates of certain of the underwriters, and we are also in the process of negotiating additional repurchase agreements with various other counterparties, which we intend to use for the purchase of Agency RMBS. This financing is uncommitted and continuation of such financing cannot be assured. These agreements are subject to the successful completion of this offering.

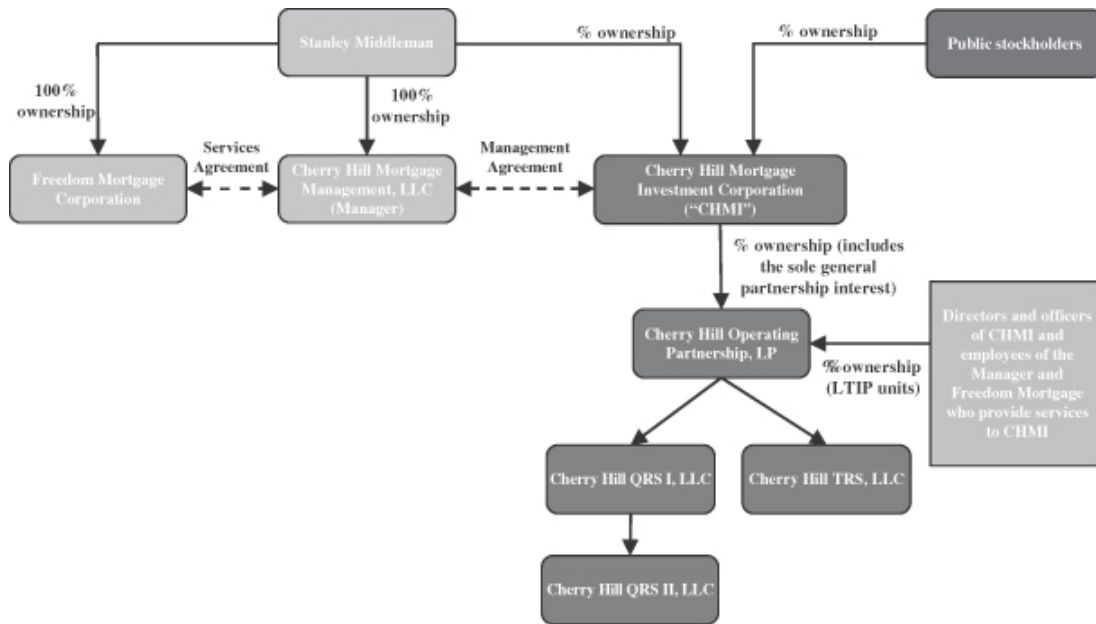
Although we are not required to maintain any particular minimum or maximum target debt-to-equity leverage ratio with respect to our Agency RMBS assets, the amount of leverage we may employ for this asset class will depend upon the availability of particular types of financing and our Manager’s assessment of the credit, liquidity, price volatility, financing counterparty risk and other factors. Our Manager’s Investment Committee will have discretion, without the need for further approval by our board of directors, to change the amount of leverage we utilize for our Agency RMBS. We do not have a targeted debt-to-equity ratio for our Agency RMBS, although currently we expect that our debt-to-equity ratio initially will be approximately 8:1 for our Agency RMBS assets and could be as high as 10:1 depending on market conditions. We intend to use leverage for the primary purpose of financing our Agency RMBS portfolio and not for the purpose of speculating on changes in interest rates. We may, however, be limited or restricted in the amount of leverage we may employ by the terms and provisions of any financing or other agreements that we may enter into in the future, and we may be subject to margin calls as a result of our financing activity. In the future, we expect to acquire prime jumbo mortgage loans. We anticipate evaluating leverage policies for prime jumbo mortgage loans at such time. Currently, we do not intend to acquire non-Agency RMBS, but we may do so in the future, and we anticipate evaluating leverage policies for this asset class if and when we begin to acquire this asset class.

### **Our Formation and Structure**

We were incorporated in Maryland on October 31, 2012. We will elect and intend to qualify to be taxed as a REIT beginning with our short taxable year ending December 31, 2013. We will conduct substantially all of our business through our operating partnership, Cherry Hill Operating Partnership, LP, a Delaware limited

partnership, and its subsidiaries. We are the sole general partner of our operating partnership. As of the date of this prospectus, we have not commenced any operations other than organizing our company. We currently have no assets and will not commence operations until we have completed this offering.

The following chart illustrates our organizational structure immediately following completion of this offering (assuming no exercise by the underwriters of their over-allotment option):



**Our Management Agreement**

We have entered into a management agreement with our Manager pursuant to which our Manager has agreed to manage our business affairs in conformity with policies and investment guidelines that are approved and monitored by our board of directors. Our Manager is subject to the direction and oversight of our board of directors. Our Manager is responsible for, among other things:

- the identification, selection, purchase and sale of our portfolio investments;
- our financing and risk management activities;
- providing us with investment advisory services; and
- providing us with a management team and appropriate personnel.

In addition, our Manager is responsible for our day-to-day operations and will perform (or cause to be performed) such services and activities relating to our assets and operations as may be necessary or appropriate.

The initial term of the management agreement will expire on the third anniversary of the closing of this offering and will be automatically renewed for a one-year term on such date and on each anniversary of such date thereafter unless terminated by us for cause or by us or our Manager upon at least 180 days’ notice prior to the end of the initial term of the agreement or any automatic renewal term.

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. In the event we elect not to renew the term, we will be required to pay our Manager 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 fiscal quarter preceding the date of termination.

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, for the following reasons:

- our Manager's continued material breach of any provision of the management agreement (including the failure of our Manager to use commercially reasonable efforts to comply with our investment guidelines) following a period of 30 days after written notice thereof;
- our Manager's fraud, misappropriation of funds, or embezzlement against us;
- our Manager's gross negligence in the performance of its duties under the management agreement;
- our Manager, Freedom Mortgage or any of their affiliates who provide services to us under the management agreement is convicted of, or pleads nolo contendere to, a felony violation of any U.S. federal securities laws;
- the occurrence of certain events with respect to the bankruptcy or insolvency of our Manager or Freedom Mortgage;
- upon a change of control (as defined in the management agreement) of our Manager; or
- our Manager's failure to provide or procure adequate or appropriate personnel necessary to source for us investment opportunities and to manage and develop our portfolio following a period of 60 days after written notice thereof.

Following the completion of this offering, our board of directors will review our Manager's performance annually 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.

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The following table summarizes the fees and expense reimbursements that we are required to pay to our Manager. Our Manager is not entitled to receive any incentive fee under the management agreement. We will not pay any fees to our Manager or reimburse our Manager for any expenses incurred on our behalf prior to the completion of this offering and the commencement of our operations.

<u>Type</u>	<u>Description</u>
Management fee	<p>The management fee is payable quarterly in arrears in cash in the amount equal to 1.50% per annum of our stockholders' equity, with stockholders' equity being calculated, as of the end of any fiscal quarter, as (a) the sum of (1) the net proceeds from any issuances of common stock or other equity securities issued by us or our operating partnership (without double counting) since inception, plus (2) our and our operating partnership's (without double counting) retained earnings calculated in accordance with the U.S. generally accepted accounting principles, or GAAP, at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) any amount that we or our operating partnership have paid to repurchase shares of our common stock or other equity securities issued by us or our operating partnership since inception. For purposes of the management agreement, "stockholders' equity" excludes (1) any unrealized gains, losses or other non-cash items that have impacted stockholders' equity as reported in our financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and (2) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above in each case, after discussions between our Manager and our independent directors and approval by a majority of our independent directors.</p> <p>Our stockholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on our financial statements.</p> <p>Assuming (i) the sale of        shares of our common stock in this offering (which assumes no exercise of the underwriters' over-allotment option) and 1,000,000 shares of our common stock in the concurrent private placement, (ii) the issuance of 37,500 long-term incentive plan units, or LTIP units, a special class of partnership interest in our operating partnership, to be granted to our executive officers and directors and to certain employees of our Manager and Freedom Mortgage who provide services to us upon completion of this offering pursuant to our 2013 Equity Incentive Plan and (iii) no additional equity is issued by us or our operating partnership during the year ending December 31, 2013, the management fee payable to our Manager for the year ending December 31, 2013 will be approximately \$        million.</p>

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<u>Type</u>	<u>Description</u>
Expense reimbursement	We will generally pay or reimburse our Manager, quarterly in cash, for all of our direct operating expenses, including but not limited to legal, accounting, due diligence and investment costs, except for costs specifically required to be borne by our Manager under the management agreement. Our Manager will be responsible for all costs incident to the performance of its duties under the management agreement, including compensation of our Manager's employees and other related expenses. In some instances, our Manager will be entitled to be reimbursed for the costs of the wages, salaries and benefits incurred by our Manager with respect to certain personnel provided to us.
Termination fee	Upon any termination of the management agreement by us, other than for cause, any non-renewal of the management agreement by us or any termination of the management agreement by our Manager due to our material breach of the management agreement, our Manager will be paid 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 fiscal quarter preceding the date of termination. If we have not completed two full four-quarter periods as of the date of termination, the second partial four-quarter period will be annualized for purposes of the termination fee calculation.

In addition to the management fee payable to our Manager, our Manager's and Freedom Mortgage's personnel who provide services to us are eligible to receive equity-based awards under our 2013 Equity Incentive Plan in order to attract and retain these individuals and align their interests with the interests of our stockholders. See "Management—2013 Equity Incentive Plan."

See "Our Manager and the Management Agreement—The Management Agreement" for a more detailed description of the terms of the Management Agreement.

### **Services Agreement**

Our Manager is a party to a services agreement with Freedom Mortgage, pursuant to which Freedom Mortgage will provide to our Manager the personnel, services and resources as needed by our Manager to enable our Manager to carry out its obligations and responsibilities under the management agreement. We are a named third-party beneficiary to the services agreement and, as a result, have, as a non-exclusive remedy, a direct right of action against Freedom Mortgage in the event of any breach by our Manager of any of its duties, obligations or agreements under the management agreement that arise out of or result from any breach by Freedom Mortgage of its obligations under the services agreement. The term of the services agreement is one year from the closing of this offering, subject to renewal for successive annual periods by our Manager and Freedom Mortgage. In addition, the services agreement will terminate upon the termination of the management agreement. Pursuant to the services agreement, our Manager will make certain payments to Freedom Mortgage in connection with the services provided. Our Manager and Freedom Mortgage are under the common ownership and control of Mr. Middleman, our Chairman. As a result, all management fee compensation earned by our Manager and all service agreement fees paid by our Manager to Freedom Mortgage accrue to the benefit of Mr. Middleman.

### **Conflicts of Interest**

Our Manager is an affiliate of Freedom Mortgage. Both our Manager and Freedom Mortgage are wholly owned and controlled by Mr. Middleman. Prior to the completion of this offering, we had no independent directors and Mr. Middleman was our sole director.

We are dependent on our Manager for our day-to-day management, and we do not have any employees. Our executive officers and the officers and employees of our Manager are also officers or employees of Freedom Mortgage and, with the exception of those officers that are dedicated to us, we compete with Freedom Mortgage for access to those individuals. 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, including the management of Freedom Mortgage, may reduce the time our Manager and certain of its officers and personnel spend managing us.

Our management agreement with our Manager, our strategic alliance agreements between us and Freedom Mortgage and the Excess MSR acquisition and recapture agreement related to our Initial Excess MSRs and any other agreements that we may enter into with Freedom Mortgage in the future, whether pursuant to our strategic alliance agreements or otherwise, have been or will be negotiated between related parties and their respective terms, including the purchase price we will pay to Freedom Mortgage for Excess MSRs, including our Initial Excess MSRs, and the fees and other amounts payable, may not be as favorable to us as if they were negotiated on an arm's-length basis with unaffiliated third parties. Furthermore, we may choose not to enforce, or to enforce less vigorously, our rights under such agreements because of our desire to maintain our ongoing relationships with Freedom Mortgage and our Manager. In order to help minimize conflicts of interest with Freedom Mortgage, prior to entering into any transaction with Freedom Mortgage, our independent directors will review the material terms of any such transaction, including any pricing terms, to determine if the terms of the transaction are fair and reasonable. In particular, prior to entering into any such transaction, our independent directors will review and approve the parameters and agreements related to flow purchases of Excess MSRs from, and bulk purchases of Excess MSR we may make with, Freedom Mortgage, as well as any parameters and agreements pursuant to which we may acquire from Freedom Mortgage prime jumbo mortgage loans or other loans or assets in the future. We expect to also retain an independent valuation service to assist our management and our independent directors in making pricing determinations on Excess MSR assets we purchase from Freedom Mortgage.

Our business strategy is highly dependent upon the services provided by our Manager under the terms of our management agreement and our strategic alliance agreements with Freedom Mortgage. Although our independent directors have the ability to terminate our management agreement in the case of a material breach of a term of the agreement by our Manager, because the termination of our management agreement would result in the loss of personnel key to running our business, our independent directors may be less willing to enforce vigorously the provisions of our management agreement against our Manager. Furthermore, the termination of our strategic alliance agreements with Freedom Mortgage, primarily the flow and bulk Excess MSR purchase agreement, would have a material adverse effect on certain aspects of our business.

Although we believe that our co-investment strategy under our strategic alliance agreements generally aligns our and Freedom Mortgage's economic interests with respect to Excess MSRs, 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. In addition, to the extent we seek to leverage Freedom Mortgage's relationships with third parties to generate future investment opportunities, Freedom Mortgage will be under no obligation to co-invest with us in the future or assist us in generating such opportunities, other than pursuant to the terms of our strategic alliance agreements. Freedom Mortgage will be under no obligation, under the terms of our strategic alliance agreements or otherwise, to offer prime jumbo mortgage loans or residential mortgage assets other than Excess MSRs 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 our Manager and its affiliates to the extent Freedom Mortgage or our Manager invests in or creates new vehicles to invest in Excess MSR or other 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 and employees of our Manager who are our officers may serve as officers and/or directors of these other entities. 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 plan target as its primary investment category investment in Excess MSR.

We have not adopted a policy that expressly prohibits our directors, officers, security holders or affiliates from having a direct or indirect pecuniary interest in any asset to be acquired or disposed of by us or any of our subsidiaries or in any transaction to which we or any of our subsidiaries is a party or has an interest, nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct and ethics will contain a conflicts of interest policy that will prohibit our directors, officers and employees, as well as employees of our Manager and Freedom Mortgage who provide services to us, from engaging in any transaction that involves an actual or apparent conflict of interest with us, absent approval by our board of directors or except as provided in our management agreement with our Manager or in our strategic alliance agreements with Freedom Mortgage. In addition, nothing in our management agreement with our Manager binds or restricts our Manager or any of its affiliates, officers or employees from buying, selling or trading any securities or commodities for their own accounts or for the accounts of others for whom our Manager or any of its affiliates, officers or employees may be acting.

Our Manager is authorized to follow very broad investment guidelines. Our independent directors will periodically review our investment guidelines and our portfolio. However, our independent directors generally will not review our proposed asset acquisitions (other than pursuant to the protocols established for asset acquisitions with Freedom Mortgage, including in accordance with our strategic alliance agreements or otherwise), dispositions or other management decisions. In addition, in conducting periodic reviews, the independent directors will rely primarily on information provided to them 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 our broad investment guidelines to determine the types of assets it may decide are proper for purchase by us. The management agreement with our Manager does not restrict the ability of its officers and employees from engaging in other business ventures of any nature, whether or not such ventures are competitive with our business.

#### **Our Tax Status**

We will elect and intend to qualify to be taxed as a REIT commencing with our short taxable year ending December 31, 2013. Provided that we qualify and 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 currently 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, if we form a TRS, the income generated by that subsidiary will be subject to U.S. federal, state and local income tax.

#### **Our Exclusion for Regulation as an Investment Company**

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. We will be organized as a holding company and will conduct our businesses primarily through wholly-owned subsidiaries. We intend to conduct our operations so that we do not come within the definition of an investment company by ensuring that less than 40% of the value of our total assets on an unconsolidated basis consist of “investment securities” as defined by the Investment Company Act, or the 40% Test.

Our direct and indirect subsidiaries, through which we will operate our business, will rely upon certain exemptions from registration as an investment company under the Investment Company Act including, in the case of our wholly-owned subsidiary, Cherry Hill QRS I, LLC, Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C), as interpreted by the staff of the SEC, requires an entity to invest at least 55% of its assets in “mortgages and other liens on and interests in real estate,” which we refer to as “qualifying real estate interests,” and at least 80% of its assets in qualifying real estate interests plus “real estate-related assets.” In satisfying the 55% requirement, the entity may treat securities issued with respect to an underlying pool of mortgage loans in which it holds all of the certificates issued by the pool as qualifying real estate interests. We will treat the Agency whole-pool pass-through securities in which we intend to invest as qualifying real estate interests for purposes of the 55% requirement. The Excess MSRs we intend to acquire and the Agency CMOs we may acquire will not be treated as qualifying real estate interests for purposes of the 55% requirement.

We also have formed, and may in the future form, certain other wholly-owned or majority-owned subsidiaries that will invest in residential mortgage assets. These subsidiaries will rely upon the exemption from registration as an investment company under the Investment Company Act pursuant to Section 3(c)(1) or 3(c)(7) of the Investment Company Act. The securities issued by any wholly-owned or majority-owned subsidiary that we may form in the future and that are exempted from the definition of “investment company” based on Section 3(c)(1) or 3(c)(7) of the Investment Company Act, together with any other investment securities we may own, may not have a value in excess of 40% of the value of our total assets on an unconsolidated basis.

We will monitor our compliance with the 40% Test and the holdings of our subsidiaries to ensure that each of our subsidiaries is in compliance with an applicable exemption or exclusion from registration as an investment company under the Investment Company Act.

On August 31, 2011, the SEC published a concept release entitled “Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments” (Investment Company Act Rel. No. 29778). This release notes that the SEC is reviewing the 3(c)(5)(C) exemption relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities. 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 Division of Investment Management of the SEC regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations as a result of this review. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exclusion from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we intend to monitor the assets of Cherry Hill QRS I, LLC regularly, there can be no assurance that Cherry Hill QRS I, LLC will be able to maintain this exclusion from registration. In that case, our investment in Cherry Hill QRS I, LLC would be classified as an investment security, and we might not be able to maintain our overall exclusion from registering as an investment company under the Investment Company Act.

The loss of our exemption from regulation pursuant to the Investment Company Act could require us to restructure our operations, sell certain of our assets or abstain from the purchase of certain assets, which could have an adverse effect on our financial condition and results of operations. See “Risk Factors—Maintenance of our exclusion from registration under the Investment Company Act imposes significant limitations on our operations.”

#### **Registration of our Manager as an Investment Adviser**

Our Manager intends to register as an investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act, and upon completion of this offering will be subject to the regulatory oversight of the Investment Management Division of the SEC.

#### **Implications of Being an Emerging Growth Company**

We qualify as an “emerging growth company,” as defined in the Jumpstart our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements and are relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company, among other things:

- we are exempt from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act;
- we are permitted to provide less extensive disclosure about our executive compensation arrangements;
- we are not required to give our stockholders non-binding advisory votes on executive compensation or golden parachute arrangements; and
- we have elected to use an extended transition period for complying with new or revised accounting standards.

We may take advantage of these provisions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.0 billion in annual revenues, have more than \$700 million in market value of our common stock held by non-affiliates, or issue more than \$1.0 billion of non-convertible debt securities over a three-year period. We may choose to take advantage of some but not all of these reduced burdens.

#### **Summary Risk Factors**

An investment in our common stock involves risks. You should consider carefully the risks discussed below and described more fully along with other risks under “Risk Factors” in this prospectus before investing in our common stock.

- We have no operating history and may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders.
- 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.
- We will be dependent on mortgage servicers to service the mortgage loans underlying the Excess MSRs that we acquire.
- Governmental investigations or examinations, or private lawsuits, including purported class action lawsuits, involving Freedom Mortgage could have a material adverse effect on Freedom Mortgage and its ability to perform its obligations under our strategic alliance agreements.

- Our ability to invest in, and dispose of our investments in Excess MSR's may be subject to the receipt of third-party consents.
- Acknowledgement agreements with Ginnie Mae, Fannie Mae or Freddie Mac could expose us to potential liability in the event of a payment default.
- Our investments in Excess MSR's may involve complex or novel structures.
- Our assumptions in determining the purchase price for Excess MSR's, including our Initial Excess MSR's, may be inaccurate or the basis for such assumptions may change, which could adversely affect our results of operations.
- Prepayment rates can change, adversely affecting the performance of our assets.
- The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac and Ginnie Mae and the U.S. Government, may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.
- Certain actions by the U.S. Federal Reserve could cause a flattening of the yield curve, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.
- Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, our targeted assets.
- The lack of liquidity of our assets may adversely affect our business, including our ability to sell our assets.
- We intend to 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.
- Adverse market developments could cause our lenders to require us to pledge additional assets as 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.
- 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.
- 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.
- 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.
- We operate in a highly competitive market.
- Our Manager has no experience operating a REIT and we cannot assure you that our Manager's past experience will be sufficient to successfully manage our business as a REIT.
- Our Manager has no prior experience operating a public company and therefore may have difficulty in successfully and profitably operating our business or complying with regulatory requirements, including the Sarbanes-Oxley Act, which may hinder their ability to achieve our objectives.
- We are dependent on our Manager and certain key personnel of Freedom Mortgage that are or will be provided to us through our Manager and may not find a suitable replacement if our Manager terminates the management agreement or such key personnel are no longer available to us.

- Our business strategy heavily relies on our strategic alliance with Freedom Mortgage, particularly with respect to our continuing investment in Excess MSR, and to the extent the anticipated benefits of our strategic alliance do not materialize, our ability to successfully execute our strategy may be materially adversely affected.
- 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.
- The management agreement that we have entered into 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.
- Maintenance of our exclusion from regulation as an investment company under the Investment Company Act imposes significant limitations on our operations.
- There is currently no public market for our common stock, a trading market for our common stock may never develop following this offering and our common share price may be volatile and could decline substantially following this offering.
- For as long as we are an emerging growth company, we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to other public companies.
- 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.

#### **Our Offices**

Our principal executive offices are located at 301 Harper Drive, Suite 110, Moorestown, New Jersey, 08057. Our telephone number is (877) 870-7005 and our website is [www.chmireit.com](http://www.chmireit.com). The offices of our Manager are located at the same address. Information available on or accessible through our website and Freedom Mortgage's website is not incorporated into this prospectus.

**THE OFFERING**

Common stock offered by us	shares (plus up to an additional shares of our common stock issuable upon the exercise of the underwriters' over-allotment option).
Common stock offered by us in the concurrent private placement	1,000,000 shares
Common stock to be outstanding after this offering and the concurrent private placement	shares(1)
Use of proceeds	<p>We estimate that the net proceeds we will receive from this offering and the concurrent private placement will be approximately \$ million (or approximately \$ million if the underwriters fully exercise their over-allotment option), after deducting the estimated offering expenses payable by us. Our Manager has agreed to pay the entire underwriting discount and structuring fee payable with respect to each share sold in this offering. We intend to contribute the net proceeds of this offering and the concurrent private placement to our operating partnership in exchange for common units of limited partnership interest in our operating partnership, or OP units. We intend to deploy the net proceeds of this offering and the concurrent private placement as follows:</p> <ul style="list-style-type: none"><li>• approximately 25% to 30% to investments in Excess MSR's, including the acquisition of our Initial Excess MSR's from Freedom Mortgage for approximately \$40.5 million;</li><li>• approximately 65% to 60% to investments in Agency RMBS backed by 30-year, 20-year and 15-year FRMs.</li></ul> <p>For more detailed information, see "Use of Proceeds."</p>

(1) Assumes the underwriters' over-allotment option to purchase up to an additional shares of our common stock is not exercised. The number of shares of common stock outstanding after this offering and the concurrent private placement excludes: (i) 37,500 shares of our common stock issuable upon exchange of 37,500 LTIP units, a special class of partnership interest in our operating partnership, to be granted to our executive officers and directors and to certain employees of our Manager and Freedom Mortgage who provide services to us upon completion of this offering pursuant to our 2013 Equity Incentive Plan; and (ii) up to 1,462,500 shares of our common stock reserved for future issuance pursuant to our 2013 Equity Incentive Plan. The number of shares of common stock outstanding after this offering and the concurrent private placement does not include the 1,000 shares of common stock issued to Mr. Middleman in connection with our initial capitalization. We will repurchase these shares from Mr. Middleman at the closing of this offering for \$1,000.

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Distribution policy

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.

Ownership and transfer restrictions

To assist us in qualifying as a REIT, among other purposes, our charter generally limits beneficial and constructive ownership by any person to no 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. In addition, our charter provides that Mr. Middleman, our Chairman and the founder of Freedom Mortgage, may beneficially or constructively own up to 13.0% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our stock. Our charter also contains various other restrictions on the ownership and transfer of our shares. See “Description of Capital Stock—Restrictions on Ownership and Transfer.”

Proposed NYSE symbol

“CHMI”

Risk factors

Investing in our common stock involves risks. See “Risk Factors” and other information in this prospectus for a discussion of factors you should consider carefully before investing in our common stock.

## RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing our common stock. If any of the following risks occur, our business, financial condition, results of operations and our ability to make distributions to our stockholders could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment. Our forward looking statements in this prospectus are subject to the following risks and uncertainties. Our actual results could differ materially from those anticipated by our forward looking statements as a result of the risk factors below.

### Risks Related To Our Business

**We have no operating history and may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders.**

We were incorporated on October 31, 2012 and have not commenced operations. We have no operating history. We cannot assure you that we will be able to operate our business successfully or implement our operating policies and strategies. There can be no assurance that we will be able to generate sufficient returns to pay our operating expenses and make satisfactory distributions to our stockholders or any distributions at all. 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. Concerns about the residential mortgage market and a declining real estate market, as well as inflation, energy costs, geopolitical issues, concerns over the creditworthiness of governments worldwide and the stability of the global banking system, unemployment and the availability and cost of credit have contributed to increased volatility and diminished expectations for the economy and markets going forward. 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 have announced extensive losses from exposure to the residential mortgage market. 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 asset have experienced volatility. Further 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.

**We will be dependent on mortgage servicers to service the mortgage loans underlying the Excess MSR that we acquire.**

Our investments in Excess MSR are dependent on the mortgage servicer to perform its servicing obligations. As a result, we could be materially and adversely affected if the servicer is terminated. The duties and obligations of mortgage servicers are defined through contractual agreements, which generally provide for the possibility for termination of the servicer in the absolute discretion of the GSE or Ginnie Mae. In the event of such termination by the GSE or Ginnie Mae with respect to a particular servicer, the related Excess MSR could potentially lose all value on a going forward basis. Moreover, the termination of a servicer could take effect across all mortgages being serviced by that servicer. Therefore, to the extent we make multiple investments



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relating to mortgages serviced by the same servicer, such as our initial portfolio of Excess MSR's which will be entirely serviced by Freedom Mortgage, all such investments could lose all their value in the event of the termination of the servicer. In addition, many servicers also rely on subservicing arrangements with third parties and the failure of subservicers to adequately perform their services may negatively impact the servicer and, as a result, the performance of our Excess MSR's. We may not have recourse to the servicer if the subservicer fails to perform.

We could also be materially and adversely affected if the servicer is unable to adequately service the underlying mortgage loans due to:

- its failure to comply with applicable laws and regulation;
- 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 scrutiny regarding foreclosure processes lengthening foreclosure timelines;
- the transfer of servicing to another party; or
- any other reason.

Favorable ratings from third-party rating agencies such as Standard & Poor's, Moody's and Fitch are important to the conduct of a mortgage servicer's loan servicing business and a downgrade in a mortgage servicer's ratings could have an adverse effect on us and the value of our Excess MSR's. A mortgage servicer's failure to maintain favorable or specified ratings may cause their termination as a servicer and may impair their ability to consummate future servicing transactions, which could have an adverse effect on our operations since we will rely heavily on mortgage servicers to achieve our investment objective with respect to Excess MSR's.

MSR's 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 servicer's business. If Freedom Mortgage or any servicer from whom we acquire Excess MSR's actually or allegedly failed to comply with applicable laws, rules or regulations, the servicer could be exposed to fines, penalties or other costs or the servicer could be terminated as the servicer and the MSR's to which our Excess MSR's relate would be eliminated and lose all value, which could have a material adverse effect on the associated Excess MSR, our business, financial condition, results of operations or cash flows. If these laws, regulations and decisions change, we could be exposed to similar fines, penalties or costs.

In addition, a bankruptcy by any mortgage servicer that services the mortgage loans underlying any Excess MSR's that we have acquired or may acquire in the future could result in:

- the validity and priority of our ownership of the Excess MSR's being challenged in a bankruptcy proceeding;
- payments made by such 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;
- a re-characterization of any sale of the Excess MSR's or other assets to us as a pledge of such assets in a bankruptcy proceeding; or
- any agreement pursuant to which we acquired the Excess MSR's being rejected in a bankruptcy proceeding.

Any of the foregoing events could have a material and adverse effect on us. Moreover, our business model heavily relies upon our strategic alliance with Freedom Mortgage and our acquiring Excess MSR's through our relationship with Freedom Mortgage. To the extent Freedom Mortgage loses its ability to serve as a servicer for

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Fannie Mae or its status as a Ginnie Mae-approved issuer is terminated, we could face significant adverse consequences. Similarly, if Freedom Mortgage is unable to successfully execute its business strategy or no longer maintains its financial viability, our business strategy would be materially adversely affected and our results of operations would suffer.

### **Governmental investigations or examinations, or private lawsuits, including purported class action lawsuits, involving Freedom Mortgage could have a material adverse effect on Freedom Mortgage and its ability to perform its obligations under our strategic alliance agreements.**

Freedom Mortgage is routinely involved in legal proceedings concerning matters that arise in the ordinary course of its business. An adverse result in governmental investigations or examinations, or private lawsuits, including purported class action lawsuits, could have a material adverse effect on Freedom Mortgage's financial results. These legal proceedings can range from private actions involving a single plaintiff to class action lawsuits with potentially thousands of class members. Participants in the mortgage industry, including Freedom Mortgage, are also routinely subject to government investigations and inquiries. An adverse result in governmental investigations or examinations, or private lawsuits, including purported class action lawsuits, could have a material adverse effect on Freedom Mortgage's financial results. Litigation and other proceedings may require that Freedom Mortgage pay settlement costs, legal fees, damages, penalties or other charges, which could adversely affect its financial results. In particular, ongoing and other legal proceedings brought under state consumer protection statutes may result in a separate fine for each violation of the statute, which, particularly in the case of class action lawsuits, could result in damages substantially in excess of the amounts earned from the underlying activities and that could have a material adverse effect on Freedom Mortgage's liquidity and financial position.

Governmental investigations, both state and federal, can be either formal or informal. The costs of responding to the investigations can be substantial. In addition, government-mandated changes to servicing practices could lead to higher costs and additional administrative burdens, in particular, those regarding record retention and informational obligations.

Freedom Mortgage has advised us that it does not believe that it is currently subject to any legal proceedings or government investigations that would reasonably be expected to have a material adverse effect on Freedom Mortgage or on us, but it is possible that one or more such legal proceedings or investigations could evolve into a material legal proceeding in the future. For example, Freedom Mortgage has informed us that, in February 2013, it received a subpoena from the Office of the Inspector General for the U.S. Department of Housing and Urban Development, or the HUD OIG, in which the HUD OIG requested that Freedom Mortgage provide the HUD OIG with documents and records concerning Freedom Mortgage's quality control and training policies and procedures relating to its FHA loan origination activities. The HUD OIG acts under the oversight of the U.S. Department of Justice. It is our understanding that several other FHA approved mortgage originators have received similar requests. Freedom Mortgage has informed us that, in March 2013, it provided a portion of the requested documents to the HUD OIG and it anticipates providing the remaining documents and records in the near future and continuing to cooperate with the HUD OIG in the event of any additional requests. Freedom Mortgage has informed us that the HUD OIG has not communicated to Freedom Mortgage any allegations of wrongdoing or other findings. However, we cannot assure you that the HUD OIG will not do so in the future, and any such allegations or findings could result in Freedom Mortgage being required to pay settlement costs, legal fees, damages, penalties or other charges, which could adversely affect its financial results and its business operations, which in turn could impact its ability to perform under the strategic alliance agreements with us or may otherwise negatively impact its ability to act as our partner.

### **Our ability to invest in, and dispose of our investments in Excess MSR's may be subject to the receipt of third-party consents.**

The Agencies may require that we submit ourselves to costly or burdensome conditions as a prerequisite to their consent to our investments in Excess MSR's. These conditions may diminish or eliminate the investment

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potential of certain Excess MSR by making such investments too expensive for us or by severely limiting the potential returns available from Excess MSR. Moreover, we have not received and do not expect to receive any assurances from the Agencies that their conditions for the disposition of an investment in Excess MSR, including the investment in our Initial Excess MSR will not change. Therefore the potential costs, issues or restrictions associated with receiving such Agency's consent for any such dispositions by us cannot be determined with any certainty. To the extent we are unable to dispose of Excess MSR in our portfolio when we determine it would be beneficial to do so, our results of operations may be adversely impacted.

### **Acknowledgement agreements with Ginnie Mae, Fannie Mae or Freddie Mac could expose us to potential liability in the event of a payment default.**

In order to acquire Excess MSR related to FHA/VA mortgage loans that have been pooled into securities guaranteed by Ginnie Mae, we must enter into an acknowledgment agreement with Ginnie Mae and the Ginnie Mae-approved issuer/servicer for the mortgage loans. Under that agreement, if the issuer/servicer fails to make a required payment to the holders of the Ginnie Mae-guaranteed Agency RMBS, we would be obligated to make that payment even though the payment may relate to loans for which we do not own any Excess MSR. Our failure to make that payment could result in liability to Ginnie Mae for any losses or claims that it suffers as a result. In addition, under an acknowledgment agreement with Fannie Mae or Freddie Mac, we could be exposed to potential liability in the event of a payment default by an approved seller/servicer. However, the amount of the potential liability to Fannie Mae or Freddie Mac would be limited to the mortgage loans in the servicing portfolio identified in the acknowledgment agreement.

Given the size of Freedom Mortgage's portfolio of FHA/VA loans that have been pooled into Ginnie Mae-guaranteed Agency RMBS, it is unlikely that we would be able to satisfy that obligation under the acknowledgment agreement should Freedom Mortgage fail to make a required payment. In that case we would be subject to claims for losses by Ginnie Mae which would have a material and adverse effect on our financial condition and operations, and our ability to enter into acknowledgment agreements in the future and to acquire Excess MSR related to FHA/VA mortgage loans would be adversely affected. The only remedy related to the servicing permitted under the acknowledgment agreement is to request Ginnie Mae to transfer the servicing to another Ginnie Mae-approved issuer/servicer which would terminate our interest in the related Excess MSR. The termination of our Excess MSR could have a material adverse effect on our financial condition, results of operations and ability to make distributions to our stockholders.

### **Our investments in Excess MSR may involve complex or novel structures.**

Our investments in Excess MSR may involve complex or novel structures. It is possible that the views of Fannie Mae, Freddie Mac and Ginnie Mae on whether any such investment structure is appropriate or acceptable may not be known to us when we make an investment and may change from time to time for any reason or for no reason, even with respect to a completed investment. The evolving posture of Fannie Mae, Freddie Mac and Ginnie Mae toward an acquisition or disposition structure through which we propose to invest in or dispose of Excess MSR may cause Fannie Mae, Freddie Mac or Ginnie Mae to impose new conditions on investments in Excess MSR, including the owner's ability to hold such Excess MSR directly or indirectly through a grantor trust or other means. Such new conditions may be costly or burdensome and could materially impact our obligation to invest in or dispose of Excess MSR.

In addition, the requirements imposed by mortgage owners on servicers may require us to structure the terms, purchase price and form of consideration that we and the servicer pay differently in various deals. For example, if a mortgage owner imposes stricter requirements on a servicer to repurchase loans under certain circumstances, the servicer will be required to assume a significantly higher level of risk in connection with servicing the loans underlying the applicable mortgage servicing right and related Excess MSR than the servicer would assume if the mortgage owner did not impose such requirements. As a result, the basic fee paid to the servicer with respect to those mortgage servicing rights may be higher (and the related Excess MSR may be lower) than in deals where the mortgage owner does not impose such requirements.

**Our assumptions in determining the purchase price for our Excess MSR may be inaccurate or the basis for such assumptions may change, which could adversely affect our results of operations.**

The purchase price for our Initial Excess MSR was negotiated with Freedom Mortgage and reflects our respective assessments of the likely performance of the mortgage loans in the Initial Pool in terms of prepayment rates, rates of delinquency and default and recapture rates. If the performance of the mortgage loans in the Initial Pool differs from that assumed, the return on our investment may be less than we anticipate and our results of operations may be adversely affected.

**The value of our Excess MSR may vary substantially by changes in interest rates unless we are able to hedge against that uncertainty.**

The values of Excess MSR are highly sensitive to changes in interest rates. The value of Excess MSR typically increases when interest rates rise and decreased 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 Excess MSR, 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, Excess MSR as interest rates change.

**If delinquencies increase, the value of our Excess MSR may decline significantly.**

Delinquency rates have a significant impact on the value of Excess MSR. An increase in delinquencies 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 estimated fair value of the Excess MSR could be diminished. As a result, we could suffer a loss, which would have a negative impact on our financial results.

**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 underlying Excess MSR and Agency RMBS 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 mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. When borrowers prepay their mortgage loans at rates that are faster or slower than expected, it results in prepayments that are faster or slower than expected on the related Excess MSR and Agency RMBS. These faster or slower than expected payments may adversely affect our profitability.

We will record Excess MSR on our balance sheet at fair value, and changes in their fair value will be reflected in our consolidated results of operations. The determination of the fair value of Excess MSR requires our management to make numerous estimates and assumptions that could materially differ from actual results. Such estimates and assumptions include prepayment rates, as well as estimates of the future cash flows from the Excess MSR, interest rates, delinquencies and foreclosure rates of the underlying mortgage loans among others. The ultimate realization of the value of Excess MSR, which are measured at fair value on a recurring basis, may be materially different than the fair values of such Excess MSR 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

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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 Excess MSR to materially vary, which could have a material adverse effect on our financial position, results of operations and cash flows. If the fair value of our Excess MSR 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 Excess MSRs, and we could ultimately receive substantially less than what we paid for such assets.

We may purchase securities or loans that have a higher interest rate than the then prevailing market interest rate. In exchange for this higher interest rate, we may pay a premium to par value to acquire the security or loan. In accordance with GAAP, we amortize this premium over the expected term of the security or loan based on our prepayment assumptions. If a security or loan is prepaid in whole or in part at a faster than expected rate, however, we must expense all or a part of the remaining unamortized portion of the premium that was paid at the time of the purchase, which will adversely affect our profitability.

We also may purchase securities or loans that have a lower interest rate than the then prevailing market interest rate. In exchange for this lower interest rate, we may pay a discount to par value to acquire the security or loan. We accrete this discount over the expected term of the security or loan based on our prepayment assumptions. If a security or loan is prepaid at a slower than expected rate, however, we must accrete the remaining portion of the discount at a slower than expected rate. This will extend the expected life of investment portfolio and result in a lower than expected yield on securities and loans purchased at a discount to par.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. 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, among other conditions, 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. Ginnie Mae provides the issuer the option to buy 90 days or more delinquent loans out of the mortgage-backed securities that it services, which may also contribute to an increase in prepayment rates. Consequently, prepayment rates also may be affected by conditions in the housing and financial markets, which may result in increased delinquencies on mortgage loans, the government-sponsored entities, cost of capital, general economic conditions and the relative interest rates on fixed and adjustable rate loans, which could lead to an acceleration of the payment of the related principal. Additionally, changes in the government-sponsored entities' decisions as to when to repurchase delinquent loans can materially impact prepayment rates.

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

With respect to our Excess MSRs, voluntary prepayments eliminate the Excess MSR on the mortgage loans being prepaid. In recent years, Freedom Mortgage has experienced relatively high rates of recapture. There can be no assurance that Freedom Mortgage will continue to successfully enjoy the levels of recapture it has historically had, particularly as interest rate environments change. In addition, although we expect Freedom

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Mortgage to replace the Excess MSRs on loans in the pools that are refinanced by Freedom Mortgage, there can be no assurance that Freedom Mortgage will enter into recapture agreements with us in the future or that it will be successful in replacing any Excess MSRs, which would negatively impact our cash flows. When we purchase Excess MSRs, we base the price we pay and the rate of amortization of those assets on, among other things, our projection of the cash flows from the pool of mortgage loans underlying the related MSRs. Our expectation of prepayment speeds and recapture rates is a significant assumption underlying our cash flow projections and if prepayment speeds are significantly greater than expected or recapture rates significantly lower than expected, the carrying value of our Excess MSRs could exceed their estimated fair value.

### **The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae, Freddie Mac and Ginnie Mae and the U.S. Government, may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.**

The payments we receive on our Agency RMBS depend upon a steady stream of payments by borrowers on the underlying mortgages and such payments are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Fannie Mae and Freddie Mac are GSEs, but their guarantees are not backed by the full faith and credit of the United States. Ginnie Mae, which guarantees Agency RMBS backed by mortgage loans insured by the FHA or guaranteed by the VA, is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the United States.

During 2008, there were increased market concerns about Fannie Mae's and Freddie Mac's ability to withstand future credit losses associated with securities held in their investment portfolios, and on which they provide guarantees, without the direct support of the U.S. Government. In September 2008 Fannie Mae and Freddie Mac were placed into the conservatorship of the FHFA, their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, a part of the Housing and Economic Recovery Act of 2008. Under this conservatorship, Fannie Mae and Freddie Mac are required to reduce the amount of mortgage loans they own or for which they provide guarantees on Agency RMBS.

In addition to the FHFA becoming the conservator of Fannie Mae and Freddie Mac, (i) the U.S. Treasury and FHFA entered into preferred stock purchase agreements with Fannie Mae and Freddie Mac pursuant to which the U.S. Treasury ensures that each of Fannie Mae and Freddie Mac maintains a positive net worth through 2012; (ii) the U.S. Treasury established a secure lending credit facility for Fannie Mae, Freddie Mac, and the FHFA to serve as a liquidity backup; and (iii) the U.S. Treasury initiated a program to purchase RMBS issued by Fannie Mae and Freddie Mac. Although the U.S. Government has committed to support the positive net worth of Fannie Mae and Freddie Mac, through preferred stock purchases as necessary through 2012, there can be no assurance that these actions will be adequate for their needs, and there is no guarantee of capital support beyond that date (although it is projected that they will need such support). These agreements, as amended, also require the reduction of Fannie Mae's and Freddie Mac's mortgage and Agency securities portfolios (they must be reduced by at least 15% each year until their respective mortgage assets reach \$250 billion).

Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the U.S. Treasury noted that the guarantee structure of Fannie Mae and Freddie Mac required examination and that changes in the structures of the entities were necessary to reduce risk to the financial system. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be considerably limited relative to historical measurements or even eliminated. The U.S. Treasury could also stop providing financial support for Fannie Mae and Freddie Mac in the future. The substantial financial assistance provided by the U.S. Government to Fannie Mae and Freddie Mac, especially in the course of their being placed into conservatorship and thereafter, together with the substantial financial assistance provided by the U.S. Government to the mortgage-related operations of other GSEs and government agencies, such as the FHA, the VA, and Ginnie Mae, has stirred debate among many federal policymakers over the continued role of the U.S. Government in providing such financial support for the mortgage-related GSEs in particular, and for the

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mortgage and housing markets in general. In fact, in February 2011, the U.S. Treasury released a white paper entitled “Reforming America’s Housing Finance Market” in which the U.S. Treasury outlined three possible options for reforming the U.S. Government’s role in housing finance. Under each option, the role of the U.S. Government in the mortgage market would be reduced. Each of Fannie Mae, Freddie Mac and Ginnie Mae could be dissolved and the U.S. Government could determine to stop providing liquidity support of any kind to the mortgage market. If Fannie Mae, Freddie Mac or Ginnie Mae were eliminated, or their structures were to change radically or the U.S. Government significantly reduced its support for any or all of them, we may be unable or significantly limited in our ability to acquire Agency RMBS, which would drastically reduce the amount and type of Agency RMBS available for purchase which, in turn, could materially adversely affect our ability to maintain our exclusion from regulation as an investment company under the Investment Company Act. Moreover, any changes to the nature of the guarantees provided by, or laws affecting, Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the credit quality of the guarantees, could increase the risk of loss on purchases of Agency RMBS issued by these GSEs and could have broad adverse market implications for the Agency RMBS they currently guarantee. Any action that affects the credit quality of the guarantees provided by Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the value of our Agency RMBS. We expect to rely on our Agency RMBS as collateral for our financings under the repurchase agreements that we expect to enter into. Any decline in their value, or perceived market uncertainty about their value, would make it more difficult for us to obtain financing on our Agency RMBS on acceptable terms or at all, or to maintain compliance with the terms of any financing transactions.

In addition, although we do not expect Excess MSRs that have already been created to be subject to any changes implemented by the GSEs, it is possible that, because of the significant role of the GSEs in the secondary mortgage market, any changes they implement could become prevalent in the mortgage servicing industry generally. Other industry stakeholders or regulators may also implement or require changes in response to the perception that the current mortgage servicing practices and compensation do not appropriately serve broader housing policy objectives.

### **The downgrade of the U.S. Government’s or certain European countries’ credit ratings and any future downgrades of the U.S. Government’s or certain European countries’ credit ratings may materially adversely affect our business, financial condition and results of operations.**

On August 5, 2011, Standard & Poor’s downgraded the U.S. Government’s credit rating for the first time in history. Because Fannie Mae and Freddie Mac are in conservatorship of the U.S. Government, downgrades to the U.S. Government’s credit rating could impact the credit risk associated with Agency RMBS and, therefore, decrease the value of the Agency RMBS in which we expect to invest. In addition, the downgrade of the U.S. Government’s credit rating and the credit ratings of certain European countries has created broader financial turmoil and uncertainty, which has recently weighed heavily on the global banking system. Therefore, the recent downgrade of the U.S. Government’s credit rating and the credit ratings of certain European countries and any future downgrades of the U.S. Government’s credit rating or the credit ratings of certain European countries may materially adversely affect our business, financial condition and results of operations.

### **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 earn on our 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 intend to fund our fixed-rate target assets with short-term borrowings. Therefore, to the extent we finance our assets with floating-rate debt or debt with shorter maturities,

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such as repurchase agreements, there will be an interest rate mismatch between our assets and liabilities. The use of interest rate hedges also will introduce the risk of other interest rate mismatches and exposures, as will the use of other financing techniques. During periods of changing interest rates, these mismatches could cause our business, financial condition and results of operations and ability to make distributions to our stockholders to be materially adversely affected.

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 risks could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

### **Certain actions by the U.S. Federal Reserve could cause a flattening of the yield curve, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.**

On September 21, 2011, the U.S. Federal Reserve announced “Operation Twist,” a program by which it purchased, by the end of June 2012, \$400 billion of U.S. Treasury securities with remaining maturities between six and 30 years and sold an equal amount of U.S. Treasury securities with remaining maturities of three years or less. On June 20, 2012, the U.S. Federal Reserve announced that it would extend Operation Twist through the end of 2012 by purchasing and selling an additional \$267 billion of such securities. More recently, in an effort to keep long-term interest rates at low levels, the U.S. Federal Reserve announced on December 12, 2012 an expansion of its asset buying program starting in January 2013, at which time it would commence outright purchases of longer-term U.S. Treasury securities at a pace of \$45 billion per month. This new U.S. Treasury securities purchase program replaces “Operation Twist,” which expired in December 2012. The effect of Operation Twist or this new U.S. Treasury securities purchase program could be a flattening in the yield curve, which could result in increased prepayment rates due to lower long-term interest rates and a narrowing of our net interest margin. Consequently, these securities purchase programs and any other future securities purchase programs by the U.S. Federal Reserve could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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

In the second half of 2008, the U.S. Government, through the U.S. Treasury, FHA and the FDIC, commenced implementation of programs designed to provide homeowners with assistance in avoiding foreclosure. The programs involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans. Extension and expansion of these programs and adoption of new mortgage loan modification programs have been regularly discussed as part of the ongoing debate regarding the country’s housing market including most recently as part of President Obama’s “Blueprint for an America Built to Last,” announced as part of his January 2012 State of the Union address. It is likely that loan modifications would result in interest rate reductions or principal reductions on some of the mortgage loans underlying our Excess MSRs and backing our RMBS. However, it is also likely that loan modifications would result in increased prepayments on some RMBS. See “—Prepayment rates can change, adversely affecting the performance of our assets” above for information relating to the impact of prepayments on our business.

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



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results of operations and financial condition and our ability to make distributions to our stockholders, particularly if we make such changes in response to new or amended laws, regulations or ordinances in any state where we acquire a significant portion of our mortgage loans, or if such changes result in us being held responsible for any violations in the mortgage loan origination process.

### **Interest rate caps on the ARMs and hybrid ARMs that 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 may 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.

### **Changes in the underwriting standards by Freddie Mac or Fannie Mae could have an adverse impact on Agency mortgage investments in which we may invest or make it more difficult to acquire attractive non-Agency mortgage investments.**

In 2010, Freddie Mac and Fannie Mae announced tighter underwriting guidelines for ARMs and hybrid interest-only ARMs in particular. Specifically, Freddie Mac announced that it would no longer purchase interest-only mortgages and Fannie Mae changed its eligibility criteria for purchasing and securitizing ARMs to protect consumers from potentially dramatic payment increases. Our targeted assets include Agency RMBS that may be backed by, and prime jumbo mortgage loans that may include, ARMs and hybrid ARMs. Tighter underwriting standards by Freddie Mac or Fannie Mae could reduce the supply of ARMs, resulting in a reduction in the availability of the asset class. More lenient underwriting standards could also substantially reduce the supply and attractiveness of investments in non-Agency MBS.

### **Our Manager relies on analytical models and other data to analyze potential asset acquisition and disposition opportunities and to manage our portfolio. These models could cause us to purchase assets that do not meet our expectations or to make asset management decisions that are not in line with our strategy.**

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 also in connection with 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. 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

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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 will be based on valuations provided by third-party dealers and pricing services, we will 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. In general, dealers and pricing services heavily disclaim their valuations. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. The valuation process has been particularly difficult recently because market events have made valuations of certain assets unpredictable, and the disparity of valuations provided by third-party dealers has widened.

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 were materially higher than the values that would exist if a ready market existed for these assets.

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

Our operating results will depend in large part on the difference between the income from our assets, net of credit losses, and financing costs. We anticipate that, in many cases, the income from our assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence our financial results.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Interest rate fluctuations present a variety of risks, including the risk of a narrowing of the difference between asset yields and borrowing rates, flattening or inversion of the yield curve and fluctuating prepayment rates.

The relationship between short-term and longer-term interest rates is referred to as the “yield curve.” In a normal yield curve environment, generally fixed income assets decline in value if interest rates increase. If long-term rates increased significantly, not only will the market value of these assets be expected to decline, but the duration and weighted-average life of the assets could increase as well because borrowers are less likely to

prepay mortgages. Further, an increase in short-term interest rates would increase the rate of interest payable on any repurchase agreements required to finance these securities more rapidly than the interest earned on our assets.

Subject to qualifying and maintaining our qualification as a REIT, we will endeavor to economically hedge our exposure to changes in interest rates, but there can be no assurances that our hedges will be successful, or that we will be able to enter into or maintain such hedges. As a result, interest rate fluctuations can cause significant losses, reductions in income, and limitations on our cash available for distribution to stockholders.

**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 generate income and pay dividends.**

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 generate income and pay dividends may be materially and adversely affected.

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

We may acquire assets or other instruments that are not liquid, including securities and other instruments that are not publicly traded, and market conditions could significantly and negatively affect the liquidity of other assets. In particular, Excess MSR are highly illiquid and subject to numerous restrictions on transfers. The duties and obligations of mortgage servicers are defined through contractual agreements. These contracts generally require that holders of Excess MSR obtain a third-party consent prior to any change of ownership of such Excess MSR. Such approval may be withheld for any reason or no reason in the discretion of the third party. Additionally, investments in Excess MSR are a new type of transaction, and there have been extremely few investment products that pursue a similar investment strategy. Accordingly, the risks associated with the transaction and structure are not fully known to buyers or sellers. As a result of the foregoing, there is some risk that we will be unable to locate a buyer at the time we wish to sell an Excess MSR. Additionally, there is some risk that we will be required to dispose of Excess MSR either through an in-kind distribution or other liquidation vehicle, which will, in either case, provide little or no economic benefit to us, or a sale to a co-investor in the Excess MSR, which may be an affiliate. Therefore, we cannot provide any assurance that we will obtain any return or any benefit of any kind from any disposition of Excess MSR.

In addition, mortgage-related assets generally experience periods of illiquidity, including the recent period of delinquencies and defaults with respect to residential and commercial mortgage loans. In addition, validating third-party pricing for illiquid assets may be more subjective than more liquid assets. Any illiquidity of our assets may make it difficult for us to sell such assets if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we previously recorded our assets. We may also face other restrictions on our ability to liquidate any assets for which we or our Manager has or could be attributed with material non-public information. If we are unable to sell our assets at favorable prices or at all, it could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders. 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.

**The failure of servicers to service effectively the mortgage loans underlying the Non-Agency RMBS in our investment portfolio or any mortgage loans we own would materially and adversely affect us.**

Most securitizations of residential mortgage loans require a servicer to manage collections on each of the underlying loans. Both default frequency and default severity of loans may depend upon the quality of the servicer. If servicers are not vigilant in encouraging borrowers to make their monthly payments, the borrowers may be far less likely to make these payments, which could result in a higher frequency of default. If servicers take longer to liquidate non-performing assets, loss severities may tend to be higher than originally anticipated. The failure of servicers to effectively service the mortgage loans underlying the non-Agency RMBS in our investment portfolio or any mortgage loans we own could negatively impact the value of our investments and our performance. Servicer quality is of prime importance in the default performance of non-Agency RMBS. Many servicers have gone out of business in recent years, requiring a transfer of servicing to another servicer. This transfer takes time and loans may become delinquent because of confusion or lack of attention. When servicing is transferred, servicing fees may increase, which may have an adverse effect on the credit support of non-Agency RMBS held by us. In the case of pools of securitized loans, servicers may be required to advance interest on delinquent loans to the extent the servicer deems those advances recoverable. In the event the servicer does not advance funds, interest may be interrupted even on more senior securities. Servicers may also advance more than is in fact recoverable once a defaulted loan is finally liquidated, and the loss to the securitization trust may be greater than the outstanding principal balance of that loan (greater than 100% loss severity).

**We may be affected by deficiencies in foreclosure practices of third parties, as well as related delays in the foreclosure process.**

One of the biggest risks overhanging the RMBS market has been uncertainty around the timing and ability of servicers to remove delinquent borrowers from their homes, so that they can liquidate the underlying properties and ultimately pass the liquidation proceeds through to RMBS holders. Given the magnitude of the housing crisis, and in response to the well-publicized failures of many servicers to follow proper foreclosure procedures (such as involving “robo-signing”), mortgage servicers are being held to much higher foreclosure-related documentation standards than they previously were. However, because many mortgages have been transferred and assigned multiple times (and by means of varying assignment procedures) throughout the origination, warehouse and securitization processes, mortgage servicers are generally having much more difficulty furnishing the requisite documentation to initiate or complete foreclosures. This leads to stalled or suspended foreclosure proceedings, and ultimately additional foreclosure-related costs. Foreclosure-related delays also tend to increase ultimate loan loss severities as a result of property deterioration, amplified legal and other costs, and other factors. Servicers have generally maintained that most of their problems are process-oriented and can be fixed in the near term; however, many factors delaying foreclosure, such as borrower lawsuits and judicial backlog and scrutiny, are outside of servicers’ control and have delayed, and will likely continue to delay, foreclosure processing in both judicial states (where foreclosures require court involvement) and non-judicial states.

The risk of extended foreclosure timelines is very difficult to quantify, and uncertainty has often been magnified by court cases with conflicting outcomes. Recent announcements of deficiencies in foreclosure documentation by, among others, several large mortgage servicers have raised various concerns relating to foreclosure practices. A number of mortgage servicers have temporarily suspended foreclosure proceedings in some or all states in which they do business while they review and correct their foreclosure practices. In addition, on February 9, 2012, a group consisting of state attorneys general and state bank and mortgage regulators in 49 states reached a settlement with the largest mortgage servicers regarding foreclosure practices in the states’ various jurisdictions. The extension of foreclosure timelines also increases the inventory backlog of distressed homes on the market and creates greater uncertainty about housing prices. Prior to making an opportunistic investment in non-Agency RMBS or an investment in Excess MSR related to mortgage loans other than conforming mortgage loans or FHA/VA mortgage loans, we expect our Manager to carefully consider many factors, including housing prices and foreclosure timelines, and estimate loss assumptions. The concerns about

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deficiencies in foreclosure practices of servicers and related delays in the foreclosure process may impact our loss assumptions and affect the values of, and our returns on, our investments in these assets.

### **We intend to 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.**

We intend to use leverage to finance our investment operations and to enhance our financial returns. We expect that our primary source of leverage will be short-term borrowings under master repurchase agreements collateralized by our Agency RMBS assets. Other sources of leverage may include credit facilities, including term loans and revolving credit facilities.

Through the use of leverage, we may acquire positions with market exposure significantly greater than the amount of capital committed to the transaction. Although we are not required to maintain any particular minimum or maximum target debt-to-equity leverage ratio with respect to our Agency 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's Investment Committee will have discretion, without the need for further approval by our board of directors, to change the amount of leverage we utilize for our Agency RMBS. We do not have a targeted debt-to-equity ratio for our Agency RMBS, although currently we expect that our debt-to-equity ratio initially will be approximately 8:1 for our Agency RMBS assets and could be as high as 10:1 depending on market conditions. We intend to use leverage for the primary purpose of financing our Agency RMBS portfolio and not for the purpose of speculating on changes in interest rates. We may, however, be limited or restricted in the amount of leverage we may employ by the terms and provisions of any financing or other agreements that we may enter into in the future, and we may be subject to margin calls as a result of our financing activity. In the future, we expect to acquire prime jumbo mortgage loans. We anticipate evaluating leverage policies for prime jumbo mortgage loans at such time. Currently, we do not intend to acquire non-Agency RMBS, but we may do so in the future, and we anticipate evaluating leverage policies for this asset class if and when we begin to acquire this asset class.

Our ability to achieve our investment and leverage objectives will depend on our ability to borrow money in sufficient amounts and on favorable 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, and the impact has also extended to Agency RMBS, which has made the value of these assets unstable and relatively illiquid compared to prior periods. This could potentially increase our financing costs and reduce our liquidity. In addition, because we intend to rely on short-term financing, we are exposed to changes in the availability of financing. For example, the terms of a repurchase transaction under a master repurchase agreement is typically 30 to 90 days. Because repurchase agreements are short-term commitments of capital, lenders may respond to market conditions making it more difficult for us to secure continued financing.

Leverage will magnify both the gains and the losses of our positions. Leverage will increase 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 will increase our losses. 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 may be required to post large amounts of cash as collateral or margin to secure our leveraged 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. This may decrease the cash available

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to us for distributions to stockholders, which could adversely affect the price of our common stock. In addition, our debt service payments 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 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.

### **We may not be able to achieve our optimal leverage or target leverage ratios.**

We will use leverage as a strategy to increase the return to our investors. However, we may not be able to achieve our desired leverage for any of the following reasons:

- we determine that the leverage would expose us to excessive risk;
- our lenders do not make funding available to us at acceptable rates or on acceptable terms; or
- our lenders require that we provide additional collateral to cover our borrowings.

In addition, if we exceed our target leverage ratios the potential adverse impact on our financial condition and results of operation described above may be amplified.

### **We may incur increased borrowing costs.**

Our borrowing costs may vary depending upon a number of factors, including, without limitation:

- the movement of interest rates;
- the availability of financing in the market, including the financial stability of lenders; and
- the value and liquidity of our RMBS.

Most of our borrowings will be collateralized borrowings in the form of repurchase transactions under master repurchase agreements, which will be generally adjustable and relate to short-term interest rates such as LIBOR or a short-term U.S. Treasury index. If the interest rates on these borrowings increase, our business, financial condition and results of operations and our ability to pay distributions to our stockholders could be materially adversely affected.

### **Adverse market developments could cause our lenders to require us to pledge additional assets as 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 might cause our lenders to initiate margin calls. A margin call means that the lender requires us to pledge additional collateral to re-establish the ratio of the value of the collateral to the amount of the borrowing. The specific collateral value to borrowing ratio that would trigger a margin call is not set in our master repurchase agreements and will not be determined until we engage in a repurchase transaction under these agreements. If we are unable to satisfy margin calls, our lenders may foreclose on our collateral. The threat of or occurrence of a margin call could force us to sell, either directly or through a foreclosure, our assets under adverse market conditions. Because we intend to use leverage, we may incur losses upon the threat or occurrence of a margin call, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders. Additionally, the

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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.

**If we are unable to negotiate favorable terms and conditions under our master repurchase arrangements, our financial condition and earnings could be negatively impacted.**

The terms and conditions of each of our repurchase transactions will be negotiated on a transaction-by-transaction basis, and these borrowings generally will be re-established, or rolled, at maturity. Key terms and conditions of each transaction will include interest rates, maturity dates, asset pricing procedures and margin requirements. We cannot assure you that we will be able to negotiate favorable terms and conditions on our repurchase transactions. In addition, our counterparties may require less favorable pricing procedures or increased margin requirements during periods of market illiquidity or due to perceived credit quality deterioration of the collateral pledged.

**Our use of repurchase transactions may give our lenders greater rights in the event that either we or any of our lenders 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 may 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.

**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, which, in turn, 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 will initially sell securities to the financial institution in exchange for cash and our counterparty will be 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 have terms up to 364 days or more. The cash we will receive when we initially sell the securities will be less than the value of those securities, which is referred to as the haircut. Many financial institutions from whom we may obtain repurchase financing have increased their haircuts in the past and may do so again in the future. If these haircuts are increased we will be required to post additional cash collateral for our Agency 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). We would also lose money on a repurchase transaction if the value of the underlying securities has declined as of the end of the transaction term, as we would have to repurchase the securities for their initial value but would receive securities worth less than that amount. Any losses we incur on our repurchase transactions could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

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. In that case, we would likely need to establish a replacement repurchase facility with another financial institution in order to continue to leverage our portfolio and carry out our investment strategy. 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 qualifying and maintaining our qualification as a REIT and exemption from registration under the Investment Company Act, we may pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates. Our hedging activity would vary 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 Internal Revenue Code of 1986, as amended, or 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 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 would be intended to limit losses, may actually adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

**Our use of certain hedging techniques may expose us to counterparty risks.**

If an interest rate swap counterparty cannot perform under the terms of the interest rate swap, we may not receive payments due under that swap, and thus, we may lose any unrealized gain associated with the interest rate swap. The hedged liability could cease to be hedged by the interest rate swap. Additionally, we may also risk the loss of any collateral we have pledged to secure our obligations under the interest rate swap if the counterparty becomes insolvent or files for bankruptcy. If we are required to sell our derivatives under these circumstances, we may incur losses. Similarly, if an interest rate cap counterparty fails to perform under the terms of the interest rate cap agreement, in addition to not receiving payments due under that agreement that would off-set our interest expense, we could also incur a loss for all remaining unamortized premium paid for that agreement.

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

Hedging instruments and other derivatives, including credit default swaps, involve risk because they may not, in many cases, be traded on regulated exchanges and may not be guaranteed or regulated by any U.S. or foreign governmental authorities. Consequently, for these instruments there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. While Title VII of the Dodd Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, provides for new federal regulation of the swaps market and sweeping changes to its structure, the provisions of Title VII that will have the most fundamental impact on the swaps



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market have not been finalized. Any such rulemaking may make our hedging more difficult to obtain or increase costs. Our Manager is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Furthermore, our Manager has only a limited internal credit function to evaluate the creditworthiness of its counterparties, mainly relying on its experience with such counterparties and their general reputation as participants in these markets. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default under the hedging agreement. Default by a party with whom we enter into a hedging transaction may result in losses and may force us to re-initiate similar hedges with other counterparties at the then-prevailing market levels. Generally we will seek to reserve the right to terminate our hedging transactions upon a counterparty's insolvency, but absent an actual insolvency, we may not be able to terminate a hedging transaction without the consent of the hedging counterparty, and we may not be able to assign or otherwise dispose of a hedging transaction to another counterparty without the consent of both the original hedging counterparty and the potential assignee. If we terminate a hedging transaction, we may not be able to enter into a replacement contract in order to cover our risk. There can be no assurance that a liquid secondary market will exist for hedging instruments purchased or sold, and therefore we may be required to maintain any hedging position until exercise or expiration, which could materially adversely affect our business, financial condition and results of operations.

The U.S. Commodity Futures Trading Commission, or CFTC, and certain commodity exchanges have established limits referred to as speculative position limits or position limits on the maximum net long or net short position which any person or group of persons may hold or control in particular futures and options. Limits on trading in options contracts also have been established by the various options exchanges. It is possible that trading decisions may have to be modified and that positions held may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could materially adversely affect our business, financial condition and results of operations and our ability to make distributions 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 Act requires most derivatives to be executed on a regulated market and cleared through a central counterparty, which may result 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 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 No-Action Letter and we intend to file 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 No-Action Letter or the relief provided by the No-Action Letter becomes unavailable for any other reason, we may need to seek to obtain another exemption from registration or our Manager may be required to register as a "commodity pool operator" with the CFTC. If our Manager is required to register with the CFTC as a commodity pool operator, our Manager would become subject to obtain disclosure, recordkeeping and reporting requirements, which may increase our expenses.

### **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

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future, we may make investments that are different from, and possibly riskier than, the investments described in this prospectus. A change in our investment or 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 investment strategies could increase the risk inherent in our asset acquisition strategy. Furthermore, a change in our asset allocation could result in our allocating assets in a different manner than as described in this prospectus.

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 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, such as funding from the U.S. Government. 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 attempt to comply with certain exclusions from the definition of an “investment company” or other exemptions 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 will depend 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 make distributions to our stockholders in amounts such that we distribute all or substantially all of our taxable income in each year (subject to certain adjustments). This distribution policy will enable 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 may not make an initial distribution until a significant portion of the proceeds of this offering have been invested. We will declare and make distributions to our stockholders only to the extent approved by our board of directors.

### **The recent actions of the U.S. Government for the purpose of stabilizing the financial markets may adversely affect our business, financial condition and results of operations and our ability to pay dividends to our stockholders.**

The U.S. Government, through the U.S. Federal Reserve, the U.S. Treasury, the U.S. Securities and Exchange Commission, or SEC, the FHA, the FDIC and other governmental and regulatory bodies have taken or

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are considering taking various actions to address the financial crisis. For example, on July 21, 2010 President Obama signed into law the Dodd-Frank Act. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us and, more generally, the financial services and mortgage industries. For example, the Dodd-Frank Act places restrictions on residential mortgage loan originations and reforms the asset-backed securitization markets most notably by imposing credit requirements. The Dodd-Frank Act also imposes requirements on originators to make reasonable, good faith determinations regarding a consumer's ability to repay a loan, subject to certain exceptions for qualified mortgages. Moreover, it is also possible that regulators or regulatory bodies, such as the Financial Stability Oversight Council, a panel comprising top U.S. financial regulators, may scrutinize or seek to implement changes to regulation which could negatively impact mortgage REITs such as ourselves. Additionally, we cannot predict whether there will be additional proposed laws or reforms that would affect us, whether or when such changes may be adopted, how such changes may be interpreted and enforced or how such changes may affect us. However, the costs of complying with any additional laws or regulations could have a material adverse effect on our business, financial condition and results of operations and our ability to pay dividends to our stockholders.

### **We are highly dependent on communications and information systems operated by third parties, and systems failures could significantly disrupt our business and negatively impact our operating results.**

Our business is highly dependent on communications and information systems that allow us to monitor, value, buy, sell, finance and hedge our investments. These systems are operated by third parties and, as a result, we have limited ability to ensure continued operation. In the event of systems failure or interruption, we will have limited ability to affect the timing and success of systems restoration. Any failure or interruption of our systems could cause delays or other problems in our securities trading activities which could have a material adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

### **The residential mortgage loans and other residential mortgage assets in which we may invest are subject to risk of default, among other risks.**

The mortgage-related assets that we may acquire from time to time may be subject to defaults, foreclosure timeline extension, fraud, residential price depreciation and unfavorable modification of loan principal amount, interest rate and amortization of principal, which could result in losses to us. Residential mortgage loans are secured by single-family residential property and, when not guaranteed by an agency, are subject to risks of delinquency and foreclosure and risks of loss. The payment of the principal and interest on the prime jumbo mortgage loans we may acquire are not guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The ability of a borrower to repay a loan secured by a residential property typically is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, acts of nature, terrorism, social unrest and civil disturbances, may impair borrowers' abilities to repay their loans. In the event of any default under a mortgage loan held directly by us, we bear a risk of loss of the principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor in possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on a foreclosed mortgage loan. RMBS evidence interests in, or are secured by, pools of residential mortgage loans. Accordingly, the RMBS in which we will invest may be subject to all of the risks of the respective underlying mortgage loans.

### **The mortgage origination business is subject to special litigation and regulatory risks.**

Because we intend to invest in Excess MSR, our business strategy is dependent on our relationships and arrangements with mortgage origination companies. The laws and regulations of the various jurisdictions in

which companies in the financial services industry conduct their mortgage lending business are complex, frequently changing and, in some cases, in direct conflict with each other. In particular, this business is subject to various laws, regulations and guidance that restrict non-prime loan origination or purchase activities. Some of these laws and regulations provide for assignee liability for warehouse lenders, whole loan buyers and securitization trusts. In addition, the downturn in the U.S. residential real estate market has resulted in increased regulatory scrutiny, and may result in increased complaints and claims, relating to non-prime mortgage origination practices, and further difficulties in the mortgage markets could result in increased exposure to liability, including possible civil and criminal liability, demands for indemnification or loan repurchases from purchasers of such loans (including securitization trusts), class action lawsuits or administrative enforcement actions. Furthermore, loans originated by a broker or other residential mortgage loan originator that is not properly licensed may be void or voidable. To the extent the mortgage origination companies we do business with face significant regulatory scrutiny or litigation risk, our investments in the Excess MSRs generated by these originators may be negatively impacted.

**Residential whole mortgage loans are subject to increased risks.**

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

Whole mortgage loans are also subject to “special hazard” risk (property damage caused by hazards, such as earthquakes or environmental hazards, not covered by standard property insurance policies), and to bankruptcy risk (reduction in a borrower’s mortgage debt by a bankruptcy court). In addition, claims may be assessed against us on account of our position as a mortgage holder or property owner, including assignee liability, responsibility for tax payments, environmental hazards and other liabilities. In some cases, these liabilities may be “recourse liabilities” or may otherwise lead to losses in excess of the purchase price of the related mortgage or property.

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

Before making an investment, our Manager intends to conduct (either directly or using third parties) certain due diligence. There can be no assurance that our Manager will conduct any specific level of due diligence, or that, among other things, our Manager’s due diligence processes will uncover all relevant facts or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

**Our compliance with the Sarbanes-Oxley Act and SEC rules concerning internal controls will be time-consuming, difficult, and costly.**

Under Section 404 of the Sarbanes-Oxley Act and current SEC regulations, we will be required to furnish a report by our management on our internal control over financial reporting beginning with our Annual Report on Form 10-K for our fiscal year ending December 31, 2014. We will soon begin the process of documenting and testing our internal control procedures in order to satisfy these requirements, which is likely to result in increased

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general and administrative expenses and may shift management's time and attention from revenue-generating activities to compliance activities. While we expect to expend significant resources to complete this important project, we may not be able to achieve our objective on a timely basis. It will be time-consuming, difficult and costly for us to develop and implement the internal controls, processes and reporting procedures required by the Sarbanes-Oxley Act. Our Manager may need to hire additional personnel to maintain our books and records and prepare our financial statements in accordance with GAAP, and if our Manager is unable to comply with the requirements of the legislation we may not be able to assess our internal controls over financial reporting to be effective in compliance with the Sarbanes-Oxley Act.

### **The real estate assets and real estate-related assets (including mortgage loans and RMBS) we intend to or may invest in are subject to the risks associated with real property.**

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

- continued declines in the value of real estate;
- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- costs of remediation and liabilities associated with environmental conditions such as indoor mold; and
- the potential for uninsured or under-insured property losses.

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

### **Risks Related to our Relationship with our Manager and Freedom Mortgage**

#### **Our Manager has no experience operating a REIT and we cannot assure you that our Manager's past experience will be sufficient to successfully manage our business as a REIT.**

Our Manager has no experience operating a REIT. The REIT provisions of the Code are complex, and any failure to comply with those provisions in a timely manner could prevent us from qualifying as a REIT or force us to pay unexpected taxes and penalties. In such event, our net income would be reduced and we could incur a loss.

#### **Our Manager has no prior experience operating a public company and therefore may have difficulty in successfully and profitably operating our business or complying with regulatory requirements, including the Sarbanes-Oxley Act, which may hinder their ability to achieve our objectives.**

Prior to this offering, our Manager has no experience operating a public company or complying with regulatory requirements, including the Sarbanes-Oxley Act. Our Manager's inexperience may hinder our Manager's ability to achieve our objectives and we cannot assure you that we will be able to successfully execute our business strategies as a public company, or comply with regulatory requirements applicable to public companies.

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

We do not have any employees of our own. Our officers are employees of Freedom Mortgage. We have no separate facilities and 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. We also depend on our Manager's access to the professionals and principals of Freedom Mortgage as well as information and deal flow generated by Freedom Mortgage. The employees of Freedom Mortgage identify, evaluate, negotiate, structure, close and monitor our portfolio. The departure of Messrs. Middleman, Lown or Levine or other senior officers of our Manager, or of a significant number of investment professionals or principals of Freedom Mortgage, 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 Manager's senior management. We are subject to the risk that our Manager will terminate the management agreement or that we may deem it necessary to terminate 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 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 execute our business plan. In addition, our Manager maintains a contractual as opposed to fiduciary relationship with us. 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 of our Manager to service our business with the requisite time and dedication could materially and adversely affect our ability to execute our business plan.

**The management fees payable to our Manager are 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 management fees, 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 and Freedom Mortgage's 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 board of directors has approved very broad investment guidelines for our Manager and will not approve each decision made by our Manager 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 guidelines and 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 them 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 qualifying and 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.

**Our business strategy heavily relies on our strategic alliance with Freedom Mortgage, particularly with respect to our continuing investment in Excess MSR, and to the extent the anticipated benefits of our strategic alliance do not materialize, our ability to successfully execute our strategy may be materially adversely affected.**

Our business strategy is primarily dependent on our relationship with Freedom Mortgage. We intend to capitalize on this relationship to source opportunities to acquire Excess MSR on a monthly flow basis from Freedom Mortgage as well as on a bulk basis with Freedom Mortgage. Although we will enter into a purchase agreement with Freedom Mortgage with respect to our Initial Excess MSR and expect to enter into a strategic alliance agreement and a flow and bulk Excess MSR purchase agreement with respect to future investments, there is no guarantee that we will be successful in negotiating future purchase agreements with Freedom Mortgage for additional Excess MSR related to mortgage loans that it originates on similar terms or at all. In addition, there is no guarantee that Freedom Mortgage will be successful in completing bulk purchases of MSR on mortgage loans from third-party servicers. To the extent we are unable to enter into future arrangements with Freedom Mortgage or Freedom Mortgage is unsuccessful in consummating bulk purchases of MSR, it would have a material adverse effect on our ability to effectively execute our business strategy and would materially and adversely impact our results of operations if we are unable to identify and enter into alternative business arrangements with other service providers.

Although we believe that our strategic alliance agreements generally align our and Freedom Mortgage's economic interests with respect to Excess MSR, Freedom Mortgage is a separate and distinct investment vehicle with its own business interests and will be under no obligation to maintain its current business strategy. In addition, to the extent we seek to leverage Freedom Mortgage's relationships with third parties to generate future investment opportunities in assets other than Excess MSR, such as prime jumbo loans, Freedom Mortgage will be under no obligation to co-invest with us or assist us in generating such opportunities.

**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 an affiliate of Freedom Mortgage. Both our Manager and Freedom Mortgage are wholly owned and controlled by Mr. Middleman. Prior to the completion of this offering, we had no independent directors and Mr. Middleman was our sole director.

We are dependent on our Manager for our day-to-day management, and we do not have any employees. Various potential and actual conflicts of interest may arise from the activities of Freedom Mortgage and its affiliates by virtue of the fact that our Manager is controlled by Freedom Mortgage. Our executive officers and the officers and employees of our Manager are also officers or employees of Freedom Mortgage and, with the exception of those officers that are dedicated to us, we compete with Freedom Mortgage for access to those individuals. 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, including the management of Freedom Mortgage, may reduce the time our Manager and certain of its officers and personnel spend managing us.

Our management agreement with our Manager, our strategic alliance agreements between us and Freedom Mortgage and the Excess MSR acquisition and recapture agreement related to our Initial Excess MSR were, and any other agreements that we may enter into with Freedom Mortgage in the future, whether pursuant to the strategic alliance agreements or otherwise, have been or will be negotiated between related parties and their respective terms, including the purchase price we will pay to Freedom Mortgage for our Excess MSR, including our Initial Excess MSR, and the fees and other amounts payable, may not be as favorable to us as if they were negotiated on an arm's-length basis with unaffiliated third parties. Furthermore, we may choose not to enforce, or to enforce less vigorously, our rights under such agreements because of our desire to maintain our ongoing relationships with Freedom Mortgage and our Manager. In the future, Freedom Mortgage may sponsor other vehicles that invest in Excess MSR or prime jumbo loans or other investments, and there may be situations where

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we compete with affiliates of Freedom Mortgage for opportunities to acquire Excess MSR or prime jumbo mortgage loans or other 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. To the extent we seek to leverage Freedom Mortgage's relationships with third parties to generate future investment opportunities, Freedom Mortgage will be under no obligation to co-invest with us in the future or assist us in generating such opportunities, other than pursuant to the terms of our strategic alliance agreements. Freedom Mortgage will be under no obligation, under the terms of the strategic alliance agreement or otherwise, to offer prime jumbo loans or other assets other than Excess MSRs 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 our Manager and its affiliates to the extent Freedom Mortgage or our Manager invests in or creates new vehicles to invest in Excess MSRs or other 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 and employees of our Manager who are our officers may serve as officers and/or directors of these other entities. 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 plan target as its primary investment category investment in Excess MSRs.

The ability of our Manager and its officers and employees to engage in other business activities, including their employment at Freedom Mortgage, 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 or our Manager, including, but not limited to, certain financing arrangements, co-investments in Excess MSRs and purchases of prime jumbo mortgage loans and 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 and preferred securities and a resulting increased risk of litigation and regulatory enforcement actions.

**The management agreement that we have entered into 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 that we have entered into 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 with an unaffiliated third party. Various potential and actual conflicts of interest may arise from the activities of Freedom Mortgage and its affiliates by virtue of the fact that our Manager is controlled by Freedom Mortgage.

Termination of our management agreement without cause is subject to several conditions which may make such a termination difficult and a significant termination fee could be payable by us. That fee will increase the



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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. Our Manager will maintain a contractual as opposed to a fiduciary relationship with us. Under the terms of the management agreement, our Manager, Freedom Mortgage, and their 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 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.

### **Our Manager's failure to identify and acquire assets that meet our asset criteria or perform its responsibilities under the management agreement could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.**

Our ability to achieve our objectives depends on our Manager's ability to identify and acquire assets that meet our asset criteria. Accomplishing our objectives is largely a function of our Manager's structuring of our investment process, our access to financing on acceptable terms and general market conditions. Our stockholders will not have input into our investment decisions. All of these factors increase the uncertainty, and thus the risk, of investing in our common stock. In order to implement certain strategies, our Manager may need to hire, train, supervise and manage new employees successfully. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations, our ability to qualify and maintain our qualification as a REIT and our ability to make distributions to our stockholders.

### **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, or if one or more of our Managers' key personnel cease to provide services for us, it could constitute an event of default or early termination event under many 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.

### **Our focus is different from that of Freedom Mortgage and its affiliates.**

Freedom Mortgage and its affiliates pursue a business strategy which is related to but differentiated from our strategy. Freedom Mortgage's business strategy focuses primarily on the origination and servicing of mortgage loans. The historical returns of Freedom Mortgage and its affiliates are not indicative of our Manager's or Freedom Mortgage's performance using our strategy and we can provide no assurance that our Manager or Freedom Mortgage will replicate the historical performance of Freedom Mortgage's investment professionals in their previous endeavors.

## Risks Related to Our Organizational Structure

### **Maintenance of our exclusion from regulation as an investment company under the Investment Company Act imposes significant limitations on our operations.**

We intend to conduct our operations so that neither we nor any of our subsidiaries is required to register as an investment company under the Investment Company Act. We will conduct our business primarily through our wholly-owned subsidiaries. The securities issued by our subsidiaries that are excluded from the definition of “investment company” under Section 3(c)(7) of the Investment Company Act, together with other investment securities we may own, cannot exceed 40% of the value of all our assets (excluding U.S. Government securities and cash) on an unconsolidated basis. This requirement limits the types of businesses in which we may engage and the assets we may hold. Certain of our subsidiaries may rely on the exclusion provided by Section 3(c)(5)(C) under the Investment Company Act. Section 3(c)(5)(C) of the Investment Company Act 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 exclusion generally requires that at least 55% of the entity’s assets on an unconsolidated basis consist of qualifying real estate assets and at least 80% of the entity’s assets consist of qualifying real estate assets or real estate-related assets. These requirements limit the 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 assets or real estate-related assets, we will 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 Division of Investment Management of the SEC regarding the treatment of assets as qualifying real estate assets 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 exemption from the need to register under the Investment Company Act, 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 exclusion 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 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 the beneficial or constructive ownership 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.

### **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 will elect 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

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- 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 these 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.

### **Our charter generally does not permit ownership in excess of 9.0% of any class or series of our stock, and attempts to acquire our stock in excess of the stock ownership limits will be ineffective unless an exemption is granted by our board of directors.**

Our charter generally prohibits beneficial or constructive ownership by any person of more than 9.0% in value or by number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our stock and contains certain other limitations on the ownership and transfer of our stock. In addition, our charter provides that Mr. Middleman, our Chairman and the founder of Freedom Mortgage, may beneficially or constructively own up to 13.0% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our stock. Our board of directors, in its sole and absolute discretion, may grant an exemption to certain of these prohibitions, subject to certain conditions and receipt by our board of certain representations, covenants and undertakings. Our board of directors may from time to time increase this ownership limit for one or more persons and may increase or decrease such limit for all other persons. Any decrease in the ownership limit generally applicable to all stockholders will not be effective for any person whose percentage ownership of our stock is in excess of such decreased ownership limit until such time as such person’s percentage ownership of our stock equals or falls below such decreased ownership limit, but any further acquisition of our stock in excess of such decreased ownership limit will be in violation of the decreased ownership limit. Our board of directors may not increase the decreased ownership limit (whether for one person or all stockholders) if such increase would allow five or fewer individuals (including certain entities) to beneficially own more than 49.9% in value of our outstanding stock.

Our charter’s constructive ownership rules are complex and may cause the outstanding shares of our stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than these percentages of the outstanding shares of any class or series of our stock by an individual or entity could cause that individual or entity to own constructively in excess of these percentages of the outstanding shares of such class or series of our stock and thus violate the ownership limit or

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other restrictions on ownership and transfer of our stock. Any attempt to own or transfer our common stock or preferred stock (if and when issued) following completion of this offering in excess of the ownership limit without the consent of our board of directors or in a manner that would cause us to be “closely held” under Section 856(h) of the Code (without regard to whether the stock is held during the last half of a taxable year) or would otherwise cause us to fail to qualify as a REIT will result in the stock being automatically transferred to a trustee for a charitable trust or, if the transfer to the charitable trust is not automatically effective to prevent a violation of the share ownership limits or the restrictions on ownership and transfer of our stock, any such transfer of our shares will be void ab initio. Further, any transfer of our stock that would result in our shares being beneficially owned by fewer than 100 persons will be void ab initio.

### **Conflicts of interest could arise in the future as a result of our structure.**

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any partner thereof, on the other. Our directors and officers have duties to our company under applicable Maryland law in connection with their oversight of the management of our company. At the same time, we will have fiduciary duties, as a general partner, to our operating partnership and to any limited partners under Delaware law in connection with the management of our operating partnership. Our duties as a general partner to our operating partnership and any of its partners may come into conflict with the duties of our directors and officers. In the event of a conflict between the interests of our stockholders and the interests of the limited partners of our operating partnership, we will endeavor in good faith to resolve the conflict in a manner not adverse to either our stockholders or the limited partners; provided, that for so long as we own a controlling interest in our operating partnership, any such conflict that we, in our sole and absolute discretion, determine cannot be resolved in a manner not adverse to either our stockholders or the limited partners of our operating partnership will be resolved in favor of our stockholders. For so long as we own a controlling interest in our operating partnership, the partnership agreement of our operating partnership requires us to resolve such conflicts in favor of our stockholders.

### **Risks Related to This Offering**

#### **There is currently no public market for our common stock, a trading market for our common stock may never develop following this offering and our common share price may be volatile and could decline substantially following this offering.**

Our common stock will be a newly issued security for which there is no established trading market. We expect that our common stock will be approved for listing on the NYSE, but there can be no assurance that an active trading market for our common stock will develop. Accordingly, no assurance can be given as to the ability of our stockholders to sell their common stock or the price that our stockholders may obtain for their common stock.

If an active market does not develop or is not maintained, the market price of our common stock may decline and you may not be able to sell your shares. Even if an active trading market develops for our common stock subsequent to this offering, the market price of our common stock may be highly volatile and subject to wide fluctuations. Our financial performance, government regulatory action, tax laws, interest rates and market conditions in general could have a significant impact on the future market price of our common stock. Some of the factors that could negatively affect our share price or result in fluctuations in our share price include:

- 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;
- 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;

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- actions by stockholders;
- speculation in the press or investment community;
- general market, economic and political conditions, including the recent economic slowdown and dislocation in 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.

### **For as long as we are an emerging growth company, we will not be required to comply with certain reporting requirements, including those relating to accounting standards and disclosure about our executive compensation, that apply to other public companies.**

We are an “emerging growth company,” as defined in Section 2(a) of the Securities Act of 1933, as amended, or the Securities Act, as modified by the JOBS Act. As such, we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and of stockholder approval of any golden parachute payments not previously approved. We have not made a decision whether to take advantage of any or all of these exemptions. If we do take advantage of any of these exemptions, we do not know if some investors will find our common stock less attractive as a result. The result may be a less active trading market for our common stock and our stock price may be more volatile.

We could remain an “emerging growth company” for up to five years or until the earliest of (a) the last day of the first fiscal year in which our annual gross revenues exceed \$1 billion, (b) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, or, Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the date on which we have issued more than \$1 billion in non-convertible debt securities during the preceding three-year period.

In addition, pursuant to Section 107 of the JOBS Act, as an “emerging growth company,” we are permitted to take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards, which would allow us to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. This election is irrevocable. As a result of our election to utilize the extended transition period, our financial statements may not be comparable to those of other public companies that comply with such new or revised accounting standards. Please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” for further discussion of our election to utilize the extended transition period for complying with new or revised accounting standards.

### **Future sales of our common stock or other 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 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 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 the perception that such sales could occur, may adversely

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affect prevailing market values for our common stock. In connection with this offering, we, our Manager and Freedom Mortgage and our directors and officers will enter into lock-up agreements that prevent us, subject to certain exceptions, from offering additional shares of our common stock for up to 180 days after the date of this prospectus, as described in “Underwriting.” In addition, Mr. Middleman, our Chairman, has indicated that he will enter into a lock-up agreement with the underwriters, covering a period of 12 months after the completion of this offering, with respect to shares of our common stock he will own as of the closing of this offering and the concurrent private placement and any shares he or any of his controlled affiliates, including Freedom Mortgage or our Manager, may acquire during the lock-up period. These lock-up provisions, at any time and without notice, may be released. If the restrictions under the lock-up agreements are waived, our common stock may become available for resale into the market, subject to applicable law, which could reduce the market price for our common stock.

**Future offerings of debt securities, which would rank senior to our common stock upon our bankruptcy 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 securities or additional offerings of equity securities. Upon bankruptcy or liquidation, holders of our debt securities and shares of our preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders shares of our common stock. Our preferred stocks, if issued, could have a preference on liquidating distributions or a preference on dividend payments or both that could limit our ability to pay a dividend or other 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 shareholdings in our company.

**An increase in market interest rates may have an adverse effect on the market price of our common stock and our ability to pay distributions to our stockholders.**

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our dividend rate as a percentage of our stock price, relative to market interest rates. If market interest rates increase, prospective investors may demand a higher dividend rate on our common stock or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and capital market conditions can affect the market price of our common stock. For instance, if interest rates rise without an increase in our dividend rate, the market price of our common stock could decrease because potential investors may require a higher dividend yield on our common stock as market rates on interest-bearing instruments such as bonds rise. In addition, to the extent we have variable rate debt, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting our cash flow and our ability to service our indebtedness and pay distributions to our stockholders.

**We may pay distributions from offering proceeds, borrowings or the sale of assets to the extent that distributions exceed earnings or cash flow from our investment activities.**

We may pay distributions from offering proceeds, borrowings or the sale of assets to the extent that distributions exceed earnings or cash flow from our investment activities. Such distributions would reduce the amount of cash we have available for investing and other purposes and could be dilutive to our financial results. In addition, funding our distributions from our net proceeds may constitute a return of capital to our investors, which would have the effect of reducing each stockholder’s basis in its common stock.

## U.S. Federal Income Tax Risks

### **Your investment has various U.S. federal income tax risks.**

Although the provisions of the Code relevant to your investment are generally described in “Material U.S. Federal Income Tax Considerations,” we strongly urge you to consult your own tax advisor concerning the effects of federal, state and local income tax law on an investment in our common stock and on your individual tax situation.

### **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 believe that, commencing with our short taxable year ending December 31, 2013, we will be organized in conformity with the requirements for qualification as a REIT under the Code and we intend to operate in a manner that will enable us to meet the requirements for taxation as a REIT commencing with our short taxable year ending December 31, 2013. However, we cannot assure you that we will qualify and remain qualified as a REIT. In connection with this offering, we will receive an opinion from Hunton & Williams LLP that, commencing with our short taxable year ending December 31, 2013, we will be organized in conformity with the requirements for qualification and taxation as a REIT under the U.S. federal income tax laws and our proposed method of operations will enable us to satisfy the requirements for qualification and taxation as a REIT under the U.S. federal income tax laws for our short taxable year ending December 31, 2013 and subsequent taxable years. Investors should be aware that Hunton & Williams LLP’s opinion will be based upon customary assumptions, will be conditioned upon certain representations made by us as to factual matters, including representations regarding the nature of our assets and the conduct of our business, will not be binding upon the Internal Revenue Service, or the IRS, or any court and will speak as of the date issued. In addition, Hunton & Williams LLP’s opinion will be based on existing U.S. federal income tax law governing qualification as a REIT, which is subject to change either prospectively or retroactively. 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 federal income tax laws. Hunton & Williams LLP will not review our compliance with those tests on a continuing basis. Accordingly, 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), including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income (although such dividends received by certain stockholders taxed at individual rates generally would be subject to a preferential rate of taxation). 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 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



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funds readily available for distribution, and 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.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our total assets consists of cash, cash items, government securities and qualified REIT real estate assets, including Excess MSRs and RMBS. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, TRS securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by securities of one or more TRSs. Generally, if we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid failing to qualify as a REIT and becoming subject to U.S. federal income tax (and any applicable state and local taxes) on all of our income. As a result, we may be required to liquidate from our portfolio otherwise attractive investments or contribute such investments to a TRS. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

### **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 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.

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

Even if we qualify for taxation as a REIT, we may be subject to certain 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, any TRSs we form will be subject to regular corporate federal, state and local taxes. Any of these taxes would decrease cash available for distributions to 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 MSR.**

We intend to invest in Excess MSRs. The IRS has issued a private letter ruling to another REIT holding 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 that private letter ruling 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 do not intend to seek our own private letter ruling. Thus, it is possible that the IRS could successfully take the position that 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 intend to enter into repurchase agreements under which we will nominally sell certain of our RMBS to a counterparty and simultaneously enter into an agreement 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 intend to purchase or sell TBAs primarily for purposes of managing interest rate risk associated with our liabilities under repurchase agreements. We generally intend to 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. We may, from time to time, 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

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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.

Moreover, 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 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.

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

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of or securitize mortgage loans in a manner that was treated as a sale of the mortgage loans for U.S. federal income tax purposes (such as a securitization using a real estate mortgage investment conduit, or REMIC, structure). Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of mortgage loans at the REIT level, and may limit the structures we utilize for our securitization transactions, even though such sales or structures might otherwise be beneficial to us. We may also choose to conduct such transactions through a TRS to avoid the imposition of a prohibited transaction tax.

### **Our ownership of and relationship with any 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 25% 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 federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on

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certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. Any domestic TRS that we may form will pay federal, state and local income tax on its taxable income, and its after-tax net income will be available for distribution to us but is not required to be distributed to us unless necessary to maintain our REIT qualification.

### **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 after 2013, 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%. Dividends payable by REITs, however, are generally not eligible for the reduced rates on qualified dividend income. 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 treated as qualified dividend income, which could adversely affect the value of the shares of REITs, including our common 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 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.

### **Certain financing activities may subject us to U.S. federal income tax and could have negative tax consequences for our stockholders.**

We may enter into securitization transactions and other financing transactions that could result in our, or a portion of our assets, being treated as a taxable mortgage pool for U.S. federal income tax purposes. If we enter into such a transaction in the future we will be taxable at the highest corporate income tax rate on a portion of the income arising from a taxable mortgage pool, referred to as "excess inclusion income," that is allocable to the percentage of our shares held in record name by disqualified organizations (generally tax-exempt entities that are exempt from the tax on unrelated business taxable income, such as state pension plans and charitable remainder trusts and government entities). In that case, under our charter, we could reduce distributions to such stockholders by the amount of tax paid by us that is attributable to such stockholder's ownership.

If we were to realize excess inclusion income, IRS guidance indicates that the excess inclusion income would be allocated among our stockholders in proportion to our dividends paid. Excess inclusion income cannot be offset by losses of our stockholders. If the stockholder is a tax-exempt entity and not a disqualified organization, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Code. If the stockholder is a foreign person, it would be subject to U.S. federal income tax at the maximum tax rate and withholding will be required on this income without reduction or exemption pursuant to any otherwise applicable income tax treaty.

**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, known as 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 qualify and 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.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains various “forward-looking statements.” Forward-looking statements relate to expectations, assumptions, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “would,” “could,” “should,” “seeks,” “approximately,” “intends,” “plans,” “projects,” “estimates” or “anticipates” or the negative of these words and phrases or similar words or phrases. All forward-looking statements may be impacted by a number of risks and uncertainties including statements regarding the following subjects:

- use of proceeds of this offering;
- our business and strategy;
- our projected operating results;
- statements about future distributions;
- our ability to deploy effectively and timely the net proceeds of this offering and the proceeds from the concurrent private placement of additional shares to our initial investors;
- our ability to obtain financing arrangements;
- our expectations regarding our future arrangements and interactions with Freedom Mortgage;
- our expected leverage;
- general volatility of the securities markets in which we invest and the market price of our common stock;
- our understanding of our competition and ability to compete effectively;
- our assumptions and expectations involving our Excess MSR investments, including the Initial Excess MSRs;
- our expected investments;
- market, industry and economic trends;
- our market opportunity;
- the regulatory environment in which we operate;
- interest rates;
- our hedging activities; and
- legal proceedings.

The forward-looking statements in this prospectus are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and could be wrong. Furthermore, these beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our common stock, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in this prospectus, including those set forth under the sections captioned “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business;”
- our and our Manager’s lack of operating history and our Manager’s lack of experience operating a REIT;
- general volatility of the financial markets, including markets for mortgage securities;

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- our use of and dependence on leverage;
- the lack of certainty as to the future roles and structures of Fannie Mae and Freddie Mac, and changes to legislation and regulations affecting these entities;
- changes in our business, strategy and investment guidelines;
- changes in and our perception of changes in our industry;
- changes in interest rates, interest rate spreads, the yield curve and prepayment rates;
- increases or decreases in prepayment rates on the mortgage loans underlying our Excess MSR and our Agency RMBS;
- changes in the market value of our assets, including the impact on margin calls;
- losses on our target assets;
- risks associated with our planned hedging activities and the effectiveness of our risk management strategies generally;
- our ability to maintain our relationship with our Manager and Freedom Mortgage;
- availability of suitable opportunities to acquire our target assets;
- availability of financing and the terms of such financings;
- our ability to consummate contemplated investment opportunities;
- the level of equity that may be required to support our borrowings;
- the liquidity of our portfolio or lack thereof;
- the degree and nature of our competition;
- changes in business conditions and the economy generally;
- general volatility of the capital markets and the lack of a public market for our common stock;
- further deterioration in the credit markets and the residential mortgage markets;
- availability of qualified personnel, including the continued availability of an external manager;
- the existence of conflict of interest in our relationship with our Manager and Freedom Mortgage, which could result in decisions that are not in the best interest of our stockholders;
- our ability to qualify and maintain our qualification as a REIT and limitations imposed on our business by our status as a REIT, including limitations on our ability to hedge and acquire certain types of assets;
- our ability to maintain our exclusion from regulation as an investment company under the Investment Company Act and possible consequences of not qualifying for or losing that exemption;
- changes in GAAP, including interpretations thereof;
- changes in applicable laws and regulations;
- our expectations regarding the time during which we will be an emerging growth company under the JOBS Act; and
- other risks associated with investing in residential mortgage-backed securities, including changes in business conditions and the general economy.

We cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on forward-looking statements, which apply only as of the date of this prospectus. We do not intend and disclaim any duty or obligation to update or revise any industry information or forward-looking statements set forth in this prospectus to reflect new information, future events or otherwise, except as required under the U.S. federal securities laws.

## USE OF PROCEEDS

We estimate that the net proceeds we will receive from this offering and the concurrent private placement will be approximately \$        million (or approximately \$        million if the underwriters fully exercise their over-allotment option), after deducting the estimated offering expenses payable by us. Our Manager has agreed to pay the entire underwriting discount and structuring fee payable with respect to each share sold in this offering. The underwriters will not receive a placement fee or any underwriting discount or commission on the shares purchased by Mr. Middleman in the concurrent private placement. We intend to contribute the net proceeds of this offering and the concurrent private placement to our operating partnership in exchange for OP units and cause our operating partnership to deploy these net proceeds as follows:

- approximately 25% to 30% to investments in Excess MSR, including the acquisition of our Initial Excess MSR from Freedom Mortgage for approximately \$40.5 million;
- approximately 65% to 60% to investments in Agency RMBS backed by 30-year, 20-year and 15-year FRMs.

We expect to deploy more than 90% of the net proceeds of this offering and the concurrent private placement to investment in Excess MSR, including our Initial Excess MSR, and Agency RMBS backed by 30-year FRMs, 20-year FRMs and 15-year FRMs.

Taking into account our intended debt-to-equity leverage ratio for our Agency RMBS assets and the targeted allocation of our equity capital described above, during the six months following the completion of this offering and the concurrent private placement, we expect the allocation of our assets to Excess MSR will grow from 4% to 10% (as a percentage of our total assets) and the allocation of our assets to Agency RMBS will decline from 95% to 88% (as a percentage of our total assets). Further, given our expected arrangements to acquire Excess MSR on a monthly flow basis from Freedom Mortgage, our current expectation is that one year following the completion of this offering and the concurrent private placement, our allocation of Excess MSR will be closer to 20% of our portfolio (as a percentage of our total assets).

Our asset acquisition decisions will be based on market conditions and other factors that our Manager deems relevant at the applicable time. Based on our expectation that the acquisition of Excess MSR on an unleveraged basis and Agency RMBS on a leveraged basis will continue to provide attractive opportunities, we expect that our equity capital will primarily be deployed in Excess MSR and Agency RMBS investments for the foreseeable future. However, we cannot assure you that we will not change the allocation of our equity capital over time. We will have significant flexibility, subject to our investment guidelines, to acquire assets other than the target assets described above. We reserve the right to change the way we allocate our capital at any time and from time to time, depending on prevailing market conditions, including, among other things, the pricing and supply of Excess MSR and Agency RMBS, the performance of our portfolio and the availability of terms for financing. Capital allocated to a particular class of Agency RMBS may reflect the actual usage of cash, such as in connection with the payment of the purchase price for such assets or in connection with the posting of collateral with third parties in connection with the financing of such assets or maintenance of such assets. While we do not intend to use leverage to finance our Excess MSR, we expect to borrow against our Agency RMBS through master repurchase agreements and use the proceeds of the borrowings to acquire additional Agency RMBS assets. Over time, we may deploy or redeploy a portion of our capital into targeted assets other than Excess MSR and Agency RMBS, including prime jumbo mortgage loans and non-Agency RMBS. We initially do not expect to acquire prime jumbo mortgage loans and non-Agency RMBS for our portfolio during the six-month period following the completion of this offering and the concurrent private placement. We may also use the net proceeds of this offering for general corporate purposes.



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Pending these uses, we intend to invest the net proceeds of this offering in readily marketable, interest bearing, short-term investment grade securities or money market accounts that are consistent with our intention to qualify as a REIT. Such temporary investments are expected to provide a lower net return than we anticipate achieving from our targeted investments.

Although we do not intend to use any of the net proceeds from this offering and the concurrent private placement to fund distributions to our stockholders, to the extent we use these net proceeds to fund distributions, these payments may be treated as a return of capital to our stockholders.

## DISTRIBUTION POLICY

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. See “Material U.S. Federal Income Tax Considerations.” Income as computed for purposes of the foregoing tax rules will not necessarily correspond to our income as determined for financial reporting purposes.

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;
- the timing of the investment of the net proceeds of this offering and the concurrent private placement;
- restrictions under Maryland law;
- 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 in the future. We may not pay an initial distribution until a significant portion of the proceeds of this offering and the concurrent private placement have been invested. See “Risk Factors.”

To the extent that our cash available for distribution is less than the amount required to be distributed under the REIT provisions of the Code, we may consider various funding sources to cover any shortfall, including selling certain of our assets, borrowing funds or using a portion of the net proceeds we receive in this offering and the concurrent private placement or future offerings (and thus all or a portion of such distributions may constitute a return of capital for U.S. federal income tax purposes). We also may elect to pay all or a portion of any distribution in the form of a taxable distribution of our shares or debt securities.

## CAPITALIZATION

The following table sets forth, as of March 31, 2013:

- our actual capitalization; and
- our capitalization as adjusted to give effect to this offering and the concurrent private placement and the amendment and restatement of our charter.

You should read this table together with “Use of Proceeds” and our consolidated financial statements and the related notes thereto included elsewhere in this prospectus.

	As of March 31, 2013	
	<u>Actual</u>	<u>As Adjusted(1)</u>
<b>Stockholders' Equity:</b>		
Common stock, par value \$0.01 per share: 1,000 shares authorized and 1,000 shares issued and outstanding, actual; 500,000,000 shares authorized and                      shares issued and outstanding, as adjusted	\$ 10	\$
Additional paid-in capital	<u>990</u>	<u>          </u>
Total stockholders' equity	<u>\$1,000</u>	<u>\$</u>

- (1) The common stock outstanding as shown includes shares of common stock to be issued in this offering and the concurrent private placement and excludes: (i) up to                      shares of our common stock issuable upon the exercise by the underwriters of their over-allotment option; (ii) 37,500 shares of our common stock issuable upon the exchange of 37,500 LTIP units, a special class of partnership interest in our operating partnership, to be granted to our executive officers and directors and to certain employees of our Manager and Freedom Mortgage who provide services to us upon completion of this offering pursuant to our 2013 Equity Incentive Plan; and (iii) up to 1,462,500 shares of our common stock reserved for future issuance pursuant to our 2013 Equity Incentive Plan. The number of shares of common stock outstanding after this offering and the concurrent private placement does not include the 1,000 shares of common stock issued to Mr. Middleman in connection with our initial capitalization. We will repurchase these shares from Mr. Middleman at the closing of this offering for \$1,000.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Cherry Hill Mortgage Investment Corporation is a newly formed residential real estate finance company that will acquire, invest in and manage residential mortgage assets in the United States. We will be externally managed and advised by our Manager, an affiliate of Freedom Mortgage. 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 intend to attain this objective by selectively constructing and actively managing a targeted portfolio of Excess MSR, Agency RMBS, prime jumbo mortgage loans and other stable and cashflowing residential mortgage assets. We will have a strategic alliance with Freedom Mortgage that we believe will provide us with frequent opportunities to acquire Excess MSR. We will elect and intend to qualify to be taxed as a REIT beginning with our short taxable year ending December 31, 2013.

Our asset acquisition strategy will focus on acquiring a diversified portfolio of residential mortgage assets that balances the risk and reward opportunities our Manager observes in the marketplace. We expect to allocate a majority of our equity capital over time, on an unleveraged basis, to the acquisition, of Excess MSR, including through our acquisition upon completion of this offering and the concurrent private placement, of an 85% participation interest in a portfolio of Excess MSR related to a pool of mortgage loans originated by Freedom Mortgage after January 1, 2011 and pooled into Ginnie Mae-guaranteed Agency RMBS. We expect the initial pool to have an aggregate outstanding UPB of approximately \$7.8 billion as of the closing of this offering. The purchase price for our Initial Excess MSR is approximately \$40.5 million and will be funded with a portion of the net proceeds of this offering and the concurrent private placement. We also intend to acquire Agency RMBS on a leveraged basis as part of our initial portfolio and our longer term strategy and, as the market for prime jumbo loans grows, we expect our portfolio to include this asset class as well. In addition, we may also invest opportunistically from time to time in other residential mortgage assets.

We do not currently intend to leverage our investments in Excess MSR assets and will use a portion of the net proceeds of this offering and the concurrent private placement to finance the acquisition of our Initial Excess MSR. We intend to finance our Agency 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 will primarily consist of short-term borrowings under master repurchase agreements collateralized by our Agency RMBS. We do not have a targeted debt-to-equity ratio for our Agency RMBS, although currently we expect that our debt-to-equity ratio initially will be approximately 8:1 for our Agency RMBS assets and could be as high as 10:1 depending on market conditions.

Subject to qualifying and maintaining our qualification as a REIT, we may 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 will 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 are organized as a Maryland corporation and will elect and intend to qualify to be taxed as a REIT commencing with our short taxable year ending December 31, 2013. We also intend to operate our business in a manner that will permit us to maintain our exclusion from regulation as an investment company under the Investment Company Act.

### **Factors Impacting our Operating Results**

We expect that the results of our operations will be affected by a number of factors and will primarily depend on, among other things, the level of our net interest income, the market value of our assets and the supply of, and demand for, Excess MSR, Agency MBS, prime jumbo loans and other residential mortgage assets in the marketplace. Our net interest income includes the actual interest payments we receive on our Excess MSR, Agency MBS and other residential mortgage assets and is also impacted by the amortization of purchase

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premiums and accretion of purchase discounts. Changes in various factors such as prepayment speeds, estimated future cash flows and credit quality could impact the amount of premium to be amortized or discount to be accreted into interest income for a given period. Interest rates and prepayment rates 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. To a lesser degree, our operating results may be impacted by credit losses in excess of initial anticipation or unanticipated credit events experienced by borrowers whose mortgage loans are held directly by us or included in our non-Agency MBS (to the extent that we plan to invest in this asset class in the future).

### ***Changes in the Market Value of Our Assets***

It is our business strategy to hold our Excess MSR as long-term investments. We expect that our Excess MSR will be carried at their fair value with changes in the fair value of our Excess MSR recorded in excess mortgage servicing rights related income or loss in our consolidated statements of operations.

Our RMBS will be carried at their fair value, as available-for-sale in accordance with ASC 320, *Accounting for Certain Investments in Debt or Equity Securities*, with changes in fair value recorded through accumulated other comprehensive income/(loss), a component of stockholders' equity. As a result, we do not expect that changes in the market value of our RMBS assets will normally impact our operating results. However, at least on a quarterly basis, we will assess both our ability and intent to continue to hold our RMBS as long-term investments. As part of this process, we will monitor our RMBS assets for other-than-temporary impairment. A change in our ability and/or intent to continue to hold any of our RMBS assets could result in our recognizing an impairment charge or realizing losses while holding these assets.

### ***Impact of Changes in Market Interest Rates on Excess MSRs***

Our Excess MSR will be subject to interest rate risk. Generally, in a declining interest rate environment, prepayment speeds increase which in turn would cause the value of Excess MSR to decrease. Conversely, in an increasing interest rate environment, prepayment speeds decrease which in turn would cause the value of Excess MSR to increase. To the extent we do not utilize derivatives to hedge against changes in the fair value of Excess MSR, 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, Excess MSR as interest rates change. The effects of such a decrease in values on our financial position, results of operations and liquidity are discussed below under "—Exposure of Excess MSR to Prepayment Speed."

### ***Impact of Changes in Market Interest Rates on Assets Other than Excess MSRs***

With respect to our proposed 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 in value;
- the coupons on our adjustable-rate and hybrid RMBS and mortgage loans to reset, although on a delayed basis, to higher interest rates;
- prepayments on our RMBS and mortgage loan portfolio to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts; and
- to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to increase.

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

- prepayments on our RMBS and mortgage loan portfolio to increase, thereby accelerating the amortization of our purchase premiums and the accretion of our purchase discounts;

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- the interest expense associated with our borrowings to decrease;
- the value of our assets to fluctuate in value;
- to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease, and
- coupons on our adjustable-rate and hybrid RMBS assets and mortgage loans to reset, although on a delayed basis, to lower interest rates.

### ***Exposure of Excess MSRs to Prepayment Speed***

Prepayment speeds significantly affect the value of Excess MSRs. 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. The price we pay to acquire Excess MSRs will be based on, among other things, our projection of the cash flows from the related pool of mortgage loans. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speeds are significantly greater than expected, the carrying value of Excess MSRs could exceed their estimated fair value. If the fair value of Excess MSRs 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 Excess MSRs, and we could ultimately receive substantially less than what we paid for such assets.

We will seek to reduce our exposure to prepayments through the structuring of our investments in Excess MSRs. For example, we will seek to enter into recapture agreements whereby we will receive a new Excess MSR with respect to a loan that was originated by the servicer and used to repay a loan underlying an Excess MSR that we previously acquired from that same servicer. In lieu of receiving an Excess MSR with respect to the loan used to repay a prior loan, the servicer may supply a similar Excess MSR. We will seek to enter into such recapture agreements in order to protect our returns in the event of elevated voluntary prepayment rates. To the extent our counterparties, including Freedom Mortgage, are unable to achieve anticipated recapture rates, we may not benefit from the terms of the recapture agreements we have entered into, and the value of our Excess MSRs could decline. For a summary of the recapture terms related to our Initial Excess MSRs, see “Business—Our Company.”

### ***Exposure of Assets, Other than Excess MSRs, to Prepayment Speed***

The value of our assets may be affected by prepayment rates on mortgage loans. If we acquire mortgage loans and mortgage related securities, including RMBS, we anticipate that the mortgage loans or the underlying mortgages will prepay at a projected rate generating an expected yield. If we purchase assets at a premium to par value, when borrowers prepay their mortgage loans faster than expected, the corresponding prepayments on our RMBS or other mortgage-related securities may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their mortgage loans slower than expected, the decrease in corresponding prepayments on our RMBS or other mortgage-related securities may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. 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 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. Based on our experience, we expect that over time our adjustable-rate and hybrid RMBS and mortgage loans will experience higher prepayment rates than do fixed-rate RMBS and mortgage loans, as we believe that homeowners with adjustable-rate and hybrid mortgage loans exhibit more rapid housing turnover levels or refinancing activity compared to fixed-rate borrowers. In addition, we anticipate that prepayments on adjustable-rate mortgage loans accelerate significantly as the coupon reset date approaches.

### ***Spreads on RMBS***

The spread between the yield on our assets and our funding costs will affect the performance of our business. Wider spreads imply 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 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.

### ***Extension Risk***

Our Manager will compute the projected weighted-average life of our assets based on assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. In general, when we acquire fixed-rate or adjustable-rate RMBS, we may, but are not required to, enter into an interest rate swap agreement or other hedging instrument that effectively fixes all or a portion of our borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the related assets. This strategy is designed to protect us from rising interest rates because the borrowing costs are fixed for the duration of the fixed-rate portion of the related assets.

If prepayment rates decrease in a rising interest rate environment, however, the life of the fixed-rate portion of the related assets could extend beyond the term of the swap agreement or other hedging instrument. This longer than expected life of the fixed-rate portion of the related asset could have a negative impact on our results of operations, as borrowing costs would no longer be fixed after the end of the swap agreement. This situation may also cause the market value of our adjustable-rate or hybrid RMBS to decline, with little or no offsetting gain from the related hedging transactions. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

### ***Market Conditions***

We believe that the U.S. mortgage finance system is undergoing historic change. Significant increases in regulation and public policy are influencing which investors will have the inclination and the financial ability to hold residential mortgage assets. We believe that capital from non-bank servicers and investors in mortgage servicing assets will represent an increasing share of ownership of servicing assets in the years to come. We also believe that as banks pull back from the mortgage finance business, non-bank originators such as Freedom Mortgage are poised to continue to increase production and capture market share. Non-bank mortgage originators will require efficient funding for MSR production. In addition, we believe that investors will continue to seek incremental spreads relative to U.S. Treasury Notes in a low yield environment and that mortgages represent an attractive total return investment opportunity.

We intend to capitalize on this opportunity by creating a tax-efficient entity through which public investors will be able to invest primarily in Excess MSRs, Agency RMBS and, over time, prime jumbo mortgage loans, as well as other residential mortgage assets depending on how market conditions evolve. We expect to benefit from Freedom Mortgage's origination and servicing abilities, operating and financial expertise and ability to engage in recapture originations by co-investing with Freedom Mortgage in Excess MSRs that we expect to generate attractive and consistent risk-adjusted returns for investors.

### ***Credit Risk***

Although we do not expect to encounter credit risk in our Excess MSR and Agency RMBS portfolio, we may be subject to varying degrees of credit risk in connection with our potential investment in other target assets. Through our Manager, we will seek to mitigate this risk by seeking to acquire high quality assets at appropriate prices given anticipated and unanticipated losses and employing a comprehensive review and asset selection process and careful ongoing monitoring of acquired assets. 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 GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and use of assumptions as to future uncertainties. In accordance with SEC guidance, the following discussion addresses the accounting policies that we will apply based on our expectation of our initial operations. Our most critical accounting policies will involve decisions and assessments that could affect our reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, as well as our reported amounts of revenues and expenses. We believe that all of the decisions and assessments upon which our financial statements will be based will be reasonable at the time made and based upon information available to us at that time. Our critical accounting policies and accounting estimates will be expanded over time as we fully implement our strategy. Those material accounting policies and estimates that we initially expect to be most critical to an investor's understanding of our financial results and condition and require complex management judgment are discussed below.

## ***Classification of Investment Securities and Impairment of Financial Instruments***

ASC 320-10, *Debt and Equity Securities*, requires that at the time of purchase, we designate a security as either trading, available-for-sale, or held-to-maturity depending on our ability and intent to hold such security to maturity. Securities available-for-sale will be reported at fair value, while securities held-to-maturity will be reported at amortized cost. 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. Accordingly, we will elect to classify substantially all of our securities as available-for-sale. 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. See "—Valuation of Financial Instruments."

When the estimated fair value of a security is less than amortized cost, we consider whether there is an other-than-temporary impairment, or OTTI, in the value of the security. An impairment is deemed an OTTI if (i) we intend to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovering our cost basis, or (iii) we do not expect to recover the entire amortized cost basis of the security even if we do not intend to sell the security or believe it is more likely than not that we will be required to sell the security before recovering our cost basis. If the impairment is deemed to be an OTTI, the resulting accounting treatment depends on the factors causing the OTTI. If the OTTI has resulted from (i) our intention to sell the security, or (ii) our judgment that it is more likely than not that we will be required to sell the security before recovering our cost basis, an impairment loss is recognized in current earnings equal to the difference between our amortized cost basis and fair value. Whereas, if the OTTI has resulted from our conclusion that we will not recover our cost basis even if we do not intend to sell the security, the credit loss portion of the impairment is recorded in current earnings and the portion of the loss related to other factors, such as changes in interest rates, continues to be recognized in accumulated other comprehensive income. Determining whether there is an OTTI may require management to exercise significant judgment and make significant assumptions, including, but not limited to, estimated cash flows, estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates. As a result, actual impairment losses could differ from reported amounts. Such judgments and assumptions are based upon a number of factors, including (i) credit of the issuer or the borrower, (ii) credit rating of the security, (iii) key terms of the security, (iv) performance of the loan or underlying loans, including debt service coverage and loan-to-value ratios, (v) the value of the collateral for the loan or underlying loans, (vi) the effect of local, industry, and broader economic factors, and (vii) the historical and anticipated trends in defaults and loss severities for similar securities.

## ***Investments in Excess MSR***

Upon acquisition, we expect to elect to record our investments in Excess MSR at fair value. We expect to make this election in order to provide the users of the financial statements with better information regarding the effects of prepayment risk and other market factors on the Excess MSR. Under this election, we will record a valuation adjustment on our Excess MSR investments on a quarterly basis to recognize the changes in fair value in net income as described in "—Revenue Recognition on Investments in Excess MSR" below.



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The fair values of Excess MSR are determined by projecting net servicing cash flows, which are then discounted to estimate the fair value. The fair values of Excess MSR are impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees, and underlying portfolio characteristics. The underlying assumptions and estimated values are corroborated by values received from independent third parties. Changes in fair value will be reported in excess mortgage servicing rights related income in our statement of results of operations.

### **Valuation of Financial Instruments**

ASC 820, *Fair Value Measurements and Disclosures*, or ASC 820, establishes a framework for measuring fair value in accordance with GAAP and expands financial statement disclosure requirements for fair value measurements. ASC Topic 820 further specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

- Level I—Valuation techniques in which all significant inputs are quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.
- Level II—Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices from markets that are not active for assets or liabilities that are identical or similar to the assets or liabilities being measured. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level II valuation techniques.
- Level III—Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect our assumptions about the assumptions that market participants would use in pricing an asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

When available, we use quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, we will consult independent pricing services or third party broker quotes, provided that there is no ongoing material event that affects the issuer of the securities being valued or the market. If there is such an ongoing event, or if quoted market prices are not available, our pricing officer will determine the fair value of the securities using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates.

### **Revenue Recognition on Investments in Excess MSR**

Investments in Excess MSR are aggregated into pools as applicable and each pool of Excess MSR is accounted for in the aggregate. Income for Excess MSR is accreted into income on an effective yield or “interest” method, based upon the expected excess servicing amount through the expected life of the underlying mortgages. Changes to expected cash flows result in a cumulative retrospective adjustment, which will be recorded in the period in which the change in expected cash flows occurs. Under the retrospective method, the income recognized for a reporting period is measured as the difference between the amortized cost basis at the end of the period and the amortized cost basis at the beginning of the period, plus any cash received during the period. The amortized cost basis is calculated as the present value of estimated future cash flows using an effective yield, which is the yield that equates all past actual and current estimated future cash flows to the initial investment. In addition, our policy is to recognize income only on Excess MSR in existing eligible underlying mortgages. The difference between the fair value of Excess MSR and their amortized cost basis will be recorded as “Change in Fair Value of Investments in Excess Mortgage Servicing Rights.” 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 Excess MSR, and therefore may differ from their effective yields.

### ***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 into interest income over the projected lives of the securities using the 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.

### ***Repurchase Transactions***

We intend to finance the acquisition of our Agency RMBS for our portfolio through repurchase transactions under master repurchase agreements. Repurchase transactions will be treated as collateralized financing transactions and will be carried at their contractual amounts, including accrued interest, as specified in the respective transactions. Although the economic terms of our borrowings under these repurchase transactions will not be determined until we engage in such repurchase transactions, we expect the terms of our agreements will generally conform to the terms in the standard master repurchase agreement of SIFMA.

Repurchase transactions will be treated as collateralized financing transactions. Securities financed through repurchase transactions will remain on our consolidated balance sheet as an asset and cash received from the purchaser will be recorded on our consolidated balance sheet as a liability. Interest paid in accordance with repurchase transactions will be recorded in interest expense.

### ***Income Taxes***

Our financial results are generally not expected to reflect provisions for current or deferred income taxes. We believe that we will operate in a manner that will allow us to qualify for taxation as a REIT. As a result of our expected REIT qualification, we do not generally expect to pay federal corporate level taxes, although any TRSs we form will be required to pay federal corporate level taxes on their income. Many of the REIT requirements, however, are highly technical and complex. If we were to fail to meet the REIT requirements, we would be subject to federal, state and local income taxes.

### ***Emerging Growth Company Status***

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. Because we qualify as an “emerging growth company,” we may, under Section 7(a)(2)(B) of the Securities Act, delay adoption of new or revised accounting standards applicable to public companies until such standards would otherwise apply to private companies. We may take advantage of this extended transition period until the first to occur of the date that we (i) are no longer an “emerging growth company” or (ii) affirmatively and irrevocably opt out of this extended transition period. We have elected to take advantage of the benefits of this extended transition period. This election is irrevocable. As a result, our financial statements may not be comparable to those of other public companies that comply with such new or revised accounting standards. Until the date that we are no longer an “emerging growth company” or affirmatively and irrevocably opt out of the exemption provided by Securities Act Section 7(a)(2)(B), upon issuance of a new or revised accounting standard that applies to our financial statements and that has a different effective date for public and private companies, we will disclose the date on which adoption is required for non-emerging growth companies and the date on which we will adopt the recently issued accounting standard.

### ***Results of Operations***

As of the date of this prospectus, we have not commenced operations other than the organization of our company. We will not commence operations or the acquisition of any of our target assets until we have completed this offering and the concurrent private placement. We are not aware of any material trends or uncertainties, other than economic conditions

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affecting our target assets, mortgage and financial markets and the broader residential real estate market, generally, that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition of real estate-related assets, other than those referred to in this prospectus.

### **Liquidity and Capital Resources**

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make distributions to our stockholders and other general business needs. Although we are not required to maintain any particular minimum or maximum target debt-to-equity leverage ratio with respect to our Agency 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. We will use significant cash to purchase our target assets, including our Initial Excess MSRs, repay principal and interest on our borrowings, make distributions to our stockholders and fund our operations. Our primary sources of cash will generally consist of the net proceeds from this offering and the concurrent private placement, payments of principal and interest we receive on our portfolio of assets, cash generated from our operating results and unused borrowing capacity under our financing sources. Depending on market conditions, we expect that our primary sources of financing will be through repurchase agreements initially and may in the future include, warehouse facilities, securitizations, resecuritizations, bank credit facilities (including term loans and revolving facilities), and public and private equity and debt issuances in addition to transaction or asset specific funding arrangements. We do not intend to use leverage to acquire Excess MSRs, but we may do so in the future to the extent financing is available to us for this asset class. We expect that our borrowings under our master repurchase agreements generally will have maturities that range from one month to one year. We do not have a targeted debt-to-equity ratio for our Agency RMBS, although currently we expect that our debt-to-equity ratio initially will be approximately 8:1 for our Agency RMBS assets and could be as high as 10:1 depending on market conditions. We intend to use leverage for the primary purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates. To the extent available on desirable terms, we expect to finance our initial Agency RMBS with repurchase agreement financing. In the future, we expect to acquire prime jumbo mortgage loans. We anticipate evaluating leverage policies for prime jumbo mortgage loans at such time. Currently, we do not intend to acquire non-Agency RMBS, but we may do so in the future, and we anticipate evaluating leverage policies for this asset class if and when we begin to acquire this asset class. We may, however, be limited or restricted in the amount of leverage we may employ by the terms and provisions of any financing or other agreements that we may enter into in the future.

In connection with repurchase transactions under repurchase agreements, we will be required to pledge additional assets as collateral to our repurchase counterparties (lenders) when the estimated fair value of the existing pledged collateral under such arrangements declines and such lenders, through a margin call, demand additional collateral. Margin calls result from a decline in the value of our assets collateralizing our repurchase transactions, generally following the monthly principal reduction of such investments due to scheduled amortization and prepayments on the underlying mortgages, changes in market interest rates, a decline in market prices affecting such investments and other market factors. To cover a margin call, we may pledge additional securities or cash. At maturity, any cash on deposit as collateral (i.e., restricted cash), if any, would generally be applied against the repurchase agreement balance, thereby reducing the amount borrowed. Should the value of our assets suddenly decrease, significant margin calls could result, causing an adverse change in our liquidity position.

While we generally intend to hold our target assets as long-term investments, certain of our investments securities may be sold in order to manage our interest rate risk and liquidity needs, meet other operating objectives and adapt to market conditions. The timing and impact of future sales of investment securities, if any, cannot be predicted with any certainty. Since we expect that our assets, other than our Excess MSRs, will generally be financed, we expect that a significant portion of the proceeds from sales of our assets (if any), prepayments and scheduled amortization will be used to repay balances under our financing sources.

### **Contractual Obligations and Commitments**

We have entered into a management agreement with our Manager, pursuant to which our Manager is entitled to receive a base management fee, the reimbursement of certain expenses and, in certain circumstances, a termination fee. See “Our Manager and the Management Agreement—Management Fee, Expense Reimbursement and Termination Fee.” The base management fee will be an amount equal to 1.5% per annum of our stockholders’ equity, calculated and payable quarterly in arrears. We will also be required to pay a termination fee equal to three times the average annual base management fee earned by our Manager during the two four-quarter periods ending as of the end of the fiscal quarter preceding the date of termination. Such termination fee will be payable upon termination of the management agreement by us without cause or by our Manager if we materially breach the management agreement. See “Our Manager and the Management Agreement—Management Fee, Expense Reimbursement and Termination Fee—Termination Fee.”

We will pay all of our direct operating expenses, except those specifically required to be borne by our Manager under the management agreement. Our Manager will be responsible for all costs incident to the performance of its duties under the management agreement, including compensation of our Manager’s employees and other related expenses. Our Manager will use the proceeds from its management fee in part to pay compensation to its officers and personnel who, notwithstanding that certain of them also are our officers, will receive no cash compensation directly from us. If our Manager elects to provide us with a dedicated or partially dedicated chief financial officer, controller, internal legal counsel and/or investor relations professional, our Manager will be entitled to be reimbursed for the costs of the wages, salaries and benefits incurred by our Manager with respect to such personnel, based on the percentage of their working time and efforts spent on matters related to our company. Our Manager intends to provide us with a chief financial officer (who will also serve as our treasurer and secretary), who may from time to time assist Freedom Mortgage with certain tasks. The amount of the wages, salary and benefits paid or reimbursed with respect to the chief financial officer our Manager intends to provide to us, as well as the amount of any wages, salaries and benefits paid or reimbursed with respect to any controller, internal legal counsel and/or investor relations professional our Manager elects to provide to us, will also be subject to the approval of the compensation committee of our board of directors.

Upon completion of this offering and the concurrent private placement, we will also enter into an Excess MSR acquisition and recapture agreement with Freedom Mortgage related to our Initial Excess MSRs. The purchase price for our Initial Excess MSRs takes into account our target yield for the investment, which has been risk adjusted for prepayment, recapture and delinquency assumptions. We also expect to enter into certain contracts that may contain a variety of indemnification obligations, principally with brokers, underwriters and counterparties to repurchase agreements. The maximum potential future payment amount we could be required to pay under these indemnification obligations may be unlimited.

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

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, or special purpose or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide additional funding to any such entities.

### **Distributions**

We intend to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to

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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 REIT taxable income. We intend to pay regular quarterly dividends to our stockholders in an amount equal to our REIT taxable income, 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 we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. In addition, prior to the time we have fully used the net proceeds of this offering and the concurrent private placement to acquire our target assets, we may fund our quarterly distributions out of such net proceeds.

### **Inflation**

Virtually all of our assets and liabilities will be interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our distributions will be determined by our board of directors consistent with our obligation to distribute to our stockholders at least 90% of our REIT taxable income on an annual basis in order to maintain our REIT qualification; in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

### **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 will be subject to interest rate risk in connection with our assets and our related financing obligations. In general, we expect to finance the acquisition of our assets through financings in the form of repurchase agreements, warehouse facilities, securitizations, re-securitizations, bank credit facilities (including term loans and revolving facilities) and public and private equity and debt issuances in addition to transaction or asset specific funding arrangements. In addition, the values of Excess MSRs are highly sensitive to changes in interest rates, historically increasing when rates rise and decreasing when rates decline. Subject to qualifying and maintaining our qualification as a REIT, we may mitigate interest rate risk through utilization of hedging instruments, primarily interest rate swap agreements but also financial futures, options, interest rate cap agreements, floors and forward sales. These instruments are intended to serve as a hedge against future interest rate increases on our borrowings.

#### ***Interest Rate Effect on Net Interest Income***

Our operating results will depend in large part on differences between the income earned on our assets and our cost of borrowing and hedging activities. The cost of our borrowings will generally be 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 mortgage assets, which could result in a

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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 Excess MSR. A decrease in interest rates could have a negative impact on the market value of our Excess MSR. 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 target assets, specifically our Agency 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 derivative securities are highly complex and may produce volatile returns.

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

Our adjustable-rate RMBS 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 mortgage assets that are not based on mortgages which are fully indexed. In addition, adjustable-rate and hybrid mortgage assets 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 and the projected results shown in this prospectus.

### ***Prepayment Risk***

The value of our assets may be affected by prepayment rates on mortgage loans. We anticipate that the mortgage loans, including the mortgages underlying our Excess MSR and RMBS, will prepay at a projected rate generating an expected yield. If we purchase assets at a premium to par value, when borrowers prepay their mortgage loans faster than expected, the corresponding prepayments may reduce the expected yield on such assets because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their mortgage loans slower than expected, the decrease in corresponding prepayments may reduce the expected yield on such assets because we will not be able to accrete the related discount as quickly as originally anticipated. In addition, with respect to our Excess MSR, if prepayment speeds are significantly greater than expected, the carrying value of our Excess MSR may exceed their estimated fair value. If the fair value of our Excess MSR decreases, we would be required to record a non-cash charge. Significant increases in prepayment speeds could also materially reduce the ultimate cash flows we receive from Excess MSR, and we could ultimately receive substantially less than what we paid for such assets.

### ***Counterparty Risk***

When we engage in repurchase transactions, we will generally sell securities to lenders (i.e., repurchase agreement counterparties) and receive cash from the lenders. The lenders will be obligated to resell the same securities back to us at the end of the term of the transaction. Because the cash we will 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). We would also lose money on a repurchase transaction if the value of the underlying securities has declined as of the end of the transaction term, as we would have to repurchase the securities for their initial value but would receive securities worth less than that amount.

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In addition, if a swap counterparty under an interest rate swap agreement that we intend to enter into as part of our hedging strategy cannot perform under the terms of the interest rate swap, we may not receive payments due under that agreement, and thus, we may lose any unrealized gain associated with the interest rate swap. The hedged liability could cease to be hedged by the interest rate swap. Additionally, we may also risk the loss of any collateral we have pledged to secure our obligations under the interest rate swap if the counterparty becomes insolvent or files for bankruptcy. Similarly, if an interest rate cap counterparty fails to perform under the terms of the interest rate cap agreement, in addition to not receiving payments due under that agreement that would off-set our interest expense, we could also incur a loss for all remaining unamortized premium paid for that security.

Our investments in Excess MSR are dependent on the mortgage servicer, including Freedom Mortgage, to perform its servicing obligations. If the mortgage servicer fails to perform its obligations and is terminated, our investments in the related Excess MSR could lose all their value. In addition, many servicers also rely on subservicing arrangements with third parties and the failure of subservicers to adequately perform their services may negatively impact the servicer and, as a result, the performance of our Excess MSR. See “Risk Factors—Risks Related to Our Business—We will be dependent on mortgage servicers to service the mortgage loans underlying the Excess MSR that we acquire.” In addition, should a servicer of Excess MSR that we acquire fail to make required payments, under our acknowledgment agreements with Ginnie Mae, Fannie Mae or Freddie Mac we could be exposed to potential liabilities. See “Risk Factors—Risks Related to Our Business—Acknowledgment agreements with Ginnie Mae, Fannie Mae or Freddie Mac could expose us to potential liability in the event of a payment default.” Moreover, our business model heavily relies upon our strategic alliance with Freedom Mortgage and our acquiring Excess MSR through our relationship with Freedom Mortgage. To the extent Freedom Mortgage loses its ability to serve as a servicer for one or more of the GSEs, we could face significant adverse consequences. Similarly, if Freedom Mortgage is unable to successfully execute its business strategy or no longer maintains its financial viability, our business strategy would be materially adversely affected and our results of operations would suffer.

### ***Funding Risk***

To the extent available on desirable terms, we initially expect to finance our initial Agency RMBS with repurchase agreement financing. Over time, as market conditions change, in addition to these financings, we may use other forms of leverage. We may also seek to finance other mortgage-related assets, such as prime jumbo loans. 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***

The assets that will comprise our asset portfolio will not be 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 our 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***

We may become subject to varying degrees of credit risk in connection with our assets. Although we do not expect to encounter credit risk in our Excess MSR portfolio or our Agency RMBS portfolio, to the extent we invest in non-Agency RMBS, we do expect to encounter credit risk related to this asset class.

## BUSINESS

### Our Company

Cherry Hill Mortgage Investment Corporation is a newly formed residential real estate finance company that will acquire, invest in and manage residential mortgage assets in the United States. We will be externally managed and advised by Cherry Hill Mortgage Management, LLC, or our Manager, an affiliate of Freedom Mortgage Corporation, or Freedom Mortgage. 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 intend to attain this objective by selectively constructing and actively managing a targeted portfolio of Excess MSR, Agency RMBS, prime jumbo mortgage loans and other stable and cashflowing residential mortgage assets. We will have a strategic alliance with Freedom Mortgage that we believe will provide us with frequent opportunities to acquire Excess MSR. We will elect and intend to qualify to be taxed as a REIT beginning with our short taxable year ending December 31, 2013.

Our asset acquisition strategy will focus on acquiring a diversified portfolio of residential mortgage assets that balances the risk and reward opportunities our Manager observes in the marketplace. We expect to allocate a majority of our equity capital over time, on an unleveraged basis, to the acquisition of Excess MSR, including through our acquisition, upon completion of this offering and the concurrent private placement, of an 85% participation interest in a portfolio of Excess MSR related to a pool of mortgage loans originated by Freedom Mortgage after January 1, 2011 and pooled into Ginnie Mae-guaranteed Agency RMBS. We expect the initial pool to have an aggregate outstanding UPB of approximately \$7.8 billion as of the closing of this offering. We also intend to acquire Agency RMBS on a leveraged basis as part of our initial portfolio and our longer term strategy and, as the market for prime jumbo loans grows, we expect our portfolio to include this asset class as well. In addition, we may also invest opportunistically from time to time in other residential mortgage assets.

Freedom Mortgage, an affiliate of our Manager, is a privately held independent mortgage company founded in 1990 that originates and services mortgage loans nationwide. Freedom Mortgage is licensed to originate and service mortgage loans in all 50 states and the District of Columbia and has been a Fannie Mae-approved seller/servicer since April 1993 and a Ginnie Mae-approved issuer since September 1999. Freedom Mortgage was ranked the third largest single-family Ginnie Mae RMBS issuer for each of January 2013, February 2013 and March 2013 and ranked in the top 12 in this category for every month since January 2012. For the year ended December 31, 2012 and for the three month-period ended on March 31, 2013, Freedom Mortgage originated over \$13 billion and \$5 billion, respectively, of mortgage loans predominantly underwritten to Agency underwriting guidelines. Freedom Mortgage typically retains the MSR on the mortgage loans it originates and is the primary servicer of mortgage loans with an outstanding UPB of approximately \$23.1 billion as of March 31, 2013.

Stanley Middleman, the founder, Chairman and Chief Executive Officer of Freedom Mortgage, serves as our Chairman. Our senior management team will be led by Jeffrey Lown II, our President and Chief Investment Officer and a nominee to our board of directors, and Martin Levine, our Chief Financial Officer, Secretary and Treasurer. Mr. Lown and Mr. Levine also serve as officers of our Manager and of Freedom Mortgage. Each member of our senior management team has more than 20 years of experience in the financial services industry, with a majority of that experience concentrated in the residential mortgage markets.

Our relationship with Freedom Mortgage provides us with access to Freedom Mortgage's leading origination and servicing platform and access to a predictable and proprietary source of Excess MSR acquisition opportunities, as well as other investment opportunities with respect to some of our other target assets. We believe our access to Freedom Mortgage and the deep network of relationships that our senior management team has established with other large originators, servicers and other participants in the residential mortgage industry provides us with access to an ongoing source of Excess MSR and other asset acquisition and financing opportunities. As a result, we believe we can selectively construct and fund a diversified portfolio of high quality residential mortgage assets that generate attractive current yields and risk-adjusted total returns for our stockholders over the long-term under a variety of market conditions and economic cycles.



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In addition to growth through new originations, Freedom Mortgage has made a substantial capital investment in customer retention, primarily through its retail production channel, which has allowed it to engage in significant levels of recapture originations—originations in which Freedom Mortgage refinances existing customers into new loans and retains the servicing rights on these new loans post-refinancing. For the period from January 1, 2011 to March 31, 2013, Freedom Mortgage's monthly weighted average recapture rate with respect to FHA/VA mortgage loans in its servicing portfolio was 77%. In other words, approximately three out of every four Freedom Mortgage loans that were refinanced during that period, were refinanced by Freedom Mortgage. Since voluntary prepayments eliminate the MSR, including the Excess MSR, on the mortgage loans that have prepaid, recapture originations allow Freedom Mortgage to extend the longevity of the servicing fees paid on its MSRs and thereby replenish the MSRs and the related Excess MSRs on prepaid mortgage loans. By entering into recapture agreements with Freedom Mortgage, we will benefit from Freedom Mortgage's ability to obtain recapture originations. This will allow us to mitigate the impact of voluntary prepayments on the Excess MSRs we plan to acquire from Freedom Mortgage.

Upon completion of this offering and the concurrent private placement, we will enter into an Excess MSR acquisition and recapture agreement with Freedom Mortgage, pursuant to which we will acquire from Freedom Mortgage an 85% participation interest in our Initial Excess MSRs. These Excess MSRs will relate to a pool of Ginnie Mae-eligible (FHA/VA) mortgage loans originated by Freedom Mortgage after January 1, 2011. We expect the Initial Pool to have an aggregate outstanding UPB of approximately \$7.8 billion as of the closing of this offering. The purchase price for our Initial Excess MSRs is approximately \$40.5 million and will be funded with a portion of the net proceeds of this offering and the concurrent private placement. The purchase price for our Initial Excess MSRs takes into account our target yield for the investment, which has been risk adjusted for prepayment, recapture and delinquency assumptions. Freedom Mortgage will continue to own the MSRs on, and will be the primary servicer of, the mortgage loans in the Initial Pool. Freedom Mortgage will also retain the remaining 15% participation interest in the Excess MSRs related to the Initial Pool. We will not have any servicing duties or advance obligations associated with the mortgage loans in the Initial Pool.

We expect the weighted average servicing fee on the Initial Pool to be 28 basis points. As the loan servicer, Freedom Mortgage will be paid a basic servicing fee of eight basis points on current mortgage loans and will be entitled to receive ancillary income from its servicing activities. Accordingly, we expect the weighted average excess servicing fee on the Initial Pool will be 20 basis points, of which we will be entitled to receive 17 basis points based on our 85% participation interest. We expect our unleveraged investment in our Initial Excess MSRs to generate positive earnings immediately following the closing of this offering. For a description of the representative characteristics of the mortgage loans expected to comprise the Initial Pool, see “—Our Portfolio—Our Initial Excess MSRs.”

In connection with our investment in our Initial Excess MSRs:

- Freedom Mortgage will agree not to sell, transfer or otherwise encumber, without our prior consent, the MSRs related to our Initial Excess MSRs or its 15% participation interest in the Excess MSRs related to the Initial Pool.
- Freedom Mortgage will also agree to replace our 85% participation interest in the Excess MSRs on the mortgage loans in the Initial Pool that have been refinanced by Freedom Mortgage through its retail channel.
  - Freedom Mortgage will replace the Excess MSRs on the mortgage loans that it has refinanced on the first day of the second month after the month in which the related refinancing occurred.
  - Freedom Mortgage will remit to us, an amount representing 85% of the excess servicing fee on the recaptured mortgage loans from the period between the related refinancing and assignment dates.
- Freedom Mortgage will bear all costs and expenses of originating the recaptured mortgage loans.
- Within five days after the end of each calendar quarter:
  - Freedom Mortgage will calculate the Make Whole Amount (as defined below), which amount arises as a result of the reduction, if any, in our excess servicing fee revenues resulting from

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Freedom Mortgage's refinancing of mortgage loans related to our Excess MSR during that quarter through its retail channel.

- To the extent there is a reduction in excess servicing fee revenue related to loans refinanced by Freedom Mortgage through its retail channel and we have accepted or otherwise resolved any objections to Freedom Mortgage's calculation of the Make Whole Amount in the manner set forth in the excess MSR acquisition and recapture agreement, Freedom Mortgage will either (i) assign to us an 85% participation interest in Excess MSR on sufficient additional mortgage loans for which Freedom Mortgage owns the related MSR such that the weighted average excess servicing fee revenue with respect to the Excess MSR on the recaptured mortgage loans and the additional mortgage loans assigned to us by Freedom Mortgage, taken together, equals 90% of the weighted average excess servicing fee revenue on the mortgage loans refinanced by Freedom Mortgage (based on the UPB and the excess servicing fee revenue we were entitled to earn in effect immediately before the mortgage loans were refinanced by Freedom Mortgage) (the "Make Whole Amount") or (ii) make a cash payment to us approximating the fair market value of the Make Whole Amount.
- The additional mortgage loans underlying the Excess MSR that are assigned to us by Freedom Mortgage must be included in a mortgage backed security guaranteed by an Agency. Also, the additional mortgage loans must have collateral characteristics that are generally comparable to the recaptured mortgage loans.

We expect to benefit from the recapture terms described above during the initial term and any successive term of the Excess MSR acquisition and recapture agreement. The initial term of this agreement will expire on the tenth anniversary of the closing of this offering and will be automatically renewed for successive one-year periods unless terminated or not renewed.

In addition to our investment in our Initial Excess MSR, we expect to source and acquire a substantial portion of our Excess MSR in partnership with Freedom Mortgage in the future and anticipate entering into additional acquisition and recapture agreements with Freedom Mortgage. Initially, the Excess MSR we intend to acquire from Freedom Mortgage will relate primarily to FHA/VA mortgage loans that will have been pooled and sold into Ginnie Mae-guaranteed Agency RMBS, but we may also acquire Excess MSR that relate to other Agency-backed mortgage loans. We do not intend to acquire Excess MSR that relate to lower credit quality pools.

In connection with the completion of this offering, we will enter into strategic alliance agreements with Freedom Mortgage. Under our strategic alliance agreements:

- Freedom Mortgage will be obligated in good faith to offer us, on a monthly flow basis, the right to co-invest at least 65% but not more than 85% in the Excess MSR related to Freedom Mortgage's MSR on mortgage loans pooled and sold by Freedom Mortgage on a servicing retained basis during the previous month; and
- Freedom Mortgage will be obligated in good faith to offer us the right to co-invest at least 40% but not more than 85% in the Excess MSR related to any MSR on mortgage loans Freedom Mortgage acquires through a bulk purchase from a third-party servicer.

The strategic alliance agreements will remain in effect until the later to occur of the date that is three years from the closing of this offering and the date on which an affiliate of Freedom Mortgage is not acting as our external manager. Under our strategic alliance agreements, the amount of each co-investment in Excess MSR offered to us by Freedom Mortgage and the recapture terms related to the pool of loans underlying each co-investment in Excess MSR will be determined by us and Freedom Mortgage at the time our co-investment is made based on policies and procedures approved by our independent directors. Pursuant to the strategic alliance agreements, Freedom Mortgage may select an alternative servicer that must be reasonably satisfactory to us, subject to related Agency approval, if Freedom Mortgage loses its status as a servicer. We will not be obligated to purchase any Excess MSR offered to us by Freedom Mortgage pursuant to our strategic alliance agreements or otherwise.

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We believe our strategic alliance agreements provide us with a competitive advantage in that we will be able to source, acquire and construct a sizeable portfolio of income-generating Excess MSR without reliance on a competitive bidding process and which, with respect to Excess MSRs generated from Freedom Mortgage originated loans, will benefit from Freedom Mortgage's recapture capabilities. We also intend to enter into agreements with other servicers from time to time for the acquisition of Excess MSRs on a flow or bulk basis if our Manager identifies attractive acquisition opportunities that satisfy our investment criteria. We may choose to enter into such agreements in conjunction with Freedom Mortgage or independently.

In addition to our Excess MSR acquisition strategy, our targeted Agency RMBS strategy will focus primarily on the selection of Agency residential mortgage pass-through certificates, or Agency whole-pools. We will seek to purchase, on a leveraged basis, Agency whole-pools with characteristics that we believe will result in lower rates of prepayments. To accomplish this, we initially intend to target, among other loan pools with low prepayment characteristics, the following types of Agency whole-pools for our portfolio:

- lower loan balance pools, which we define as pools of mortgage loans with original principal balances of generally less than \$150,000 per loan;
- pools backed by collateral located in a single state;
- pools designated as backed by HARP loans;
- new production, current coupon Agency whole-pools; and
- pools backed by mortgage loans secured primarily by investor-owned properties.

In addition, we intend to avoid specified loan pools that we deem to be more vulnerable to prepayment risk including loans that are more likely eligible for refinancing under HARP.

### **Our Formation**

We were incorporated in Maryland on October 31, 2012. We will elect and intend to qualify to be taxed as a REIT beginning with our short taxable year ending December 31, 2013. We will conduct substantially all of our business through our operating partnership, Cherry Hill Operating Partnership, LP, a Delaware limited partnership, and its subsidiaries. We are the sole general partner of our operating partnership. We also intend to operate our business in a manner that will permit us to maintain our exclusion from regulation as an investment company under the Investment Company Act. As of the date of this prospectus, we have not commenced any operations other than organizing our company. We currently have no assets and will not commence operations until we have completed this offering.

### **Our Market Opportunity**

We believe that the U.S. mortgage finance system is undergoing historic change. Significant increases in regulation and public policy are influencing which investors will have the inclination and the financial ability to hold residential mortgage assets. We believe that capital from non-bank servicers and investors in mortgage servicing assets will represent an increasing share of ownership of servicing assets in the years to come. We also believe that as banks pull back from the mortgage finance business, non-bank originators such as Freedom Mortgage are poised to continue to increase production and capture market share. Non-bank mortgage originators will require efficient funding for MSR production. In addition, we believe that investors will continue to seek incremental spreads relative to U.S. Treasury Notes in a low yield environment and that mortgages represent an attractive total return investment opportunity.

We intend to capitalize on this opportunity by creating a tax-efficient entity through which public investors will be able to invest primarily in Excess MSRs, Agency RMBS and, over time, prime jumbo mortgage loans, as well as other residential mortgage assets depending on how market conditions evolve. We expect to benefit from Freedom Mortgage's origination and servicing abilities, operating and financial expertise and ability to engage in recapture originations by co-investing with Freedom Mortgage in Excess MSRs that we expect to generate attractive and consistent risk-adjusted returns for investors.

**Excess MSRs**

Over the past two years, MSRs related to over \$750 billion, of the approximately \$10 trillion UPB of residential mortgages were sold or transferred. We believe that there are a number of factors in the current mortgage finance market that make servicing an increasingly unattractive asset class to banks, including higher operational requirements as well as a limit upon MSRs as part of bank regulatory capital. We expect these factors will continue to drive a shift in servicing from banks to independent mortgage companies through increases in market share of originations and the purchase of additional servicing assets. We further believe this will result in an increasing volume of MSR sales for some period of time. We believe that MSRs on more than \$2 trillion of UPB of mortgage loans could be sold over the next several years.

We expect that non-bank servicers such as Freedom Mortgage will need companies such as ours to co-invest in the Excess MSR portion of these investments. We therefore believe there are market opportunities for us to provide liquidity to Freedom Mortgage and other non-bank servicers that may seek to finance their MSRs by selling an interest in Excess MSRs. In addition to our Initial Excess MSRs, we expect to acquire additional Excess MSRs through (i) co-investments with Freedom Mortgage in Excess MSRs related to MSRs on mortgage loans pooled and sold by Freedom Mortgage on a servicing retained basis, (ii) co-investments with Freedom Mortgage in Excess MSRs related to MSRs that have been acquired by Freedom Mortgage in bulk purchases primarily from large bank originators and servicers and (iii) co-investments with other third-party servicers in Excess MSRs on a flow or bulk basis. In the future, subject to the receipt of appropriate licensing and Agency approvals, we may pursue flow and bulk acquisitions of MSRs through our wholly-owned TRS.

We believe investing in Excess MSRs on an unleveraged basis could provide us with attractive risk-adjusted returns. Returns on Excess MSRs can be adversely affected by voluntary prepayments, where borrowers repay or refinance the loan outside of the portfolio, and involuntary prepayments, or defaults on mortgage loans. We also believe our relationship with Freedom Mortgage will allow us to mitigate the negative impact of voluntary prepayments on Excess MSRs related to Freedom Mortgage-originated loans through Freedom Mortgage's ability to engage in recapture originations. These recapture originations extend the duration of the cash flows related to the MSRs in its servicing-retained portfolio, including the payment of the excess servicing spread related to the Excess MSRs we plan to acquire from Freedom Mortgage. In addition, we intend to try to structure similar types of recapture agreements with other servicers to the extent we enter into Excess MSR acquisition agreements with them.

**Agency RMBS**

We believe that the Agency RMBS market presents opportunities for earning attractive risk-adjusted returns due to several factors, including attractive financing spreads and a steady demand for Agency RMBS. The spread between the cost of funding for, and the yield on, Agency RMBS assets continues to create attractive investment opportunities in this asset class. On December 12, 2012, the Federal Open Market Committee released a statement indicating that it would maintain the target range for the federal funds rate at 0% to 0.25% and that it continues to anticipate that economic conditions, including low rates of resource utilization and a subdued outlook for inflation over the medium term, are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. Furthermore, although U.S. Government intervention such as Operation Twist in late 2011, the extension of the program in the summer of 2012 and the third round of quantitative easing, or QE3, announced in September 2012 suggest lower Agency RMBS spreads, we believe our Agency RMBS acquisition strategy targets pools that will continue to display attractive spread characteristics due to the lower inherent prepayment characteristics of those pools. As a result, we expect favorable Agency RMBS return dynamics on our target assets to continue for the foreseeable future.

In addition, investors continue to seek incremental spreads relative to U.S. Treasury Notes in a low yield environment, and financial institutions continue to prefer high quality, liquid Agency RMBS. Though recent economic data suggests an improvement in U.S. economic growth, we believe that there is still uncertainty primarily because of high unemployment, low levels of capacity utilization, the shadow inventory of real estate

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owned, or REO, assets, stagnant home prices in most markets and continued stress in the housing and construction markets, which all point to a muted recovery. As a result, we expect these factors should keep the yield curve relatively steep and promote continued demand for Agency RMBS.

### ***Prime Jumbo Mortgage Loans***

Currently, the primary residential mortgage market is being supported by the U.S. Government's deep involvement through its conservatorship with Fannie Mae and Freddie Mac, and an indirect subsidization of the FHA. The housing finance reform report issued by the U.S. Treasury and HUD in February 2011 indicates an intent to reduce the U.S. Government's role in the residential mortgage market from current levels. The options outlined in the report all share a common objective of significantly increasing the role of private sector capital in bearing credit risk in the residential mortgage market. The October 2011 proposal by the Obama administration to have Fannie Mae and Freddie Mac sell tranches of RMBS that would not carry such entities' guaranty is another example of this trend. In addition, one of HUD's key budgetary principles for 2013 is to bring private capital back into the mortgage market. It is not yet possible to determine whether or when any of such proposals may be enacted, what form any final legislation or policies might take and how proposals, legislation or policies emanating from this report may impact our business, operations and financial condition.

We expect this process of privatizing mortgage credit risk will create investment opportunities consistent with our investment objectives. We believe our senior management team's capabilities in evaluating, acquiring and managing the risk associated with residential mortgage whole loans will provide us with an important advantage as this new market opportunity evolves and opportunities to acquire prime jumbo mortgage loans present themselves. We expect to take advantage of the network of relationships of our senior management team in the residential mortgage industry to identify opportunities for us to acquire prime jumbo mortgage loans. In the future, we expect to enter into a sourcing agreement with Freedom Mortgage in order to obtain access to a pipeline of prime jumbo mortgage loans originated by Freedom Mortgage and through which we can further diversify our portfolio of residential mortgage assets, grow our business and increase value for our stockholders.

### **Our Manager and Freedom Mortgage**

#### ***Our Manager***

We will be externally managed by Cherry Hill Mortgage Management, LLC, a newly organized Delaware limited liability company formed in November 2012 and an affiliate of Freedom Mortgage. We have entered into a management agreement with our Manager, pursuant to which our Manager has agreed to conduct our day-to-day operations. As an externally managed company, we will depend on the diligence, experience and skill of our Manager for the selection, acquisition, structuring, interest rate risk mitigation and monitoring of our target assets and associated borrowings. The management agreement requires our Manager to manage our business affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. Pursuant to the terms of our management agreement, our Manager provides us with our senior management team, including a president and chief investment officer, a chief financial officer, secretary and controller and a senior portfolio manager for our investments in Agency RMBS. Our Manager and Freedom Mortgage are parties to a services agreement, pursuant to which Freedom Mortgage will be required to provide to our Manager the personnel, services and resources as needed by our Manager to enable our Manager to carry out its obligations and responsibilities under the management agreement. We do not have any employees whom we compensate directly with salaries or other compensation; however, we expect to reimburse our Manager for the costs of wages, salaries and benefits incurred by our Manager with respect to certain of our officers to the extent they are dedicated to us. See "Our Manager and the Management Agreement" for a discussion of our management agreement and the services agreement.

Our senior management team, including members of our board of directors, has substantial experience in the financial services industry, with a particular focus on the residential mortgage markets. Mr. Middleman, our Chairman, is the sole member of our Manager and the sole stockholder, sole director and chief executive officer

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of Freedom Mortgage. Mr. Middleman founded Freedom Mortgage in 1990 and has over 27 years of mortgage industry expertise. His business vision, asset management approach and marketing strategy have resulted in Freedom Mortgage's growth from a regionally-based mortgage business to a leading national private mortgage origination and servicing business. Mr. Middleman established Freedom Mortgage's corporate vision, strategic plan, operations and financial and management reporting systems, as well as quality control procedures. He is an active member of the Mortgage Bankers Association and has served on numerous advisory boards including Freddie Mac, Ellie Mae, Inc. and Fannie Mae. In addition to Mr. Middleman, the members of our and our Manager's team that are responsible for implementing our asset acquisition and financing strategies include: Mr. Lown, our President and Chief Investment Officer, who has over 20 years of combined experience in the financial services industry and the residential mortgage markets; Mr. Levine, our Chief Financial Officer, who has over 30 years of combined experience in the financial services industry and the residential mortgage markets; and Julian Evans, our Senior Portfolio Manager, who has more than 14 years of combined experience in the financial services industry and the residential mortgage markets.

Prior to joining Freedom Mortgage in 2012, Mr. Lown built an extensive career in the residential mortgage sector where he held senior roles in mortgage trading, banking and risk management at UBS Securities LLC and Citigroup, including management of a mortgage origination business at UBS Securities LLC from 2006 to 2008. In addition, Mr. Lown has served as a senior advisor to the Office of Thrift Supervision. Mr. Levine joined Freedom Mortgage in 2012 as an Executive Vice President in charge of servicing oversight and financial reporting. Over the past 20 years, Mr. Levine has held various senior executive positions for both privately held and publicly traded residential and commercial real estate-related investment companies. Mr. Levine is a member of the American Institute of Certified Public Accountants. Mr. Evans joined Freedom Mortgage in April 2013 as a Senior Vice President and as our Manager's Senior Portfolio Manager. Mr. Evans most recently served as Head of the MBS Sector Team and Senior Portfolio Manager for Deutsche Asset Management where he led a team that managed RMBS assets for institutional, insurance and retail clients.

### ***Freedom Mortgage***

Founded in 1990 by Mr. Middleman, our Chairman, and headquartered in Mount Laurel, New Jersey, Freedom Mortgage is a privately held, full-service, residential mortgage originator and servicer licensed in all 50 states and the District of Columbia with over 2,100 employees as of March 31, 2013. Freedom Mortgage has been a Fannie Mae-approved seller/servicer since April 1993 and a Ginnie Mae-approved issuer since September 1999. Freedom Mortgage was ranked the third largest single-family Ginnie Mae RMBS issuer for each of January 2013, February 2013 and March 2013 and ranked in the top 12 in this category since January 2012. For the year ended December 31, 2012 and for the three month-period ended on March 31, 2013, Freedom Mortgage originated over \$13 billion and \$5 billion, respectively, of mortgage loans predominantly underwritten to Agency underwriting guidelines. Freedom Mortgage typically retains the MSR on the mortgage loans it originates and is the primary servicer of mortgage loans with an outstanding UPB of approximately \$23.1 billion as of March 31, 2013.

Freedom Mortgage originates mortgage loans to sell primarily to the Agencies and does not generally retain loans on its balance sheet. Freedom Mortgage originates mortgages loans underwritten predominantly to Agency guidelines. From time to time, Freedom Mortgage may also sell mortgage loans it originates to private investors as market conditions warrant. Freedom Mortgage maintains a national footprint to support lending activities across all 50 states and the District of Columbia through its wholesale, retail and correspondent channels. Freedom Mortgage's origination activities are supported by a broad group of national and local warehouse lenders, including affiliates of certain underwriters for this offering.

- *Wholesale Production Channel.* As of March 31, 2013, Freedom Mortgage's wholesale production represented the largest percentage of its originations. Loans originated through its wholesale production channel are sourced and submitted to Freedom Mortgage through a network of over 2,500 independent mortgage brokers. Loans originated through Freedom Mortgage's wholesale channel are underwritten by Freedom Mortgage employees and according to Freedom Mortgage's underwriting

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guidelines, which adhere to the Agency guidelines. As of March 31, 2013, Freedom Mortgage had six regional offices, 91 account executives and over 700 employees dedicated to underwriting and closing loans originated through its wholesale production channel. Freedom Mortgage prohibits the independent mortgage brokers in its wholesale production channel from soliciting existing customers for a period of time after origination. For the year ended December 31, 2012 and the three-month period ended March 31, 2013, wholesale originations represented approximately 58% and 50%, respectively, of Freedom Mortgage's total origination volume.

- *Retail Production Channel.* Retail originations represent mortgage loans originated directly to the borrower, which Freedom Mortgage sources mainly from its centralized call centers, the largest of which is housed at its corporate headquarters in New Jersey. Freedom Mortgage utilizes its retail call centers as its first line of defense in customer retention through recapture originations. As of March 31, 2013, Freedom Mortgage's retail production channel employed over 750 employees throughout three call centers located in New Jersey, Indiana and California. For the year ended December 31, 2012 and the three-month period ended March 31, 2013, retail originations represented approximately 29% and 39%, respectively, of Freedom Mortgage's total origination volume.
- *Correspondent Production Channel.* Freedom Mortgage purchases loans from third-party independent mortgage originators. The loans are underwritten to Freedom Mortgage's guidelines and acquired at an agreed upon price subject to Freedom Mortgage's satisfactory review and approval. As of March 31, 2013, Freedom Mortgage maintained active relationships with 31 different banks and mortgage originators for sourcing loan originations through its correspondent channel. Freedom Mortgage's correspondent production channel targets predominantly loans used for the purchase of a home. Freedom Mortgage prohibits the independent mortgage originators in its correspondent channel from soliciting existing customers for a period of time after origination. For the year ended December 31, 2012 and the three-month period ended March 31, 2013, correspondent originations represented approximately 13% and 11%, respectively, of Freedom Mortgage's total origination volume.

The following table sets forth certain information regarding Freedom Mortgage's loan production for the periods indicated:

	Three months Ended March 31,	Year Ended December 31,				
	2013	2012	2011	2010	2009	2008
Origination volume (dollars in millions):						
Wholesale	2,720	7,865	2,214	2,191	4,377	3,962
Retail	2,130	3,980	1,103	1,017	1,241	551
Correspondent	623	1,811	266	85	179	185
Total(1)	\$ 5,473	\$ 13,657	\$ 3,583	\$ 3,294	\$ 5,798	\$ 4,697
Weighted average FICO score(2)	714	720	718	707	668	660
Weighted average LTV %(2)	87.59	87.41	86.39	89.72	90.34	87.94

(1) Totals may not add up due to rounding.

(2) Reflects a non-zero weighted average.

Freedom Mortgage has experienced substantial growth in its servicing portfolio in 2012. Freedom Mortgage retained MSRs on mortgage loans originated and sold with an ending UPB of approximately \$23.1 billion as of March 31, 2013, an approximate 118% increase compared to mortgage loans originated and sold with an ending UPB of approximately \$10.6 billion as of December 31, 2011. The recent growth in Freedom Mortgage's servicing portfolio is primarily attributable to the increase in Freedom Mortgage's origination volumes and its retention of MSRs on newly originated mortgage loans.

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As the primary servicer, Freedom Mortgage services loans in accordance with Agency requirements and is responsible for performing all servicing functions, such as collecting payments, handling customer service requests, remitting monies to investors, maintaining escrow accounts, paying hazard insurance and property taxes and administering defaulted loans. Freedom Mortgage seeks to ensure that each loan is paid in accordance with its terms, to maximize borrower retention, avoid foreclosure whenever possible and mitigate losses by working proactively with borrowers.

Freedom Mortgage has a long-standing relationship with LoanCare, currently the sub-servicer for all of the mortgage loans in Freedom Mortgage's servicing portfolio. LoanCare is a division of FNF Servicing, Inc., a subsidiary of Fidelity National Financial, Inc. (NYSE: FNF). LoanCare is licensed to service mortgage loans in all 50 states and the District of Columbia. The sub-servicing fees and any expense reimbursement paid to LoanCare are borne solely by Freedom Mortgage and will have no impact on us. Freedom Mortgage has the right to terminate its sub-servicing relationship with LoanCare and to engage other sub-servicers or service the mortgage loans in its servicing portfolio directly.

The following table provides certain information regarding Ginnie Mae-eligible (FHA/VA) mortgage loans originated by Freedom Mortgage after January 1, 2011, which underlie a portion of the MSR in Freedom Mortgage's servicing portfolio and which we believe are representative of the mortgage loans underlying the Excess MSR we intend to acquire pursuant to our agreements with Freedom Mortgage:

	As of March 31, 2013	As of December 31, 2012	As of December 31, 2011
Aggregate UPB	\$ 12.9 billion	\$ 9.6 billion	\$ 1.6 billion
Average UPB	\$ 194,232	\$ 194,276	\$ 192,270
Weighted average coupon	3.62%	3.76%	4.34%
30-59 days delinquent (1)	1.6%	1.9%	1.6%
60-89 days delinquent (1)	0.4%	0.5%	0.3%
90+ days delinquent (1)	0.7%	0.7%	0.3%
Weighted average servicing fee	28 basis points	29 basis points	26 basis points

(1) Percentage of aggregate UPB.

Currently, we believe Freedom Mortgage is in good standing with Ginnie Mae and Fannie Mae, as well as state and federal regulators. While Freedom Mortgage was not subject to the Office of the Comptroller of the Currency's recent consent order or a party to the settlement with state attorneys general and state bank and mortgage regulators in 49 states, each of which involved deficient practices in mortgage loan servicing and foreclosure processing, Freedom Mortgage has, in light of such consent order and settlement, voluntarily adopted what it believes to be the best practices for servicing related to non-depository institutions.

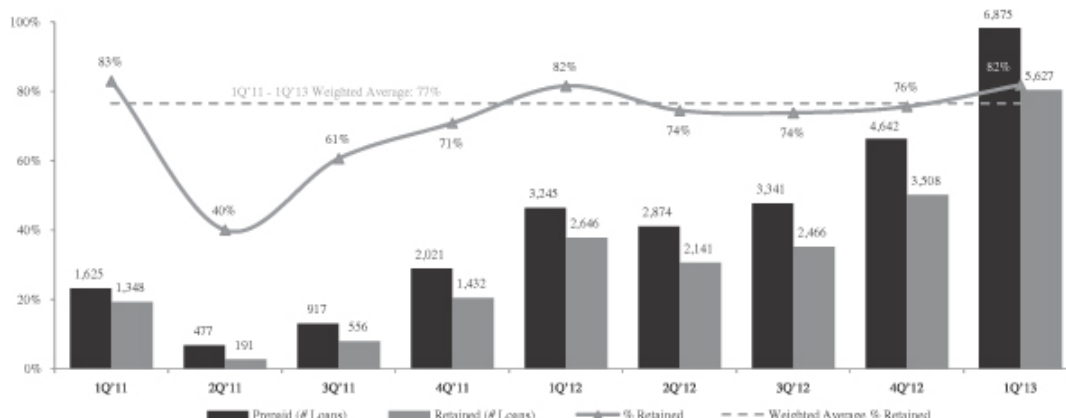
Freedom Mortgage has complied in all material respects with specific program requirements for HUD-assisted programs and has been well in excess of HUD's adjusted net worth requirements for each of the last five years.

Through its retail production channel, Freedom Mortgage has historically been successful in engaging in recapture originations, generally due to Freedom Mortgage initiating an offer to existing borrowers/customers to refinance their loans. As discussed elsewhere in this prospectus, we expect to benefit from Freedom Mortgage's recapture originations because these originations help mitigate prepayment risk with respect to our co-investment in Excess MSR with Freedom Mortgage. Recapture originations extend the longevity of servicing-related cash flows paid with respect to the MSR owned by Freedom Mortgage to which our Excess MSR will relate. Freedom Mortgage's monthly weighted average recapture rate with respect to all FHA/VA mortgage loans in its servicing



portfolio was 77% for the period from January 1, 2011 to March 31, 2013. The following table sets forth certain information with respect to Freedom Mortgage’s historical recapture performance during such period:

**Historical Freedom Mortgage FHA and VA Quarterly Recapture Rates  
(January 1, 2011 through March 31, 2013)**



**Our Competitive Strengths**

We believe the following competitive strengths uniquely position us to implement our business strategy:

- Proprietary Source of Excess MSR.* We intend to capitalize on our relationship with Freedom Mortgage to source opportunities to acquire Excess MSR on a monthly flow basis as well as on a bulk basis. We expect to co-invest in such Excess MSR with Freedom Mortgage on terms and according to protocols approved by our independent directors. The ability to source attractively priced Excess MSR for our portfolio through our relationship with Freedom Mortgage reduces our reliance on purchasing these assets through a competitive bidding process, which we believe allows us to acquire these assets on a more cost-effective and consistent basis than we would through a competitive bidding process.
- Ability to Mitigate Excess MSR Prepayment Risk with Recaptured Loans.* Freedom Mortgage has a proven ability to engage in recapture originations. For the period from January 1, 2011 to March 31, 2013, Freedom Mortgage’s monthly weighted average recapture rate (based on the numbers of loans) with respect to FHA/VA mortgage loans in its servicing portfolio was 77%. Recapture originations allow Freedom Mortgage to extend the longevity of its servicing-related cash flows, including the excess servicing spreads on the Excess MSR we plan to acquire from Freedom Mortgage. We will capitalize on Freedom Mortgage’s recapture origination capabilities by entering into recapture agreements with Freedom Mortgage as part of our strategic alliance. For a summary of the recapture terms related to our Initial Excess MSR, see “—Our Company” above. We expect our recapture agreements with Freedom Mortgage to help us to mitigate the negative impact of voluntary prepayments on our Excess MSR. In the absence of recapture, voluntary prepayments would eliminate the Excess MSR on the mortgage loans being prepaid. Accordingly, we believe our relationship with Freedom Mortgage and its ability to engage in recapture originations will allow us to reduce the impact voluntary prepayments have on our Excess MSR and increase the returns we are able to provide to our stockholders. We believe Freedom Mortgage’s retention of MSR and its co-investment with us in Excess MSR will align its interest with ours to try to maximize recapture.
- Initial Portfolio of Income-Generating Excess MSR.* Upon completion of this offering and the concurrent private placement, we intend to acquire our Initial Excess MSR from Freedom Mortgage.

We expect the Initial Pool of mortgage loans to have an aggregate outstanding UPB of approximately \$7.8 billion as of the closing of this offering. We will purchase an 85% participation interest in the Excess MSR related to the Initial Pool, and Freedom Mortgage will retain the remaining 15% participation interest in the Excess MSR related to the Initial Pool. We expect our Initial Excess MSR to generate positive earnings with no leverage immediately after the completion of this offering. See “—Our Initial Portfolio—Initial Excess MSR.”

- *Access to Freedom Mortgage’s Existing Servicing Platform.* We believe our relationship with Freedom Mortgage will provide us with unique, real-time insights into and access to residential mortgage market information, particularly with respect to Excess MSR, that will enhance our ability to make investment decisions related to our target assets. In addition, non-servicers such as our company cannot own the basic servicing fee component of an MSR directly and would therefore need to co-invest with a servicer such as Freedom Mortgage in order to invest in the Excess MSR component. We believe that the number of strong, scalable non-bank servicers such as Freedom Mortgage is limited. Moreover, in the case of investments in Excess MSR related to pools of mortgage loans that satisfy Agency guidelines, the servicer must be a Ginnie Mae-approved issuer or a GSE-approved seller/servicer. As a result, we believe other non-servicers will face difficulties in investing in Excess MSR without having a relationship or partnership with a quality servicer.
- *Flexibility Across Asset Classes.* Our asset acquisition strategy is opportunistic and flexible, which will enable us to adapt to shifts in economic, real estate and capital market conditions and to exploit inefficiencies in the residential mortgage market as attractive investment opportunities arise. Consistent with this strategy, our investment decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different economic and capital market conditions. We believe this approach will allow us to identify undervalued opportunities in different market cycles across our target assets.
- *Experienced Management Team with Extensive Knowledge of the Mortgage Industry.* Our Manager has assembled a senior management team, each with more than 20 years of experience in the financial services industry, with a majority of that experience concentrated in the residential mortgage markets. This experience includes evaluating and acquiring mortgage servicing rights, originating mortgage loans, performing asset valuation analysis and trading and managing portfolios of mortgage assets, including RMBS, through a variety of economic cycles. Our senior management team also has significant experience in financing and hedging mortgage-related assets and liabilities. See “Management” and “Our Manager and the Management Agreement” for additional information regarding the experience of our senior management team.
- *Disciplined Security Selection Process.* In order to generate balanced returns on our investments, we intend to construct a portfolio with a focus on managing the various associated risks, such as duration and cash flow risk, by selecting securities that have favorable prepayment characteristics and through the liability hedging strategy we will employ.
- *Alignment of Interests Between Our Stockholders, Mr. Middleman, Freedom Mortgage and Our Manager.* Mr. Middleman, our Chairman and the founder of Freedom Mortgage, will purchase directly from us in the concurrent private placement \$20.0 million in shares of our common stock, at a price per share equal to the public offering price. These shares and any other shares of our common stock Mr. Middleman and his affiliates may acquire during the lock-up period will be subject to a lock-up agreement between Mr. Middleman and the underwriters for one year after the closing of this offering. As a result, the economic interests of Mr. Middleman and his affiliates, including Freedom Mortgage and our Manager, will be significantly aligned with those of our stockholders. In addition, through its retention of MSR to which our Excess MSR relate and its co-investment in Excess MSR with us, Freedom Mortgage’s economic interest will be further aligned with the interests of our stockholders.

## **Our Strategy**

We intend to utilize an opportunistic strategy to seek to provide investors with attractive current yields and risk-adjusted total returns by:

- allocating a majority of our equity capital, over time and on an unleveraged basis, to the acquisition of Excess MSR assets through:
  - flow purchases from or bulk purchases with Freedom Mortgage pursuant to the terms of our strategic alliance agreements; and
  - flow purchases from or bulk purchases with third-party servicers other than Freedom Mortgage;
- taking advantage of opportunities in the Agency RMBS market by acquiring Agency RMBS on a leveraged basis;
- over time, as the market for prime jumbo mortgage loans grows, taking advantage of opportunities in this market by purchasing these assets, from, or potentially in partnership with, Freedom Mortgage; and
- opportunistically mitigating our prepayment, interest rate and, to a lesser extent, credit risk by using recapture agreements and a variety of hedging instruments.

Our strategy is adaptable to changing market environments, subject to compliance with the income and other tests that we must satisfy to qualify as a REIT and maintain our exclusion from regulation as an investment company under the Investment Company Act. As a result, although we intend to focus initially on the acquisition and management of Excess MSR assets on an unleveraged basis and Agency RMBS on a leveraged basis, our acquisition and management decisions will depend on prevailing market conditions and our targeted asset classes may vary over time in response to market conditions. Our Manager is authorized to follow very broad investment guidelines and, as a result, we cannot predict our portfolio composition. We may change our strategy and policies without a vote of our stockholders. Moreover, although our independent directors will periodically review our investment guidelines and our portfolio, they generally will not review our proposed asset acquisitions (other than pursuant to the protocols established for asset acquisitions with Freedom Mortgage, including in accordance with our strategic alliance agreements or otherwise) or asset management decisions.

We do not have a formal portfolio turnover policy for our Agency RMBS and do not intend to adopt one. We may dispose of Agency RMBS earlier than anticipated or hold such assets longer than anticipated if market conditions, availability of leverage or other factors dictate. Although we generally intend to hold our Excess MSR assets until maturity, we may, from time to time, sell any of our Excess MSR assets as part of our overall management of our portfolio. Proceeds from the sale of our target assets will be used to repay indebtedness and to purchase additional target assets.

## **Our Targeted Asset Classes**

### ***Excess MSRs***

The servicing fee relating to an MSR is made up of two components: a basic servicing fee and what is commonly referred to as the excess mortgage servicing fee. Excess MSRs are interests in MSRs, representing the excess mortgage servicing fee paid to mortgage servicers. The determination of the fair value of Excess MSRs will require our management to make numerous estimates and assumptions including, without limitation, estimates of the future cash flows from the excess mortgage servicing fees, which in turn are based upon assumptions about interest rates as well as prepayment rates, delinquencies and foreclosure rates of the underlying mortgage loans.

The values of Excess MSRs can be highly sensitive to changes in interest rates. Historically, the value of Excess MSRs relating to Agency servicing has increased when interest rates rise and decreased when interest rates decline due to the effect those changes in interest rates have on prepayment estimates. Subject to qualifying

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and maintaining our qualification as a REIT, we may pursue various hedging strategies 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 financing used and other changing market conditions. Prepayment speeds significantly affect the value of Excess MSR. 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. When we purchase Excess MSRs, we base the price we pay and the rate of amortization of those assets on, among other things, our projection of the cash flows from the pool of mortgage loans underlying the related MSRs. Our expectation of prepayment speeds is a significant assumption underlying those cash flow projections. If prepayment speeds are significantly greater than expected, the carrying value of Excess MSRs could exceed their estimated fair value.

In addition, delinquency rates have a significant impact on the value of Excess MSRs. An increase in delinquencies will generally result in lower revenue because typically servicing fees are received only from performing loans. To the extent servicing fees are not being received, holders of Excess MSRs will not receive payment. The price we pay for Excess MSRs will be based on, among other things, our projections of the cash flows on the underlying pools of mortgage loans. Our expectation of delinquencies is a significant assumption underlying those cash flow projections. If delinquencies are significantly greater than expected, the estimated fair value of the Excess MSRs could be diminished.

### **Agency RMBS**

*Residential Mortgage Pass-Through Certificates.* Residential mortgage pass-through certificates represent interests in “pools” of mortgage loans secured by residential real property. Payments of both interest and principal, plus pre-paid principal, on the underlying residential mortgage loans are made monthly to holders of the certificates, in effect “passing through” monthly payments made by the individual borrowers on those mortgage loans, net of fees paid to the issuer/guarantor and servicers of the securities. We intend to acquire and own primarily whole-pool pass-through certificates.

*Collateralized Mortgage Obligations.* CMOs are structured instruments representing interests in specified mortgage loan collateral. CMO securitizations consist of multiple classes, or tranches, of securities, with each tranche having specified characteristics, based on the rules described in the securitization documents governing the division of the monthly principal and interest distributions, including prepayments, from the underlying mortgage collateral among the various tranches.

*Interest Only Securities.* This type of stripped security only entitles the holder to interest payments. The yield to maturity of IOs is extremely sensitive to the rate of principal payments (particularly prepayments) on the underlying pool of mortgages. If we decide to invest in these types of securities, we anticipate doing so primarily to take advantage of particularly attractive prepayment-related or structural opportunities in the Agency RMBS markets.

*Inverse Interest Only Securities.* This type of stripped security has a coupon with an inverse relationship to its index and is subject to caps and floors. An inverse IO entitles the holder to interest only payments based on a notional principal balance, which is typically equal to a fixed rate of interest on the notional principal balance less a floating rate of interest on the notional principal balance that adjusts according to an index subject to set minimum and maximum rates. The value of inverse IOs will generally decrease when its related index rate increases and increase when its related index rate decreases.

*TBAs.* In addition to investing in specific pools of Agency RMBS, we may utilize forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are 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

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until shortly before the TBA settlement date. TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS. Our ability to engage in TBA transactions may be limited by the gross income and asset tests applicable to REITs. See “Material U.S. Federal Income Tax Considerations—Gross Income Tests” and “—Asset Tests.”

### ***Prime Jumbo Mortgage Loans***

We believe that the market for non-conforming loans including, in particular, prime jumbo mortgage loans, will grow. We further believe that as the U.S. Government reduces the loan balance threshold for conforming mortgage loans, which was raised during the recent financial crisis, there will be an even greater need for lenders to provide credit in the non-conforming loan market. As a result, we expect our portfolio to include this asset class over time. We do not expect this asset class to be a significant part of our portfolio for at least the next 14 to 18 months after the completion of this offering.

The prime jumbo mortgage loans we intend to acquire may be ARMs, hybrid ARMs or FRMs with original terms to maturity of not more than 30 years and will be either fully amortizing or interest-only for up to ten years, and fully amortizing thereafter. Subject to availability of this asset class for purchase, we intend to acquire first lien mortgages secured primarily by residential single family one to four unit homes in the United States, that can be owner occupied primary residences, second homes or investment properties, and that can be detached homes, attached homes, townhouses, cooperatives, condominiums or planned-unit-development properties. FRMs bear an interest rate that is fixed for the term of the loan and do not adjust. The interest rates on ARMs generally adjust monthly (although some may adjust less frequently) to an increment over a specified interest rate index. Hybrid ARMs have interest rates that are fixed for a specified period of time (typically three to ten years) and, thereafter, adjust to an increment over a specified interest rate index. ARMs and Hybrid ARMs generally have periodic and lifetime constraints on how much the loan interest rate can change on any predetermined interest rate reset date.

We currently do not intend to originate mortgage loans or provide other types of financing directly to the owners of residential real estate. We intend to acquire prime jumbo mortgage loans that are underwritten to our specifications. We may acquire prime jumbo mortgage loans underwritten to our specifications from Freedom Mortgage or other originators. To the extent Freedom Mortgage originates prime jumbo mortgage loans that satisfy our investment parameters and guidelines, we expect to negotiate an arrangement with Freedom Mortgage so we have the right to purchase such loans. Any such arrangement will be subject to the review and approval our independent directors.

To the extent that we purchase prime jumbo mortgage loans, our Manager intends to perform financial, operational and legal due diligence to assess the risks of acquisition. Our Manager’s investment process is discussed under the caption “—Our Investment Process—Prime Jumbo Mortgage Loans” below.

We may acquire prime jumbo mortgage loans for our portfolio with the intention of either holding them in our residential mortgage loan portfolio or securitizing them and retaining them in our portfolio as securitized mortgage loans. See “—Financing Strategy” below.

### ***Other Residential Mortgage Assets***

From time to time and as market conditions warrant, we may acquire other residential mortgage assets, including MSRs and non-Agency RMBS. We currently do not intend to acquire subprime or Alt-A mortgage loans. In the future, subject to the receipt of appropriate licensing and Agency approvals, we may pursue flow and bulk acquisitions of MSRs through our TRS, Cherry Hill TRS, LLC. Our ability to acquire MSRs will be subject to the applicable REIT qualification tests. We likely will have to hold any MSRs through our TRS, which will be subject to corporate income tax. The tax liability of our TRS (if it holds MSRs) would negatively impact

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our returns from those assets. In addition, non-Agency RMBS, if we decide to purchase them, are subject to risk of default, among other risks, and could result in greater losses. For a discussion of the risks associated with an investment in these asset classes, please refer to “Risk Factors—Risks Related to Our Business.”

Subject to qualifying and maintaining our qualification as a REIT, over time, we may acquire securities, including debt and equity tranches of securitizations backed by various asset classes, and common stock, preferred stock and debt of other real estate-related entities.

### **Our Investment Guidelines**

Our board of directors will adopt a set of investment guidelines that sets forth our target assets and other criteria used to evaluate specific assets as well as the overall portfolio composition. Our Manager will make determinations as to the percentage of assets that will be invested in each of the target asset classes, consistent with the investment guidelines adopted by our board. Our Manager’s acquisition decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. As a result, we cannot predict the percentage of assets that will be acquired in any of the target asset classes at any given time, and such allocations may differ from any allocations provided in this prospectus. 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. To the extent that our board of directors approves material changes to our investment guidelines, we will inform stockholders of such changes through disclosure in our periodic reports and other filings required under the Exchange Act.

Our Manager’s Investment Committee, which will be comprised of members of our senior management team and Freedom Mortgage’s senior management team, will review our compliance with our guidelines periodically and our board of directors will receive a report each quarter in conjunction with its review of our quarterly results. Our board of directors also will review our portfolio of assets and related compliance with our policies, procedures and guidelines at each regularly scheduled board meeting. An independent committee of our board of directors will review the material terms of any transaction between us and Freedom Mortgage, including the pricing terms, to determine if the terms of those transactions are fair and reasonable. In particular, prior to entering into any such transaction with Freedom Mortgage, an independent committee of our board will review and approve any flow parameters and agreements to purchase Excess MSRs or bulk Excess MSR purchases we may make with Freedom Mortgage as well as any parameters and agreements pursuant to which we will acquire prime jumbo mortgage loans or other loans originated by Freedom Mortgage. We expect to also retain an independent valuation service to assist our management and our independent directors in making pricing determinations on Excess MSRs and other assets we purchase from Freedom Mortgage.

We expect our board of directors to adopt the following guidelines for our assets and borrowings:

- No acquisition will be made if it causes us to fail to qualify as a REIT;
- No acquisition will be made if it causes us to be required to register as an investment company under the Investment Company Act;
- Our investments will be predominantly in our target assets; and
- Until appropriate assets can be identified, our Manager may deploy the proceeds of this and any future offerings in interest bearing, short term investments, including money market accounts and/or funds that are consistent with our intention to qualify as a REIT.

These guidelines may be changed from time to time by a majority of our board of directors without the approval of our stockholders.

## **Our Initial Portfolio**

### ***Initial Excess MSR***

Upon completion of this offering and the concurrent private placement, we will enter into an Excess MSR acquisition and recapture agreement with Freedom Mortgage, pursuant to which we will acquire from Freedom Mortgage an 85% participation interest in our Initial Excess MSRs. These Excess MSRs will relate to a pool of Ginnie Mae-eligible (FHA/VA) mortgage loans originated by Freedom Mortgage after January 1, 2011. We expect the Initial Pool to have an aggregate outstanding UPB of approximately \$7.8 billion as of the closing of this offering. The purchase price for our Initial Excess MSRs is approximately \$40.5 million and will be funded with a portion of the net proceeds of this offering and the concurrent private placement. Freedom Mortgage will continue to own the MSRs on, and will be the primary servicer of, the mortgage loans in the Initial Pool. Freedom Mortgage will also retain the remaining 15% participation interest in the Excess MSRs related to the Initial Pool. We will not have any servicing duties or advance obligations associated with the mortgage loans in the Initial Pool. We expect our investment in our Initial Excess MSRs to generate positive earnings with no leverage immediately following the closing of this offering.

In January 2013, Freedom Mortgage set aside a pool of FHA/VA mortgage loans with an aggregate outstanding UPB of \$9.6 billion at January 31, 2013, from which the Initial Pool will be derived. Substantially all of these mortgage loans are fully amortizing FRMs. At March 31, 2013, the pool of FHA/VA mortgage loans set aside for the formation of the Initial Pool had an aggregate outstanding UPB of \$8.9 billion. Due primarily to additional prepayments, we expect that the aggregate UPB of the FHA/VA mortgage loan pool set aside for the formation of the Initial Pool will decrease and that, upon completion of the offering, the aggregate outstanding UPB of such pool will be at least \$7.8 billion. As we cannot predict which loans will prepay, the composition of the Initial Pool will not be determined until shortly before the closing of this offering. Set forth below are certain summary characteristics, as of March 31, 2013, for the FHA/VA mortgage loans set aside by Freedom Mortgage for the formation of the Initial Pool. We expect the weighted average servicing fee on the Initial Pool to be 28 basis points. As the loan servicer, Freedom Mortgage will be paid a basic servicing fee of eight basis points on current mortgage loans and will be entitled to receive ancillary income from its servicing activities. Accordingly, we expect the weighted average excess servicing fee on the Initial Pool will be 20 basis points, of which we will be entitled to receive 17 basis points based on our 85% participation interest.

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We believe the characteristics set forth in the table below are representative of the characteristics of the Initial Pool as it will be constituted at the closing of this offering. Although we expect the Initial Pool to look substantially similar to the pool described below (other than the Aggregate UPB), the precise characteristics of the mortgage loans in the Initial Pool will not be determined until the completion of this offering and may vary from those set forth below:

	As of March 31, 2013
Aggregate UPB	\$ 8.9 billion
Average UPB	\$ 194,482
Fully amortizing FRMs(1)	98.8%
Fully amortizing ARMs(1)	1.2%
Weighted average note rate	3.65%
Weighted average gross servicing fee	28 basis points
Weighted average remaining term	342 months
Weighted average seasoning	7 months
Weighted average FICO(2)	705
Weighted average LTV(2)	92%
Constant Prepayment Rate(3)	36.8%
Top-five states:(1)	
California	19%
Florida	7%
Texas	5%
New Jersey	5%
Colorado	4%
Delinquency (30+ days) (1)	3%
Aggregate UPB of mortgage loans in foreclosure	\$ 23.4 million

(1) As a percentage of aggregate UPB.

(2) Reflects a non-zero weighted average.

(3) Constant Prepayment Rate for the period from January 31, 2013 through March 31, 2013.

### **Agency RMBS**

In addition to our investment in our Initial Excess MSRs, we plan to invest the remainder of the net proceeds of this offering and the concurrent private placement in Agency RMBS, primarily through the acquisition of Agency whole-pools, on a leveraged basis. While we intend to invest in both Agency RMBS backed by FRMs and hybrid-ARMs, we expect to be initially invested primarily in Agency whole-pools backed by 30-year, 20-year and 15-year FRMs that offer favorable prepayment and duration characteristics. We believe these types of Agency RMBS are readily available in the market. We believe seasoned pools, low loan balance pools and HARP loan pools have strong call protection characteristics. We also believe new production, unseasoned, current coupon pools are attractive due to low initial prepayment characteristics.

### **Our Asset Acquisition Process**

Our asset acquisition process benefits from the resources and professionals of our Manager and Freedom Mortgage. The process will be managed by our Manager's Investment Committee, which will include, among others: Mr. Middleman, the founder, Chairman and Chief Executive Officer of Freedom Mortgage, who also serves as our Chairman; Mr. Lown, our President and Chief Investment Officer; and Mr. Levine, our Chief Financial Officer, Secretary and Treasurer. Mr. Lown and Mr. Levine also serve as officers of our Manager and of Freedom Mortgage. The Investment Committee will operate under investment guidelines and meet periodically to develop a set of preferences for the composition of our portfolio. The primary focus of our



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Manager's Investment Committee will be to review and approve our investment policies and our portfolio composition and related compliance with our guidelines. Our Manager's Investment Committee will have authority delegated by our board of directors to authorize transactions consistent with our investment guidelines. Any transactions deviating in a material way from these guidelines must be approved by our board of directors.

The following describes our Manager's investment process with respect to our primary targeted asset classes, Excess MSRs, Agency RMBS and prime jumbo mortgage loans.

### ***Excess MSR Investment Process***

*Sourcing:* We expect to source a substantial portion of our Excess MSRs in partnership with Freedom Mortgage. In connection with the completion of this offering, we will enter into strategic alliance agreements with Freedom Mortgage, including a flow and bulk Excess MSR purchase agreement. Our strategic alliance agreements are intended to provide us with a predictable and proprietary source of Excess MSR acquisition opportunities. Accordingly, we will not be dependent on competitive bidding in order to construct a portfolio of Excess MSR assets. Under our strategic alliance agreements: (i) Freedom Mortgage will be obligated to offer us, on a monthly flow basis, the right to co-invest in the Excess MSRs related to Freedom Mortgage's MSRs on mortgage loans pooled and sold by Freedom Mortgage on a servicing retained basis during the previous month; and (ii) Freedom Mortgage will be obligated to offer us the right to co-invest in the Excess MSRs related to any MSRs on mortgage loans Freedom Mortgage acquires through a bulk purchase from a third-party servicer. Freedom Mortgage generally will be required to co-invest with us on the Excess MSRs we obtain from them to ensure our incentives are aligned. Freedom Mortgage will be required to agree to not sell, transfer, or otherwise, encumber without our consent, the MSRs to which our Excess MSRs relate and their co-investment in the Excess MSRs. We will not be obligated to purchase any Excess MSR assets from Freedom Mortgage pursuant to our strategic alliance agreements or otherwise. We also intend to take advantage of our senior management team's network of relationships with financial institutions and other participants in the residential mortgage markets to source and acquire Excess MSRs from third-party servicers. We believe these relationships will enable our Manager to identify new investment opportunities as we seek to deploy our capital and maximize our risk-adjusted returns. Although we have the ability to acquire Excess MSRs for pools that are of a lower credit quality than our Initial Pool, we currently do not intend to invest in Excess MSRs on these types of pools.

At the beginning of each quarter, we and Freedom Mortgage will agree on the parameters that will be used to determine the price to be paid for our investment in the Excess MSRs on mortgage loans pooled and sold by Freedom Mortgage during that quarter, called flow production. Those parameters may include, but will not be limited to (1) the basic servicing fee on the quarterly flow production, which, in turn, results in a weighted average rate at which the Excess MSRs are expected to accrue, (2) the aggregate original principal balance of the flow production expected, (3) the weighted average gross coupon on the flow production, (4) the weighted average remaining term to maturity of the flow production and (5) other characteristics of the flow production that may affect the rate at which those loans are expected to prepay, whether voluntarily or involuntarily. Adjustments up or down to the price impact of variations in those parameters will be agreed upon. We would determine the actual price paid mechanically by running the characteristics of a particular month's flow production through the pricing grid previously agreed upon. If there were to be a rapid and unexpected change in the general interest rate environment or the characteristics of Freedom Mortgage's flow production, we would expect we and Freedom Mortgage would agree to changes in the pricing parameters. In any case, our independent directors will approve the pricing parameters we have agreed to for the acquisition of flow production.

The split between the basic servicing fee and the excess servicing fee for future pools could differ from the split for the Initial Pool. The split for future pools will be agreed upon by Freedom Mortgage and us prior to entering into future Excess MSR transactions and the split, along with all other pricing parameters, will be approved by our independent directors. The split between the basic and excess servicing fees for future pools will be determined by negotiation of the basic servicing fee, which, at the time the basic servicing fee is determined, will represent Freedom Mortgage's anticipated direct costs of servicing the mortgage loans in the pool, Freedom

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Mortgage's anticipated sub-servicer oversight costs, if any, and the reasonable compensation to be paid to Freedom Mortgage for servicing the mortgage loans in the pool.

If we are presented with the opportunity to invest in Excess MSR related to MSR acquired by Freedom Mortgage from third-party services on a bulk basis, we and Freedom Mortgage will either agree at the time on a price for our co-investment, which will require approval by our independent directors, or we will decline the offered opportunity to co-invest with Freedom Mortgage. If we decline, Freedom Mortgage will be free to proceed on its own or offer the opportunity to another party with no further obligation to us. In addition, Freedom Mortgage may, but is not obligated to, offer us the opportunity to invest on a bulk basis in Excess MSR related to MSR owned by Freedom Mortgage. In that case the price and percentage of our investment, which could be 100% in such a case, will be negotiated and approved by our independent directors.

Although MSR are traded frequently, and we expect trading activity to accelerate in the future, there is no organized or recognized market for the offer and sale of MSR or Excess MSR. In addition there are many characteristics that can potentially affect the performance of the underlying mortgage loans and consequently, the price at which an investor may be willing to invest. There often will be a spread between the bid and the asked price which is often a function of the needs and desires of the parties involved many of which may have nothing to do with the value of the MSR. As a result, there is no recognized market to which we can look to accurately compare prices for our investments in Excess MSR.

*Screening/Risk Management:* We will seek to reduce our exposure to interest rate and subsequent prepayment risks through the structuring of our investments in Excess MSR. In conjunction with any acquisition of Excess MSR, we will seek to enter into recapture agreements with Freedom Mortgage and other servicers from whom we acquire Excess MSR. For a summary of the recapture terms related to our Initial Excess MSR, see "—Our Company" above. Our Manager will evaluate each investment opportunity based on its expected risk-adjusted return relative to other comparable investment opportunities available to us. Each investment will be screened by our Manager to determine its impact on our REIT qualification and our exclusion from regulation under the Investment Company Act. Prior to making an investment decision, our Manager expects to determine whether an investment will cause the portfolio to be too heavily weighted to any specific loan characteristics such as geographic location or product type.

*Initial Due Diligence/Underwritings:* As part of the investment evaluation process as it relates to acquisitions from Freedom Mortgage, our Manager intends to obtain fair market valuations from a qualified independent third-party service providers to assist in determining the acquisition pricing and to ensure terms are appropriate and conform to current market standards. Prior to any acquisition of an Excess MSR, we intend to perform due diligence on the proposed investment including conducting a detailed review of the servicer's operations and financial condition. Our underwriting process will include assessing among other items, the servicer's ability to fulfill their contractual obligations to us under the respective excess servicing acquisition agreement and to the Agencies and investors under the related servicing contracts. In addition we intend to engage third-party specialists to assist us in our due diligence and underwriting efforts, which will include examining the proposed investment's underlying loan portfolio's origination and servicing files.

*Investment Committee:* All of our investments will require approval by our Manager's Investment Committee and must comply with a set of investment parameters and agreements approved by our independent directors. Our Manager's Investment Committee expects to meet regularly or as otherwise needed to evaluate potential investments and review our investment portfolio. Additionally, the members of our Manager's Investment Committee are anticipated to be available to guide our Manager's investment professionals throughout their evaluation, underwriting and structuring of prospective investments. Generally, our Manager's senior management team will be responsible for presenting to our Manager's Investment Committee a memorandum on the investment opportunities that provides an overview of the collateral, due diligence conducted, key financial metrics and analyses, as well as investment considerations and risk mitigants.

*Asset Management and Portfolio Monitoring:* Our Manager will set up servicer oversight procedures in order to track the performance of the servicer and proactively address and resolve any issues in connection with

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its obligations under our acquisition and recapture agreements, as well as require notification and updated reporting as to its compliance and performance status under their related Agency servicing agreements. Servicer oversight procedures will include monthly performance reporting on the underlying loan portfolios of our Excess MSR investments and performance reporting on the servicer including agency scorecards, internal and external audit reports and performance reporting on any related sub-servicers for servicing functions outsourced by the servicer. In addition, we will obtain quarterly valuations on our Excess MSR investment portfolio from qualified specialists.

### ***Agency RMBS Investment Process***

Our Manager expects to identify Agency RMBS investment opportunities through its network of broker-dealer relationships. Our Manager will be responsible for sourcing and screening our target Agency RMBS asset acquisition opportunities and assessing asset suitability. Our Manager expects to conduct interest rate and prepayment analysis, evaluate cash flows and collateral performance, related servicer and originator performance information. Upon identification of an acquisition opportunity, the asset will be screened and monitored by our Manager to determine its impact on qualifying and maintaining our qualification as a REIT and maintaining our exemption from registration under the Investment Company Act. When evaluating Agency RMBS, our Manager will analyze various factors affecting the rate at which mortgage prepayments occur, including changes in the level and directional trends in housing prices, interest rates, general economic conditions, the age of the mortgage loan, the location of the property and other social and demographic conditions.

### ***Prime Jumbo Mortgage Loan Investment Process***

We expect our Manager to take advantage of the broad network of relationships of the mortgage investment team provided by our Manager to identify opportunities for us to acquire our prime jumbo mortgage loans. These individuals have extensive long-term relationships with financial intermediaries, including primary dealers, investment banks, brokerage firms, repurchase agreement counterparties, leading mortgage originators and commercial banks. We also expect our Manager's relationship with Freedom Mortgage to provide access to its loan origination platform and longstanding relationships in the mortgage banking industry and in the future we may enter into a sourcing agreement with Freedom Mortgage in order to obtain access to a pipeline of prime jumbo mortgage loans. We believe these relationships will enable our Manager to identify new investment opportunities as we seek to deploy our capital and maximize our risk-adjusted returns. As our Manager identifies originators, banks, investment banks and broker-dealers with whom it expects to enter into strategic origination and sourcing arrangements, each prospective partner will be vetted through a thorough financial and background analysis, including a review of their operations, transaction history, financial statements and business model. We expect our Manager to identify opportunities for us to acquire our prime jumbo mortgage loans. Our Manager will be responsible for sourcing and screening our target prime jumbo mortgage loan acquisition opportunities and assessing loan suitability. Each prospective originator will be vetted through a thorough financial and background analysis and we will also conduct a due diligence review of each servicer before executing a servicing agreement. Upon identification of an investment opportunity, our Manager also expects to evaluate it based on its expected risk-adjusted return relative to other comparable investment opportunities available to us. Each investment will be screened by our Manager to determine its impact on our REIT qualification and our exclusion from regulation as an investment company under the Investment Company Act. The terms of any leverage available to us for use in funding an investment purchase will also be taken into consideration, as are any risks posed by illiquidity or correlations with other securities in the portfolio. Our Manager will then analyze target loan pools and conduct follow-up due diligence as part of the underwriting process. Prior to purchasing any such loan, we will verify that each asset meets our stringent underwriting requirements. Ultimately, all investments made by our company will require approval by our Manager's Investment Committee and must comply with a set of investment parameters and agreements approved by our independent directors. Additionally, our Manager will seek to reduce downside risk related to unanticipated credit events through the use of active asset surveillance to evaluate collateral pool performance and will proactively manage positions consistent with qualifying and maintaining our qualification as a REIT.

## **Interest Rate Hedging and Risk Management**

We intend to opportunistically manage our interest rate risk by using various hedging strategies to mitigate such risks, subject to qualifying and maintaining our qualification as a REIT. The interest rate hedging instruments that we intend to use include, without limitation: interest rate swaps (floating-to-fixed, fixed-to-floating, or more complex swaps such as floating-to-inverse floating, callable or non-callable); CMOs; TBAs; U.S. treasury securities; swaptions, caps, floors and other derivatives on interest rates; futures and forward contracts; and options on any of the foregoing.

Subject to qualifying and maintaining our qualification as a REIT and maintaining our exclusion from regulation as an investment company under the Investment Company Act, we may utilize certain derivative financial instruments and other hedging instruments to mitigate interest rate risk we expect to arise from our repurchase agreement financings associated with our Agency RMBS. Specifically, we may seek to manage our exposure to interest rate risk in part by entering into short positions in interest rate swaps to offset the potential adverse effects that changes in interest rates will have on our borrowing costs. We may be exposed to mismatches between the interest we earn on our investments and our borrowing costs, caused by fluctuations in short-term interest rates. An interest rate swap is an agreement to exchange interest rate cash flows, calculated on a notional principal amount, at specified payment dates during the life of the agreement. Typically, one party pays a fixed interest rate and receives a floating interest rate and the other party pays a floating interest rate and receives a fixed interest rate. Each party's payment obligation is computed using a different interest rate. In an interest rate swap, the notional principal is never exchanged.

In addition to investing in specific pass-through securities, we may utilize forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are "To-Be-Announced," or "TBAs." Pursuant to these TBA transactions, we will 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. We will primarily engage in TBA transactions for purposes of managing certain risks associated with the Agency RMBS we will own. The principal risks that we will use TBAs to mitigate are interest rate and yield spread risks. For example, we may hedge the interest rate and/or yield spread risk inherent in the Agency RMBS we will own by taking short positions in TBAs that are similar in character. Alternatively, we may engage in TBA transactions because we find them attractive on their own, from a relative value perspective or otherwise. Our ability to engage in TBA transactions may be limited by our intention to qualify and remain qualified as a REIT.

On December 7, 2012, the CFTC issued a no-Action Letter that provides mortgage REITs relief from such registration, or the 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 No-Action Letter and we intend to file 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 No-Action Letter or the relief provided by the No-Action Letter becomes unavailable for any other reason, we may need to seek to obtain another exemption from registration or our Manager could be required to register as a "commodity pool operator" with the CFTC and would become subject to additional disclosure, recordkeeping and reporting requirements, which would increase our expenses.

## **Liquidity Management**

As part of the risk management and liquidity management functions that our Manager will perform for us, our Manager will compute a "cash buffer," which, at any given point in time, will represent the amount of our free cash in excess of what our Manager estimates would be required, especially in times of market dislocation, to support our particular assets and liabilities at such time. Thus, rather than focusing solely on our leverage, our Manager will typically seek to maintain a positive cash buffer. However, our Manager is not required to maintain a positive cash buffer and may choose not to maintain a positive cash buffer at certain times, for example, if it believes there are compelling market opportunities to pursue.

## **Our Financing Strategies and Use of Leverage**

We do not currently intend to leverage our investments in Excess MSR assets and will use a portion of the net proceeds of this offering and the concurrent private placement to finance the acquisition of our Initial Excess MSRs. We intend to finance our Agency 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 will primarily consist of repurchase transactions under master repurchase agreements. Our repurchase transactions will be collateralized by our Agency RMBS. In a repurchase transaction, we will 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 will generally receive the income and other payments distributed with respect to the underlying assets and pay interest to the counterparty. While the proceeds of our repurchase financings often will be used to purchase additional Agency RMBS subject to the same master repurchase agreement, our financing arrangements are not expected to restrict our ability to use proceeds from these arrangements to support our other liquidity needs. Our master repurchase agreements will typically be documented under the standard form master repurchase agreement published by SIFMA.

As of the date of this prospectus, we have negotiated and anticipate entering into repurchase agreements with multiple counterparties, including affiliates of certain of the underwriters, and we are also in the process of negotiating additional repurchase agreements with various other counterparties, which we intend to use for the purchase of Agency RMBS. This financing is uncommitted and continuation of such financing cannot be assured. These agreements are subject to the successful completion of this offering.

We may utilize other types of borrowings in the future, including term facilities 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, preferred or common stock or trust preferred securities.

Although we are not required to maintain any particular minimum or maximum target debt-to-equity leverage ratio with respect to our Agency 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's Investment Committee will have discretion, without the need for further approval by our board of directors, to change the amount of leverage we utilize for our Agency RMBS. We do not have a targeted debt-to-equity ratio for our Agency RMBS, although we expect currently that our debt-to-equity ratio initially will be approximately 8:1 for our Agency RMBS assets and could be as high as 10:1 depending on market conditions. We intend to use leverage for the primary purpose of financing our Agency RMBS portfolio and not for the purpose of speculating on changes in interest rates. We may, however, be limited or restricted in the amount of leverage we may employ by the terms and provisions of any financing or other agreements that we may enter into in the future, and we may be subject to margin calls as a result of our financing activity. In the future, we expect to acquire prime jumbo mortgage loans. We anticipate evaluating leverage policies for prime jumbo mortgage loans at such time. Currently, we do not intend to acquire non-Agency RMBS, but we may do so in the future, and we anticipate evaluating leverage policies for this asset class if and when we begin to acquire this asset class.

## **Conflicts of Interest**

Our Manager is an affiliate of Freedom Mortgage. Both our Manager and Freedom Mortgage are wholly owned and controlled by Mr. Middleman. Prior to the completion of this offering, we had no independent directors and Mr. Middleman was our sole director.

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We are dependent on our Manager for our day-to-day management, and we do not have any employees. Our executive officers and the officers and employees of our Manager are also officers or employees of Freedom Mortgage and, with the exception of those officers that are dedicated to us, we compete with Freedom Mortgage for access to those individuals. 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, including the management of Freedom Mortgage, may reduce the time our Manager and certain of its officers and personnel spend managing us.

Our management agreement with our Manager, our strategic alliance agreements between us and Freedom Mortgage and the Excess MSR acquisition and recapture agreement related to our Initial Excess MSRs and any other agreements that we may enter into with Freedom Mortgage in the future, whether pursuant to our strategic alliance agreements or otherwise, have been or will be negotiated between related parties and their respective terms, including the purchase price we will pay to Freedom Mortgage for Excess MSRs, including our Initial Excess MSRs, and the fees and other amounts payable, may not be as favorable to us as if they were negotiated on an arm's-length basis with unaffiliated third parties. Furthermore, we may choose not to enforce, or to enforce less vigorously, our rights under such agreements because of our desire to maintain our ongoing relationships with Freedom Mortgage and our Manager. In order to help minimize conflicts of interest with Freedom Mortgage, prior to entering into any transaction with Freedom Mortgage, our independent directors will review the material terms of any such transaction, including any pricing terms, to determine if the terms of the transaction are fair and reasonable. In particular, prior to entering into any such transaction, our independent directors will review and approve the parameters and agreements related to flow purchases of Excess MSRs from, and bulk purchases of Excess MSR we may make with, Freedom Mortgage, as well as any parameters and agreements pursuant to which we may acquire from Freedom Mortgage prime jumbo mortgage loans or other loans or assets in the future. We expect to also retain an independent valuation service to assist our management and our independent directors in making pricing determinations on Excess MSR assets we purchase from Freedom Mortgage.

Our business strategy is highly dependent upon the services provided by our Manager under the terms of our management agreement and our strategic alliance agreements with Freedom Mortgage. Although our independent directors have the ability to terminate our management agreement in the case of a material breach of a term of the agreement by our Manager, because the termination of our management agreement would result in the loss of personnel key to running our business, our independent directors may be less willing to enforce vigorously the provisions of our management agreement against our Manager. Furthermore, the termination of our strategic alliance agreements with Freedom Mortgage, primarily the flow and bulk Excess MSR purchase agreement, would have a material adverse effect on certain aspects of our business.

Although we believe that our co-investment strategy under our strategic alliance agreements generally aligns our and Freedom Mortgage's economic interests with respect to Excess MSRs, 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. In addition, to the extent we seek to leverage Freedom Mortgage's relationships with third parties to generate future investment opportunities, Freedom Mortgage will be under no obligation to co-invest with us in the future or assist us in generating such opportunities, other than pursuant to the terms of our strategic alliance agreements. Freedom Mortgage will be under no obligation, under the terms of our strategic alliance agreements or otherwise, to offer prime jumbo mortgage loans or residential mortgage assets other than Excess MSRs 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 our Manager and its affiliates to the extent Freedom Mortgage or our Manager invests in or creates new vehicles to invest in Excess MSRs or other 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 and employees of our Manager who are our officers may serve as officers and/or directors of these other entities. 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.

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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 plan target as its primary investment category investment in Excess MSRs.

We have not adopted a policy that expressly prohibits our directors, officers, security holders or affiliates from having a direct or indirect pecuniary interest in any asset to be acquired or disposed of by us or any of our subsidiaries or in any transaction to which we or any of our subsidiaries is a party or has an interest, nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. However, our code of business conduct and ethics will contain a conflicts of interest policy that will prohibit our directors, officers and employees, as well as employees of our Manager and Freedom Mortgage who provide services to us, from engaging in any transaction that involves an actual or apparent conflict of interest with us, absent approval by our board of directors or except as provided in our management agreement with our Manager or in our strategic alliance agreements with Freedom Mortgage. In addition, nothing in our management agreement with our Manager binds or restricts our Manager or any of its affiliates, officers or employees from buying, selling or trading any securities or commodities for their own accounts or for the accounts of others for whom our Manager or any of its affiliates, officers or employees may be acting.

Our Manager is authorized to follow very broad investment guidelines. Our independent directors will periodically review our investment guidelines and our portfolio. However, our independent directors generally will not review our proposed asset acquisitions (other than pursuant to the protocols established for asset acquisitions with Freedom Mortgage, including in accordance with our strategic alliance agreements or otherwise), dispositions or other management decisions. In addition, in conducting periodic reviews, the independent directors will rely primarily on information provided to them 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 our broad investment guidelines to determine the types of assets it may decide are proper for purchase by us. The management agreement with our Manager does not restrict the ability of its officers and employees from engaging in other business ventures of any nature, whether or not such ventures are competitive with our business.

### **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, including repurchase transactions, or a combination of these methods. In the event that our board of directors determines to raise additional equity capital, it 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 will engage in the purchase and sale of assets. We have not in the past and will not in the future underwrite the securities of other issuers. Our board of directors may change any of these policies without prior notice to you or a vote of our stockholders.

### **Competition**

In acquiring our assets, 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. Many of our competitors are significantly larger than us, have greater access to capital and other resources and may have other advantages

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over us. In addition to existing companies, other companies may be organized for similar purposes, including companies focused on purchasing mortgage assets. A proliferation of such companies may increase the competition for equity capital and thereby adversely affect the market price of our common shares. 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 and establish more relationships than us.

Additionally, we may also compete with the U.S. Federal Reserve and the U.S. Treasury to the extent they purchase assets meeting our objectives pursuant to various purchase programs.

In the face of this competition, we have access to our Manager's and Freedom Mortgage's professionals and their industry expertise, which may provide us with a competitive advantage and help us assess risks and determine appropriate pricing for certain potential assets. In addition, we believe that these relationships enable us to compete more effectively for attractive asset acquisition opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face.

## **Operating and Regulatory Structure**

### ***Tax Requirements***

We will elect and intend to qualify to be taxed as a REIT commencing with our short taxable year ending December 31, 2013. Provided that we qualify and 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 currently 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, if we form a TRS, the income generated by that subsidiary will be subject to U.S. federal, state and local income tax.

### ***Investment Company Act***

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. We will be organized as a holding company and will conduct our businesses primarily through wholly-owned subsidiaries. We intend to conduct our operations so that we do not come within the definition of an investment company by ensuring that less than 40% of the value of our total assets on an unconsolidated basis consist of "investment securities" as defined by the Investment Company Act, or the 40% Test.

Our direct and indirect subsidiaries, through which we will operate our business, will rely upon certain exemptions from registration as an investment company under the Investment Company Act including, in the case of our wholly-owned subsidiary, Cherry Hill QRS I, LLC, Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C), as interpreted by the staff of the SEC, requires an entity to invest at least 55% of its assets in "mortgages and other liens on and interests in real estate," which we refer to as "qualifying real estate interests," and at least 80% of its assets in qualifying real estate interests plus "real estate-related assets." In satisfying the 55% requirement, the entity may treat securities issued with respect to an underlying pool of mortgage loans in which it holds all of the certificates issued by the pool as qualifying real estate interests. We will treat the Agency whole-pool pass-through securities in which we intend to invest as qualifying real estate interests for purposes of the 55% requirement. The Excess MSR's we intend to acquire and the Agency CMO's we may acquire will not be treated as qualifying real estate interests for purposes of the 55% requirement.

We also have formed, and may in the future form, certain other wholly-owned or majority-owned subsidiaries that will invest in residential mortgage assets. These subsidiaries will rely upon the exemption from registration as an investment company under the Investment Company Act pursuant to Section 3(c)(1) or 3(c)(7)



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of the Investment Company Act. The securities issued by any wholly-owned or majority-owned subsidiary that we may form in the future and that are exempted from the definition of “investment company” based on Section 3(c)(1) or 3(c)(7) of the Investment Company Act, together with any other investment securities we may own, may not have a value in excess of 40% of the value of our total assets on an unconsolidated basis.

We will monitor our compliance with the 40% Test and the holdings of our subsidiaries to ensure that each of our subsidiaries is in compliance with an applicable exemption or exclusion from registration as an investment company under the Investment Company Act.

On August 31, 2011, the SEC published a concept release entitled “Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments” (Investment Company Act Rel. No. 29778). This release notes that the SEC is reviewing the 3(c)(5)(C) exemption relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities. 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 Division of Investment Management of the SEC regarding the treatment of assets as qualifying real estate assets or real estate-related assets, will not change in a manner that adversely affects our operations as a result of this review. To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon our exclusion from the need to register under the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies that we have chosen. Furthermore, although we intend to monitor the assets of Cherry Hill QRS I, LLC regularly, there can be no assurance that Cherry Hill QRS I, LLC will be able to maintain this exclusion from registration. In that case, our investment in Cherry Hill QRS I, LLC would be classified as an investment security, and we might not be able to maintain our overall exclusion from registering as an investment company under the Investment Company Act.

The loss of our exemption from regulation pursuant to the Investment Company Act could require us to restructure our operations, sell certain of our assets or abstain from the purchase of certain assets, which could have an adverse effect on our financial condition and results of operations. See “Risk Factors—Maintenance of our exclusion from registration under the Investment Company Act imposes significant limitations on our operations.”

### ***Investment Advisers Act of 1940***

Our Manager intends to register as an investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act, and upon completion of this offering will be subject to the regulatory oversight of the Investment Management Division of the SEC.

### **Staffing and Management**

We currently do not have any employees. All of our executive officers are employees of our Manager or Freedom Mortgage. See “Management—Management Agreement.”

### **Legal Proceedings**

Neither we nor our Manager is currently subject to any legal proceedings that we or our Manager considers to be material. Nevertheless, we, our Manager and Freedom Mortgage operate in highly regulated markets that are under regulatory scrutiny. Freedom Mortgage has received, and we expect in the future may receive, inquiries and requests for documents and information from various regulators regarding its origination activities. Please refer to “Risk Factors—Risks Related to Our Business—Governmental investigations or examinations, or private lawsuits, including purported class action lawsuits, involving Freedom Mortgage could have a material adverse effect on Freedom Mortgage and its ability to perform its obligations under our strategic alliance agreements.”

## MANAGEMENT

### Our Director, Director Nominees and Executive Officers

Our board of directors currently consists of one director. We intend to appoint four additional directors to our board of directors upon completion of this offering, three of whom will be independent directors. Our directors each have been or will be elected to serve until the next annual meeting of stockholders and until their successors are duly elected and qualify. Our executive officers have each been elected to hold office, subject to our bylaws, until their respective successors are elected and qualify, their respective death or their respective resignation or removal in the manner provided for in the bylaws. Our charter and bylaws provide that a majority of the entire board of directors may at any time increase or decrease the number of directors. However, the number of directors may never be less than the minimum number required by the MGCL or, unless our bylaws are amended, more than 15 and the tenure of office of a director may not be affected by any decrease in the number of directors.

The following sets forth certain information with respect to our director, our director nominees and our executive officers:

<u>Name</u>	<u>Age</u>	<u>Position Held with Us</u>
Stanley Middleman	59	Chairman of the Board of Directors
Jeffrey Lown II	49	President and Chief Investment Officer and Director Nominee
Martin Levine	61	Chief Financial Officer, Treasurer and Secretary
Joseph Murin	64	Independent Director Nominee*
Jonathan Kislak	64	Independent Director Nominee*
Robert Salcetti	58	Independent Director Nominee*

\* Our board of directors has determined that this director nominee is independent for purposes of the NYSE corporate governance listing requirements.

Set forth below is biographical information for our director and our director nominees and our executive officers.

### Director and Director Nominees

*Stanley Middleman* has served as our Chairman since our inception in October 2012. He is also the founder, Chairman and Chief Executive Officer of Freedom Mortgage and the sole member of our Manager. He is an active member of the Mortgage Bankers Association and served on numerous advisory boards including Freddie Mac from 2002 to 2010, Ellie Mae, Inc. (a provider of business automation software for the U.S. mortgage industry) from 2000 to 2001, and Fannie Mae from 2005 to 2006. As a consequence of Mr. Middleman's 27 years' experience in a wide range of financial and residential mortgage markets, including having served as Chairman and Chief Executive Officer of Freedom Mortgage since its founding in 1990, we believe he is well qualified to provide valuable advice to our board of directors in many important areas.

*Jeffrey Lown II* has agreed to become a director upon completion of this offering. Mr. Lown has served as our President and Chief Investment Officer since our inception in October 2012 and as our Manager's President and Chief Investment Officer since its inception in November 2012. Mr. Lown has over 20 years of combined experience in the financial services industry and the residential mortgage markets. Mr. Lown joined Freedom Mortgage in April 2012 and has served as Executive Vice President in charge of strategic funding projects and capital markets. Prior to joining Freedom Mortgage, Mr. Lown served as a Portfolio Manager at Avenue Capital Group from April 2011 to January 2012. Prior to co-founding and serving as a principal of GreenLake Investment Partners, LLC in the fall of 2010, Mr. Lown spent 11 months at NewOak Capital LLC as head of the residential mortgage loan business and as a member of the bank advisory group. Prior to joining NewOak

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Capital, Mr. Lown was a fellow at the Office of Thrift Supervision, or OTS, from March 2008 through September 2009. At OTS, he served as an advisor to the Senior Deputy Director's office, and focused on residential mortgage loan origination and residential asset valuation and RMBS. Noteworthy assignments included participating in the creation of the Obama administration's "Making Home Affordable" modification program, the review of TARP Capital Purchase Program applications for OTS thrifts and working with the Acting Deputy Director of Examinations, Supervision, and Consumer Protection and regional staff on troubled institutions. Before OTS, from April 2002 to March 2008, Mr. Lown worked at UBS Securities LLC in mortgage trading. While at UBS Securities, Mr. Lown managed an internal mortgage origination platform specializing in Alt-A mortgage loans, overseeing all units within the organization, including sales, capital markets and operations. Mr. Lown began his career at Salomon Brothers (now Citigroup) in 1991, where he spent 11 years working for the mortgage trading desk. The last six years at Citigroup were in the Mortgage Finance Group where Mr. Lown held several positions both in investment banking and mortgage finance roles. While serving in these positions, he developed strong credit, contract finance and securitization skills. As a consequence of Mr. Lown's 20 years' experience in the residential mortgage markets and his position with our company, we believe Mr. Lown is well qualified to provide valuable advice to our board of directors in many important areas.

*Joseph Murin* has agreed to become a director upon completion of this offering and is independent in accordance with the NYSE corporate governance standards. Since September 2009, Mr. Murin has served as the Chairman of The Collingwood Group LLC, a Washington, D.C.-based strategic investment and advisory firm serving the financial services industry that he co-founded in 2009. Since September 2012, Mr. Murin has served as President of NewDay Financial LLC, a mortgage lender that provides homeowners with FHA, VA and reverse mortgage loans, and as Chairman of the Board of Directors of Chrysalis Holdings, LLC, a private investment firm focused on building and growing successful businesses that provide home financing, data analytics and technology solutions in the mortgage banking and financial services industries. From October 2001 to October 2007, Mr. Murin served, and since December 2009, he has served, as a director on the Point Park University. From July 2011 to August 2012, Mr. Murin served as the Chief Executive Officer of National Real Estate Information Services, a portfolio company owned by funds managed by affiliates of Fortress Investment Group, LLC. President George W. Bush nominated Mr. Murin in October 2007 to serve as President of Ginnie Mae, a position which he held from July 2008 to August 2009. He also served as a consultant to the White House until he was confirmed by the U.S. Senate from January 2008 until May 2008. Prior to his nomination to serve as President of Ginnie Mae, Mr. Murin was with HUD for two years, to which he brought more than 40 years of diverse experience in the financial services, mortgage and banking industries. This experience includes having served as the Chief Executive Officer of a number of financial organizations such as Century Mortgage Co. from September 1986 to January 1989, Lender's Service Inc. from May 1991 to December 2001, and Mortgage Settlement Network Innovations from September 2004 to August 2007. Mr. Murin served as a director for iGATE Corporation (NASDAQ: IGTE) from August 2009 to April 2013. Mr. Murin holds a bachelor's degree in business from National Louis University. As a consequence of Mr. Murin's more than 40 years experience in the financial services, mortgage and banking industries, including his service as President of Ginnie Mae, we believe he is well qualified to provide valuable advice to our board of directors in many important areas.

*Jonathan Kislak* has agreed to become a director upon the completion of this offering and is independent in accordance with the NYSE corporate governance standards. Since 1999, Mr. Kislak has been Chairman of the Board at Antares Capital Corporation, a private venture capital firm. Mr. Kislak also serves as a director (since January 2008) and chairs the Audit Committee (since January 2011) of the Federal Home Loan Bank of Atlanta. Prior to joining Antares Capital Corporation, Mr. Kislak served as Chairman of the Board at Kislak Capital Corporation, an investor in early stage companies, from 1991 to 1999. Mr. Kislak served as Chairman of the Board of Kislak Financial Corporation (holding company for Kislak National Bank), from 1993 until its sale in January 2005. Mr. Kislak's government experience includes service as Deputy Under Secretary for Small Community and Rural Development of the Department of Agriculture from 1989 through 1991. At the Department of Agriculture, he was responsible for policy development and management oversight for the Farmer's Home Administration, the Rural Electrification Administration, and the Federal Crop Insurance Corporation. Prior to joining the Bush administration, Mr. Kislak was employed by the J.I. Kislak Organization, a mortgage banking and real estate investment company, in various capacities in the real estate and financial

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services markets, including mortgage banking, insurance brokerage, real estate brokerage and real estate development. Mr. Kislak led the growth of the J.I. Kislak Mortgage Corporation from \$300 million to over \$5 billion as its President from 1983 to 1989. Mr. Kislak began his career in 1970 at the Federal Home Loan Bank of Boston as a Regional Representative responsible for processing branch applications for the New England region. Mr. Kislak graduated with a Bachelor of Arts in Economics, magna cum laude, from Harvard College. Mr. Kislak brings to our board of directors over 40 years of experience in the financial services and mortgage industry sectors. Due to the depth of his experience as a banker, mortgage banker, and investor with a broad background in business, investments, and government, we believe he is well qualified to serve as a director of our company.

*Robert Salcetti* has agreed to become a director upon the completion of this offering and is independent in accordance with the NYSE corporate governance standards. Mr. Salcetti previously served as a Managing Director at JPMorgan Chase from 1996 to 2008. Prior to his tenure at JPMorgan Chase, Mr. Salcetti held the position of Managing Director at Chase Manhattan Bank and Senior Vice President of TCB/Chemical Bank and its predecessor, Texas Commerce Bank. Mr. Salcetti earned a degree of Bachelor of Science in Business Administration from Carlow College in Pittsburgh, Pennsylvania. Since January 2011, Mr. Salcetti has served as a director of Ocwen Financial Corporation (NYSE: OCN) and has served on its Audit and Nomination/Governance Committees. He also has chaired Ocwen's Compliance Committee since its inception in March 2013. Mr. Salcetti brings to our board of directors over 35 years of experience in the financial services and mortgage industry sectors. With his extensive experience, which includes leading operations that designed, provided and managed credit facilities for loan warehousing financing, advances and mortgage servicing rights financing, Mr. Salcetti is able to offer guidance to our board of directors from both an operational and strategic perspective.

### **Executive Officers**

For biographical information of Mr. Lown, see “—Director and Director Nominees” above.

*Martin Levine* has served as our Chief Financial Officer, Treasurer and Secretary since our inception in October 2012 and as our Manager's Chief Financial Officer, Treasurer and Secretary since its inception in November 2012. Mr. Levine joined Freedom Mortgage in 2012 and has over 30 years of industry expertise. Mr. Levine was brought on to Freedom Mortgage's senior management to spearhead the firm's servicing oversight operations and financial reporting of its multi-billion dollar servicing portfolio. Prior to joining Freedom Mortgage, Mr. Levine was Executive in Charge of Loan Administration at Real Estate Mortgage Network, Inc. from April 2008 to May 2011, where he was responsible for handling and resolving all legacy issues. From July 1999 to March 2007, Mr. Levine was Executive Vice President and Chief Operating Officer at Opteum Financial Services, a taxable REIT subsidiary of Opteum Mortgage Management, Inc. At Opteum, Mr. Levine was in charge of managing all aspects of the daily operations of Opteum's TRS including finance, human resources, technology, risk management, compliance and audit functions. During his eight year tenor at Opteum, Mr. Levine set the vision, offered executive sponsorship and ensured execution of multi-business strategic initiatives including heading up risk management of the firm's portfolio of retained mortgage servicing rights and successfully implementing a change of process and system to comply with the Sarbanes Oxley Act. Prior to Opteum, Mr. Levine held various positions in the financial services industry. From July 1987 to June 1999, he served as Executive Vice President of Operations at First Town Mortgage Corporation, a licensed mortgage banking institution, headquartered in Secaucus, New Jersey. Prior to First Town Mortgage, Mr. Levine held the position of Vice President of Corporate Operations at Kaplan Companies, a diversified real estate management company, from March 1986 to July 1987. Prior to Kaplan, Mr. Levine served as Vice President, Chief Financial Officer and Treasurer for Pan American Properties a publicly listed real estate investment trust from October 1982 to February 1986. Prior to Pan American Properties, Mr. Levine spent the first nine years of his career working as a licensed CPA for large public accounting firms including Kenneth Leventhal & Company (from January 1981 to October 1982), Coopers and Lybrand (from January 1980 to January 1981) and Touche, Ross and Company (from July 1973 to January 1980). In April 2007, SouthStar Funding LLC, or SouthStar Funding, a subprime and Alt-A mortgage loan originator, filed a voluntary petition for bankruptcy protection under Chapter 7 of the U.S. Bankruptcy Code, and the bankruptcy case was closed on April 5, 2011. At the time

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the voluntary petition was filed, Mr. Levine, our Chief Financial Officer, served on SouthStar Funding's board of managers. Mr. Levine had previously served as an officer of SouthStar Funding until November 2005 when Opteum Financial Services, LLC, SouthStar Funding's parent company, was sold to Bimini Mortgage Management, Inc.

### **Corporate Governance – Board of Directors and Committees**

Our business will be managed under the oversight and direction of our board of directors, which will establish investment guidelines for our Manager to follow in its day-to-day management of our business. Upon the completion of this offering, we expect a majority of the members of our board of directors will be "independent," as defined by the rules of the NYSE. Future directors will be recommended by our nominating and corporate governance committee for nomination by our board of directors.

The directors will be informed about our business at meetings of our board of directors and its committees and through supplemental reports and communications. We expect our independent directors will meet regularly in executive sessions without the presence of our corporate officers.

Upon the completion of this offering, our board of directors will form an audit committee, a compensation committee and a nominating and corporate governance committee and adopt charters for each of these committees. Each of these committees will be composed exclusively of independent directors, as defined by the listing standards of the NYSE. Moreover, our compensation committee will be composed exclusively of individuals intended to be, to the extent required by Rule 16b-3 of the Exchange Act, non-employee directors and will, at such times as we are subject to Section 162(m) of the Code, qualify as outside directors for purposes of Section 162(m) of the Code.

### ***Audit Committee***

Our board of directors will establish an audit committee. The audit committee will consist of Mr. Murin, Mr. Kislak and Mr. Salcetti, each of whom will be an independent director and "financially literate" under the rules of the NYSE. Mr. Kislak will chair the audit committee and will serve as the audit committee financial expert, as that term is defined by the SEC.

The audit committee will assist the board of directors in overseeing:

- our accounting and financial reporting processes;
- the integrity and audits of our consolidated financial statements;
- our compliance with legal and regulatory requirements;
- the qualifications and independence of our independent auditors;
- the performance of our independent auditors; and
- the performance of our internal audit function.

### ***Compensation Committee***

Our board of directors will establish a compensation committee. The compensation committee will consist of Mr. Murin, Mr. Kislak and Mr. Salcetti, each of whom will be an independent director. Mr. Salcetti will chair our compensation committee.

The compensation committee's principal functions will be to:

- evaluate the performance of our officers;
- evaluate the performance of our Manager;

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- review the compensation and fees payable to our Manager under our management agreement;
- review and approve the amount of any wages, salaries and benefits paid or reimbursed pursuant to our management agreement with respect to the dedicated or partially dedicated chief financial officer our Manager intends to provide to us and any dedicated or partially dedicated controller, internal legal counsel and/or investor relations professional, if our Manager elects to provide any of them to us; and
- administer the issuance of common stock and other equity-based awards issued to our officers, directors and other participants in our equity incentive plans, including our 2013 Equity Incentive Plan.

### ***Nominating and Corporate Governance Committee***

Our board of directors will establish a nominating and corporate governance committee. The nominating and corporate governance committee will consist of Mr. Murin, Mr. Kislak and Mr. Salcetti, each of whom will be an independent director. Mr. Murin will chair the nominating and corporate governance committee.

The nominating and corporate governance committee will be responsible for:

- providing counsel to our board of directors with respect to the organization, function and composition of our board of directors and its committees;
- overseeing the self-evaluation of our board of directors and our board of director's evaluation of management;
- periodically reviewing and, if appropriate, recommending to our board of directors changes to our corporate governance policies and procedures; and
- identifying and recommending to the board of directors potential director candidates for nomination.

### ***Compensation Committee Interlocks and Insider Participation***

We do not anticipate that any of our executive officers will serve as members of the board of directors or compensation committee of any other entity that has one or more executive officers serving as a member of our board of directors.

### ***Code of Business Conduct and Ethics***

Our board of directors will establish a code of business conduct and ethics that will apply to our officers and directors, the officers, directors and employees of our Manager and any officers, directors or employees of Freedom Mortgage who provide services to us. Among other matters, our code of business conduct and ethics will be designed to deter wrongdoing and to promote the following:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest;
- full, fair, accurate, timely and understandable disclosure in our reports filed with the SEC, if any, and other public communications;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting of violations of the code to appropriate persons identified in the code; and
- accountability for adherence to the code of business conduct and ethics.

Any waiver of the code of business conduct and ethics for our executive officers, directors or any employees may be made only by our nominating and corporate governance committee, and will be promptly disclosed as required by law or stock exchange regulations.

## **Limitations on Liabilities and Indemnification of Directors and Officers**

For information concerning limitations of liability and indemnification applicable to our directors, executive officers and, in certain circumstances, employees, see “Certain Provisions of Maryland Law and of Our Charter and Bylaws,” and “Certain Relationships and Related Party Transactions—Indemnification.”

## **Compensation of Directors**

Any member of our board of directors who is also an employee of our Manager or Freedom Mortgage or their respective affiliates will not receive additional compensation for serving on our board of directors. Each independent director is expected to receive an annual cash retainer of \$50,000 and \$10,000 in awards granted pursuant to our 2013 Equity Incentive Plan. We will reimburse our directors for their travel expenses incurred in connection with their attendance at full board and committee meetings. Members of our board of directors are also eligible to receive awards under our 2013 Equity Incentive Plan. In addition to the \$10,000 in awards under our 2013 Equity Incentive Plan to be granted to each of our independent directors, upon completion of this offering, we expect to grant 2,500 LTIP units under our 2013 Equity Incentive Plan to each of our independent directors. These LTIP units will be fully vested on the date of grant. See “Management—2013 Equity Incentive Plan” and “Our Operating Partnership and the Partnership Agreement—LTIP Units.”

## **Executive Compensation**

We will not pay any annual cash compensation to our executive officers. The management agreement permits our Manager to provide us with a dedicated or partially dedicated chief financial officer, controller, internal legal counsel and/or investor relations professional. If our Manager elects to provide us with a chief financial officer, controller, internal legal counsel and/or investor relations professional, our Manager will be entitled to be reimbursed for the costs of the wages, salaries and benefits incurred by our Manager with respect to such personnel, based on the percentage of their working time and efforts spent on matters related to our company. Our Manager intends to provide us with a chief financial officer (who will also serve as our treasurer and secretary), who may from time to time assist Freedom Mortgage with certain tasks. The amount of the wages, salary and benefits paid or reimbursed with respect to the chief financial officer our Manager intends to provide to us, as well as the amount of any wages, salaries and benefits paid or reimbursed with respect to any controller, internal legal counsel and/or investor relations professional our Manager elects to provide to us, will also be subject to the approval of the compensation committee of our board of directors.

## **2013 Equity Incentive Plan**

Prior to completion of this offering, our board of directors will adopt, and our initial stockholder will approve, our 2013 Equity Incentive Plan to allow us to attract and retain independent directors, executive officers and other key employees and to allow our Manager, our operating partnership and Freedom Mortgage to attract and retain investment professionals who will provide services to us and align the interests of these individuals with the interests of our stockholders. Our 2013 Equity Incentive Plan provides for the grant of options to purchase shares of our common stock, stock awards, stock appreciation rights, performance units, incentive awards and other equity-based awards (including LTIP units). Our Manager, our operating partnership and Freedom Mortgage are not eligible to participate in our 2013 Equity Incentive Plan because participation in our 2013 Equity Incentive Plan is limited to individuals.

## **Administration**

Our 2013 Equity Incentive Plan is administered by the Compensation Committee, except that our 2013 Equity Incentive Plan will be administered by our board of directors with respect to awards made to directors who are not employees. We use the term “administrator” to refer to the Compensation Committee or our board of

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directors, as applicable. The administrator approves all terms of awards under our 2013 Equity Incentive Plan. The administrator also approves who will receive grants under our 2013 Equity Incentive Plan and the number of shares of our common stock subject to each grant.

### **Eligibility**

Our officers, employees and directors and the officers and employees of our affiliates are eligible to participate in our 2013 Equity Incentive Plan. In addition, individuals who provide services to us or an affiliate, including through their employment with our Manager, our operating partnership or Freedom Mortgage, are eligible to receive awards under our 2013 Equity Incentive Plan.

### **Share Authorization**

Our 2013 Equity Incentive Plan provides for grants up to an aggregate of 5.0% of the outstanding shares of our common stock (on a fully diluted basis) at the time of the award, subject to a maximum aggregate number of shares of our common stock that may be issued under our 2013 Equity Incentive Plan of 1,500,000 shares.

In connection with stock splits, dividends, recapitalizations and certain other events, our board of directors will make equitable adjustments that it deems appropriate in the aggregate number of shares of our common stock that may be issued under our 2013 Equity Incentive Plan and the terms of outstanding awards.

If any options or stock appreciation rights terminate, expire or are canceled, forfeited, exchanged or surrendered without having been exercised or are paid in cash without delivery of common stock or if any stock awards, performance units or other equity-based awards are forfeited, the shares of our common stock subject to such awards will again be available for purposes of our 2013 Equity Incentive Plan. Shares of our common stock tendered or withheld to satisfy the exercise price or for tax withholding are not available for future grants under our 2013 Equity Incentive Plan.

No awards under the 2013 Equity Incentive Plan were outstanding prior to completion of this offering. The initial grants described below will become effective upon completion of this offering.

### **Awards Under the 2013 Equity Incentive Plan**

*Options.* Our 2013 Equity Incentive Plan authorizes the grant of stock options that do not qualify as incentive stock options (under Section 422 of the Code). The exercise price of each option will be determined by the administrator, provided that the price cannot be less than 100% of the fair market value of the shares of our common stock on the date on which the option is granted. Except for adjustments to equitably reflect stock splits, stock dividends or similar events, the exercise price of an outstanding option may not be reduced without the approval of our stockholders. In addition, no payment may be made in cancellation of an option without the approval of stockholders if, on the date of cancellation, the option price per share exceeds fair market value. The exercise price for any option is generally payable (1) in cash, (2) by certified check, (3) by the surrender of shares of our common stock (or attestation of ownership of shares of our common stock) with an aggregate fair market value on the date on which the option is exercised, equal to the exercise price, or (4) by payment through a broker in accordance with procedures established by the Federal Reserve Board. The term of an option cannot exceed ten years from the date of grant.

*Stock Awards.* Our 2013 Equity Incentive Plan also provides for the grant of stock awards. A stock award is an award of shares of our common stock that may be subject to restrictions on transfer and other restrictions as the administrator determines in its sole discretion on the date of grant. The restrictions, if any, may lapse over a specified period of time or through the satisfaction of conditions, in installments or otherwise, as the administrator may determine. A participant who receives a stock award will have all of the rights of a stockholder as to those



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shares, including, without limitation, voting rights and rights to receive distributions. However, dividends payable on shares of common stock subject to a stock award that does not become transferable and nonforfeitable solely on account of continued employment or service will be distributed only when, and to the extent that, the underlying stock award is nonforfeitable and transferable and the administrator may provide that such dividends shall be deemed to have been reinvested in additional shares of Common Stock. During the period, if any, when stock awards are non-transferable or forfeitable, (1) a participant is prohibited from selling, transferring, pledging, exchanging, hypothecating or otherwise disposing of his or her stock award shares, (2) we will retain custody of the certificates and (3) a participant must deliver a stock power to us for each stock award.

*Stock Appreciation Rights.* Our 2013 Equity Incentive Plan authorizes the grant of stock appreciation rights. A stock appreciation right provides the recipient with the right to receive, upon exercise of the stock appreciation right, cash, shares of our common stock or a combination of the two. The amount that the recipient will receive upon exercise of the stock appreciation right generally will equal the excess of the fair market value of the shares of our common stock on the date of exercise over the shares' fair market value on the date of grant (the initial value). Stock appreciation rights will become exercisable in accordance with terms determined by the Compensation Committee. Stock appreciation rights may be granted in tandem with an option grant or as independent grants. The term of a stock appreciation right cannot exceed ten years from the date of grant or five years in the case of a stock appreciation right granted in tandem with an incentive stock option awarded to a "ten percent stockholder." Except for adjustments to equitably reflect stock splits, stock dividends or similar events, the exercise price of an outstanding stock appreciation right may not be reduced without the approval of stockholders. In addition, no payment may be made in cancellation of a stock appreciation right without the approval of stockholders, if on the cancellation date, the initial value exceeds the fair market price.

*Performance Units.* Our 2013 Equity Incentive Plan also authorizes the grant of performance units. Performance units represent the participant's right to receive an amount, based on the value of a specified number of shares of our common stock, if performance goals established by the administrator are met. The administrator will determine the applicable performance period, the performance goals and such other conditions that apply to the performance unit. Performance goals may relate to our financial performance or the financial performance of our operating partnership, the participant's performance or such other criteria determined by the administrator. If the performance goals are met, performance units will be paid in cash, shares of our common stock, other securities or property or a combination thereof.

*Incentive Awards.* Our 2013 Equity Incentive Plan also authorizes the Compensation Committee to make incentive awards. An incentive award entitles the participant to receive a payment if certain requirements are met. The Compensation Committee will establish the requirements that must be met before an incentive award is earned and the requirements may be stated with reference to one or more performance measures or criteria prescribed by the Compensation Committee. A performance goal or objective may be expressed on an absolute basis or relative to the performance of one or more similarly situated companies or a published index and may be adjusted for unusual or non-recurring events, changes in applicable tax laws or accounting principles. An incentive award that is earned will be settled in a single payment which may be in cash, common stock or a combination of cash and common stock.

*Other Equity-Based Awards (Including LTIP Units).* The administrator may grant other types of stock-based awards as other equity-based awards under our 2013 Equity Incentive Plan, including LTIP units. Other equity-based awards are payable in cash, shares of our common stock or shares or units of such other equity, or a combination thereof, as determined by the administrator. The terms and conditions of other equity-based awards are determined by the administrator.

LTIP units are a special class of partnership interest in our operating partnership. Each LTIP unit awarded will be deemed equivalent to an award of one share of our common stock under our 2013 Equity Incentive Plan, reducing the plan's share authorization for other awards on a one-for-one basis. We will not receive a tax deduction for the value of any LTIP units granted to our employees. The vesting period for any LTIP units, if

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any, will be determined by the administrator at the time of issuance. LTIP units, whether vested or not, will receive the same quarterly per unit distributions as OP units, which distributions will generally equal per-share distributions on shares of our common stock. This treatment with respect to quarterly distributions is similar to the expected treatment of our stock awards, which will generally receive full dividends whether vested or not. Initially, LTIP units will not have full parity with OP units with respect to liquidating distributions. Under the terms of the LTIP units, our operating partnership will revalue its assets upon the occurrence of certain specified events, and any increase in our operating partnership's valuation from the time of grant until such event will be allocated first to the holders of LTIP units to equalize the capital accounts of such holders with the capital accounts of OP unitholders. Upon equalization of the capital accounts of the holders of LTIP units with the other holders of OP units, the LTIP units will achieve full parity with OP units for all purposes, including with respect to liquidating distributions. If such parity is reached, vested LTIP 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/exchange rights. However, there are circumstances under which such parity would not be reached. Until and unless such parity is reached, the value that a holder of LTIP units will realize for a given number of vested LTIP units will be less than the value of an equal number of shares of our common stock.

*Dividend Equivalents.* The administrator may grant dividend equivalents in connection with the grant of performance units and other equity-based awards. Dividend equivalents may be paid currently or accrued as contingent cash obligations (in which case they may be deemed to have been reinvested in shares of our common stock or otherwise reinvested) and may be payable in cash, shares of our common stock or other property or a combination of the two. The administrator will determine the terms of any dividend equivalents. Dividend equivalents payable with respect to any award that does not vest or become exercisable solely on account of continued employment or service will be distributed only when, and to the extent, the underlying award is vested or earned.

### **Change in Control**

If we experience a change in control, the administrator may, at its discretion, provide that outstanding options, stock appreciation rights, stock awards, performance units, incentive awards or other equity-based awards that are not exercised prior to the change in control will be assumed by the surviving entity, or will be replaced by a comparable substitute award of substantially equal value granted by the surviving entity. The administrator may also provide that outstanding options and stock appreciation rights will be fully exercisable upon the change in control, restrictions and conditions on outstanding stock awards will lapse upon the change in control and performance units, incentive awards or other equity-based awards will become earned and nonforfeitable in their entirety. The administrator may also provide that participants must surrender their outstanding options and stock appreciation rights, stock awards, performance units, incentive awards and other equity-based awards in exchange for a payment, in cash or shares of our common stock or other securities or consideration received by stockholders in the change in control transaction, equal to the value received by stockholders in the change in control transaction (or, in the case of options and stock appreciation rights, the amount by which that transaction value exceeds the exercise price or initial value).

In summary, a change of control under our 2013 Equity Incentive Plan occurs if: (1) a person, entity or affiliated group (with certain exceptions) acquires, in a transaction or series of transactions, more than 50% of the outstanding shares of our common stock on a fully diluted basis or the total combined voting power of our outstanding securities; (2) there occurs a merger, consolidation, reorganization or business combination, unless the holders of our voting securities immediately prior to such transaction have more than 50% of the combined voting power of the securities in the successor entity or its parent; (3) we sell or dispose of all or substantially all of our assets; or (4) incumbent directors cease to be a majority of our board of directors.

The Code has special rules that apply to "parachute payments," i.e., compensation or benefits the payment of which is contingent upon a change in control. If certain individuals receive parachute payments in excess of a

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safe harbor amount prescribed by the Code, the payor is denied a federal income tax deduction for a portion of the payments, and the recipient must pay a 20% excise tax, in addition to income tax, on a portion of the payments.

If we experience a change in control, benefits provided under our 2013 Equity Incentive Plan could be treated as parachute payments. In that event, our 2013 Equity Incentive Plan provides that the plan benefits, and all other parachute payments provided under other plans and agreements, will be reduced to the safe harbor amount, i.e., the maximum amount that may be paid without excise tax liability or loss of deduction, if the reduction allows the recipient to receive greater after-tax benefits. The benefits under our 2013 Equity Incentive Plan and other plans and agreements will not be reduced, however, if the recipient will receive greater after-tax benefits (taking into account the 20% excise tax payable by the recipient) by receiving the total benefits. Our 2013 Equity Incentive Plan also provides that these provisions do not apply to a participant who has an agreement with us providing that the individual is entitled to indemnification or other payment from us for the 20% excise tax.

### ***Amendment; Termination***

Our board of directors may amend or terminate our 2013 Equity Incentive Plan at any time, provided that no amendment may adversely impair the rights of participants under outstanding awards. Our stockholders must approve any amendment if such approval is required under applicable law or stock exchange requirements. Our stockholders also must approve any amendment that materially increases the benefits accruing to participants under our 2013 Equity Incentive Plan, materially increases the aggregate number of shares of our common stock that may be issued under our 2013 Equity Incentive Plan (other than on account of stock dividends, stock splits, other changes in capitalization or increases by the Plan Percentage in connection with offerings of our common stock, in each case, as described above) or materially modifies the requirements as to eligibility for participation in our 2013 Equity Incentive Plan. Unless terminated sooner by our board of directors or extended with stockholder approval, our 2013 Equity Incentive Plan will terminate on the day before the tenth anniversary of the adoption of our 2013 Equity Incentive Plan.

### ***Initial Awards***

Upon completion of this offering, we expect to grant an aggregate of 37,500 LTIP units under our 2013 Equity Incentive Plan to our executive officers and directors and to certain employees of our Manager and Freedom Mortgage who provide services to us. The LTIP units granted to our executive officers and our Chairman of the Board, Mr. Middleman, and to employees of our Manager and Freedom Mortgage who provide services to us will vest ratably over a three-year period beginning on the one-year anniversary of the closing of this offering. The LTIP units granted to our independent directors will be fully vested on the date of grant.

### ***Promoter***

We consider Mr. Middleman, who is the sole owner of Freedom Mortgage and our Manager, to be our “promoter” within the meaning of Rule 405 under the Securities Act. In connection with our initial capitalization, Mr. Middleman purchased 1,000 shares of our common stock for total cash consideration of \$1,000. We will repurchase these shares from Mr. Middleman at the closing of this offering for \$1,000. Mr. Middleman currently serves as our sole director.

## OUR MANAGER AND THE MANAGEMENT AGREEMENT

### Overview

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. Mr. Middleman, our Chairman of the board of directors, is the sole member of our Manager. Freedom Mortgage and its employees will support our Manager in providing services to us pursuant to the terms of a services agreement that has been entered into by our Manager and Freedom Mortgage. We will rely on our Manager and Freedom Mortgage to provide or obtain on our behalf the personnel and services necessary for us to conduct our business, and we have no employees or facilities of our own. Our executive officers and the officers and employees of our Manager are also officers or employees of Freedom Mortgage, and, with the exception of those officers that are dedicated to us, we will compete with Freedom Mortgage for access to these individuals. The executive offices of our Manager are located at 301 Harper Drive, Suite 110, Moorestown, New Jersey 08057, and the telephone number of our Manager's executive offices is (877) 870-7005.

Our Manager has established an Investment Committee that will advise and consult with our senior management team with respect to, among other things, our investment policies, portfolio holdings, financing and hedging strategies and investment guidelines. The members of our Manager's Investment Committee include, among others: Mr. Middleman, our Chairman; Mr. Lown, our President and Chief Investment Officer; and Mr. Levine, our Chief Financial Officer, Treasurer and Secretary.

### Key Personnel of Our Manager and Freedom Mortgage

The following table sets forth certain information with respect to each of the key personnel of our Manager and Freedom Mortgage who are primarily responsible for making investments in our target assets and operating our company:

<u>Name</u>	<u>Age</u>	<u>Relationship to/Position with Our Manager</u>	<u>Position with Freedom Mortgage</u>
Stanley Middleman	59	Sole Member	Founder, Chairman of the Board of Directors and Chief Executive Officer
Jeffrey Lown II	49	President and Chief Investment Officer	Executive Vice President
Martin Levine	61	Chief Financial Officer, Treasurer and Secretary	Executive Vice President
Julian Evans	43	Senior Portfolio Manager	Senior Vice President

For biographical information regarding Messrs. Middleman, Lown and Levine, see "Management—Our Directors, Director Nominees and Executive Officers—Director and Director Nominees" and "—Executive Officers." Biographical information for Mr. Evans, our manager's Senior Portfolio Manager who will be provided to us pursuant to the terms of our management agreement, appears below.

*Julian Evans* joined Freedom Mortgage in April 2013 as a Senior Vice President and has over 20 years of experience in the financial services industry. Prior to joining Freedom Mortgage, Mr. Evans served as Head of the MBS Sector Team and Senior Portfolio Manager for Deutsche Asset Management from April 2004 to September 2012. At Deutsche Asset Management, Mr. Evans led a team that managed RMBS assets for institutional, insurance and retail clients. In his role, Mr. Evans was responsible for establishing the mortgage strategy for the investment platform and was a member of Deutsche Asset Management's Asset Allocation Committee. Prior to joining Deutsche Asset Management, Mr. Evans worked for Times Square Capital Management, an institutional money manager from August 1999 to April 2004. At Times Square Capital, Mr. Evans served as vice president, was the head trader for mortgage and asset-backed securities. Before Times Square Capital, Mr. Evans was a senior analyst at Bear, Sterns & Co. in the Global Credit Department, where he

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assessed the creditworthiness of Bear Sterns' institutional counterparties. Mr. Evans began his career at Chemical Bank (now JP Morgan Chase) in 1992 where he spent two years working as an analyst in the Not-for Profit and Health Care Division. While at Chemical Bank, Mr. Evans participated in the institution's credit training program. In 1999, Mr. Evans received an MBA from the Stephen M. Ross School of Business at the University of Michigan. In addition, Mr. Evans holds a Bachelor of Arts degree from Trinity College, Hartford CT, which he received in 1992.

### **The Management Agreement**

We have entered into a management agreement with our Manager pursuant to which our Manager is required to manage our business affairs in conformity with policies and investment guidelines that are approved and monitored by our board of directors. Our Manager is subject to the direction and oversight of our board of directors. Our Manager is responsible for, among other things:

- the identification, selection, purchase and sale of our portfolio investments;
- our financing and risk management activities;
- providing us with investment advisory services; and
- providing us with a management team and appropriate personnel.

In addition, our Manager is responsible for our day-to-day operations and will perform (or cause to be performed) such services and activities relating to our assets and operations, including the assets and operations of our subsidiaries, as may be necessary or appropriate, including the following:

- serving as our consultant with respect to the periodic review of our investment guidelines and other policies and criteria for our other borrowings and operations for the approval by our board of directors;
- investigating, analyzing and selecting possible investment opportunities and originating, acquiring, structuring, financing, retaining, selling, negotiating for prepayment, restructuring or disposing of investments consistent with the investment guidelines;
- with respect to any prospective investment by us and any sale, exchange or other disposition of any investment by us, conducting negotiations on our behalf with sellers and purchasers and their respective agents, representatives and investment bankers, and owners of privately and publicly held real estate companies;
- with respect to any prospective investment in Excess MSR, negotiating agreements, including, and not limited to, acknowledgement agreements, flow acquisition agreements and bulk acquisition agreements;
- engaging and supervising, on our behalf and at our sole cost and expense, third-party service providers that are not affiliated with Freedom Mortgage who provide legal, accounting, due diligence, transfer agent, registrar, leasing services, servicing, subservicing, banking, investment banking, mortgage brokerage, real estate brokerage, securities brokerage and other financial services and such other services as may be required relating to our investments or potential investments and to our other business and operations;
- coordinating and supervising, on our behalf and at our sole cost and expense, other third-party service providers to us;
- serving as our consultant with respect to arranging for any issuance of mortgage-backed securities from pools of prime jumbo mortgage loans owned by us;
- coordinating and managing operations of any joint venture or co-investment interests held by us and conducting all matters with any joint venture or co-investment partners;

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- providing executive and administrative personnel, office space and office services required in rendering services to us;
- administering our day-to-day operations and performing and supervising the performance of such other administrative functions necessary to our management as may be agreed upon by our Manager and our board of directors, including, without limitation, the collection of revenues and the payment of our debts and obligations and maintenance of appropriate computer services to perform such administrative functions;
- in connection with any on-going obligations under the Sarbanes-Oxley Act, the Exchange Act, the Dodd-Frank Act and other applicable law, engaging and supervising, on our behalf and at our sole cost and expense, third-party consultants and other service providers to assist us in complying with the requirements of the Sarbanes-Oxley Act, the Exchange Act, the Dodd-Frank Act and other applicable law;
- communicating on our behalf with the holders of any of our equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;
- counseling our board of directors in connection with policy decisions to be made by our board of directors;
- counseling us, and when appropriate, evaluating and making recommendations to our board of directors regarding hedging, financing and securitization strategies and engaging in hedging, financing, borrowing and securitization activities on our behalf, consistent with our investment guidelines;
- counseling us with respect to the qualification and maintenance of our status as a REIT and monitoring our compliance with the various REIT qualification tests and other rules set out in the Code and the applicable U.S. Treasury regulations, or U.S. Treasury Regulations;
- counseling us with respect to the maintenance of our exclusion from status as an investment company under the Investment Company Act and monitoring compliance with the requirements for maintaining such exclusion and using commercially reasonable efforts to cause us to maintain such exclusion from status as an investment company under the Investment Company Act;
- assisting us in developing criteria for asset purchase commitments that are tailored to our investment objectives and making available to us its knowledge and experience with respect to our target assets;
- furnishing reports to our board of directors regarding the activities and services performed for us or any of our subsidiaries by our Manager as reasonably requested by our board of directors from time to time;
- monitoring the operating performance of our investments and providing such periodic reports with respect thereto to our board of directors as they shall reasonably determine from time to time to be necessary or appropriate, including comparative information with respect to such operating performance and budgeted or projected operating results;
- investing or reinvesting any money or securities on our behalf (including investing in short-term investments pending investment in other investments, payment of fees, costs and expenses, or distributions to our stockholders), and advising us with respect to our capital structure and capital raising;
- causing us to retain, at our sole cost and expense, qualified independent accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations and, compliance with the provisions of the Code and the U.S. Treasury Regulations applicable to REITs, and to conduct quarterly compliance reviews with respect thereto;

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- causing us and each of our subsidiaries to qualify to do business in all jurisdictions where qualification is necessary and to obtain and maintain all appropriate licenses;
- assisting us with respect to our compliance with all applicable regulatory requirements in respect of our business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act, the Securities Act or by any national securities exchange;
- taking all necessary actions to enable us to make required tax filings and reports and compliance with the provisions of the Code, and U.S. Treasury Regulations, including, without limitation, the provisions applicable to our qualification as a REIT for U.S. federal income tax purposes;
- handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which we may be involved or to which we may be subject arising out of our day-to-day operations (other than with our Manager or its affiliates), subject to such limitations, parameters or directions as may be imposed from time to time by our board of directors;
- using commercially reasonable efforts to cause expenses incurred by or on behalf of our company to be commercially reasonable or commercially customary and within any budgeted parameters or expense guidelines set by our board of directors from time to time;
- advising on, and obtaining on our behalf, credit facilities or other financings for our investments consistent with our investment guidelines;
- advising us with respect to and structuring long-term financing vehicles for our portfolio of assets, and offering and selling securities publicly or privately in connection with any such structured financing;
- performing such other services as may be required from time to time for management and other activities relating to our assets as our board of directors shall reasonably request;
- using commercially reasonable efforts to cause us to comply with all applicable laws;
- negotiating and entering into and executing, on our behalf, repurchase agreements, interest rate agreements, swap agreements, brokerage agreements, resecuritizations, securitization warehouse facilities and other agreements and instruments required for us to conduct our business;
- serving as our consultant with respect to decisions regarding any of our financings, hedging activities or borrowings undertaken by us, including (1) assisting us in developing criteria for debt and equity financing that is specifically tailored to our investment objectives, and (2) advising us with respect to obtaining appropriate financing for the our company's and our subsidiaries' investments;
- providing us with portfolio management;
- arranging marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote our business; and
- maintaining our website.

Pursuant to the management agreement, our Manager will not assume any responsibility other than to render the services called for thereunder in good faith and is not responsible for any action of our board of directors in following or declining to follow our Manager's advice or recommendations.

Our Manager, Freedom Mortgage, and their affiliates and each of their officers, directors, trustees, members, stockholders, partners, managers, investment committee members, employees, agents, successors and assigns, each of which we sometimes refer to as a Manager indemnified party, will not be liable to us for any acts or omissions arising out of or in connection with our company or the performance of our Manager's duties and obligations to us under the management agreement, except by reason of acts or omissions found by a court of competent jurisdiction to be due to the bad faith, gross negligence, willful misconduct, fraud or reckless disregard of duties by any Manager indemnified party.

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Pursuant to the management agreement, except by reason of acts or omissions found by a court of competent jurisdiction to be due to the bad faith, gross negligence, willful misconduct, fraud or reckless disregard of duties by any Manager indemnified party, no Manager indemnified party will be liable for (i) trade errors that may result from ordinary negligence that are otherwise taken in good faith and in accordance with or pursuant to the management agreement, such as errors in the investment-decision process (for example, a transaction was effected in violation of our investment guidelines) or in the trade process (for example, a buy order was entered instead of a sell order or the wrong security was purchased or sold or the security was purchased or sold at the wrong price), or (ii) acts or omissions of any Manager indemnified party made or taken in accordance with written advice provided to the Manager indemnified party by professional consultants selected, engaged or retained by our Manager, Freedom Mortgage or their affiliates with commercially reasonable care, including without limitation counsel, accountants, investment bankers, financial advisers, and appraisers, that are otherwise taken in good faith and in accordance with or pursuant to the management agreement; provided that such advice relates to matters which are not customarily the expertise of an investment manager providing services substantially similar to those to be provided pursuant to the management agreement, or that such advice relates to matters about which such an investment manager would customarily seek such advice in the ordinary course of business. Notwithstanding the foregoing, no provision of the management agreement will constitute a waiver or limitation of our rights under federal or state securities laws.

Under the management agreement, we will be required to indemnify, defend and hold harmless each Manager indemnified party from and against any and all costs, losses, claims, damages, liabilities, expenses (including reasonable legal and other professional fees and disbursements), judgments, fines and settlements suffered or sustained by any of them by reason of (i) any acts, omissions or alleged acts or omissions arising out of or in connection with our company or performed by a Manager indemnified party in good faith and in accordance with or pursuant to our Manager's duties and obligations under the management agreement, and (ii) any and all claims, demands, actions, suits or proceedings (civil, criminal, administrative or investigative), actual or threatened, in which any such person may be involved, as a party or otherwise, arising out of or in connection with such acts or omissions performed in good faith and in accordance with the management agreement, except to the extent such costs are determined to be due to such Manager indemnified party's bad faith, gross negligence, willful misconduct or fraud.

Our Manager will agree in the management agreement to indemnify our company and our subsidiaries and each of their respective directors, officers, employees and managers, each of which we sometimes refer to as a Company indemnified party, with respect to all costs, losses, claims, damages, liabilities, expenses (including reasonable legal and other professional fees and disbursements), judgments, fines and settlements suffered or sustained by reason of (i) acts or omissions or alleged acts or omissions of our Manager constituting bad faith, willful misconduct or gross negligence of our Manager, Freedom Mortgage or their respective officers or employees or the reckless disregard of our Manager's duties under the management agreement or (ii) claims by Freedom Mortgage's or our Manager's employees relating to the terms and conditions of their employment with Freedom Mortgage or our Manager. Our Manager intends to obtain errors and omissions and other insurance, which is customarily carried by property and investment managers.

Pursuant to the terms of the management agreement, our Manager will be required to provide a management team (including, without limitation, a president and a chief financial officer, a chief investment officer, a controller and a secretary) along with appropriate support personnel, to deliver the management services to us, with the members of such management team, other than those that may be dedicated or substantially dedicated to us, devoting such portion of their time to the management of us as is reasonably necessary and appropriate for the proper performance of all of our Manager's duties, commensurate with the level of our activity from time to time. The management agreement permits our Manager to provide us with a dedicated or partially dedicated chief financial officer, controller, internal legal counsel and/or investor relations professional. If our Manager elects to provide us with a dedicated or partially dedicated chief financial officer, controller, internal legal counsel and/or investor relations professional, our Manager will be entitled to be reimbursed for the costs of the wages, salaries and benefits incurred by our Manager with respect to such personnel, provided that if our



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Manager elects to provide any of these personnel on a partially dedicated basis, we will be required to reimburse only a pro rata portion of the costs of the wages, salaries and benefits incurred by our Manager with respect to such personnel based on the percentage of their working time and efforts spent on matters related to our company. Our Manager intends to provide us with a chief financial officer (who will also serve as our treasurer and secretary), who may from time to time assist Freedom Mortgage with certain tasks. The amount of the wages, salary and benefits paid or reimbursed with respect to the chief financial officer our Manager intends to provide to us, as well as the amount of any wages, salaries and benefits paid or reimbursed with respect to any controller, internal legal counsel and/or investor relations professional our Manager elects to provide to us, will also be subject to the approval of the compensation committee of our board of directors. We will have the benefit of our Manager's reasonable judgment and effort in rendering services and, in furtherance of the foregoing, our Manager will not undertake activities which, in its reasonable judgment, will materially adversely affect the performance of its obligations under the management agreement.

### **Term and Termination**

The initial term of the management agreement will expire on the third anniversary of the closing of this offering 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 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. In the event we elect not to renew the term, we will be required to pay our Manager 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 fiscal quarter preceding the date of termination.

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, for the following reasons:

- our Manager's continued material breach of any provision of the management agreement (including the failure of our Manager to use commercially reasonable efforts to comply with our investment guidelines) following a period of 30 days after written notice thereof;
- our Manager's fraud, misappropriation of funds, or embezzlement against us;
- our Manager's gross negligence in the performance of its duties under the management agreement;
- our Manager, Freedom Mortgage or any of their affiliates who provide services to us under the management agreement is convicted of, or pleads nolo contendere to, a felony violation of any U.S. federal securities laws;
- the occurrence of certain events with respect to the bankruptcy or insolvency of our Manager or Freedom Mortgage;
- upon a change of control (as defined in the management agreement) of our Manager; or
- our Manager's failure to provide or procure adequate or appropriate personnel necessary to source for us investment opportunities and to manage and develop our portfolio following a period of 60 days after written notice thereof.

For purposes of the management agreement, a "change of control" means the sale, lease or transfer of all or substantially all of the assets of our Manager, to any person other than Freedom Mortgage or its affiliates, or the direct or indirect acquisition by any person, other than Freedom Mortgage and any of its affiliates, by way of merger, consolidation or other business combination or purchase of beneficial ownership of 50% or more of the total voting power of the voting capital interests of or pecuniary interests in our Manager.

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Following the completion of this offering, our board of directors will review our Manager's performance annually 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.

Our Manager may generally only assign the management agreement with the written approval of a majority of our independent directors. However, our Manager may assign to one or more of its affiliates the performance of any of its responsibilities under the management agreement without the approval of our independent directors so long as our Manager remains liable for any such affiliate's performance and such assignment does not require our approval under the Investment Advisers Act.

### ***Management Fees and Reimbursement of Expenses***

We do not maintain an office or employ personnel. Instead we rely on the facilities and resources of our Manager to conduct our operations. Expense reimbursements to our Manager are made within 60 days following delivery of the expense statement by our Manager. Our Manager is not entitled to receive any incentive fee under the management agreement.

### ***Management Fees***

Under the management agreement, we will pay our Manager a management fee quarterly in arrears in an amount equal to 1.50% per annum of our stockholders' equity, with stockholders' equity being calculated, as of the end of any fiscal quarter, as (a) the sum of (1) the net proceeds from any issuances of common stock or other equity securities issued by us or our operating partnership (without double counting) since inception, plus (2) our and our operating partnership's (without double counting) retained earnings calculated in accordance with GAAP at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) any amount that we or our operating partnership have paid to repurchase shares of our common stock or other equity securities issued by us or our operating partnership since inception. For purposes of the management agreement, "stockholders' equity" excludes: (1) any unrealized gains, losses or other non-cash items that have impacted stockholders' equity as reported in our financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income; and (2) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above in each case, after discussions between our Manager and our independent directors and approval by a majority of our independent directors.

Our Manager will calculate the management fee within 45 days following the last day of each quarter and such calculation will be delivered to us. We will be obligated to pay the management fee within ten business days after receipt of the calculation from our Manager.

Our Manager will earn a larger management fee as a result of future offerings of securities by us or our operating partnership to the extent our stockholders' equity increases.

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In addition to the management fee payable to our Manager, our Manager's personnel and Freedom Mortgage's personnel who provide services to us are eligible to receive equity-based awards under our 2013 Equity Incentive Plan in order to attract and retain these individuals and align their interests with the interests of our stockholders. See "Management—2013 Equity Incentive Program."

### ***Reimbursement of Expenses***

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, including compensation of our Manager's employees and other related expenses. The expenses required to be paid by us include, but are not limited to:

- issuance and transaction costs incident to the acquisition, disposition and financing of our investments including but not limited to brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees, interest expense, withholding and transfer fees, taxes, research related expenses, third-party valuation and pricing services, professional and consulting fees (including, without limitation, expenses of consultants and experts) relating to our investments and other expenses related to the purchase or sale of such investments);
- legal, regulatory, compliance, tax, accounting, consulting, auditing and administrative fees and expenses and fees and expenses for other similar services rendered by third-party service providers;
- the compensation and expenses of our directors and the cost of liability insurance to indemnify our directors and officers;
- the costs associated with the establishment and maintenance of any credit facilities and our other indebtedness (including commitment fees, accounting fees, legal fees, closing costs, etc.);
- expenses associated with our other securities offerings, including this offering;
- expenses relating to the payment of distributions;
- expenses connected with communications to holders of our securities in maintaining relations with such holders and in complying with the continuous reporting and other requirements of the Exchange Act, the SEC and other governmental bodies;
- transfer agent, registrar and exchange listing fees;
- the costs of printing and mailing proxies, reports and other materials to our stockholders;
- costs associated with any research, data, data services, computer software or hardware, electronic equipment, or purchased information technology services from third-party vendors;
- reasonable costs and out-of-pocket expenses incurred on our behalf by directors, trustees, officers, employees or other agents of our Manager for travel in connection with services provided under the management agreement;
- the allocable share of any costs and expenses incurred by our Manager or its affiliates with respect to market information systems and publications, research publications and materials;
- settlement, clearing, trade confirmation and reconciliation, and custodial fees and expenses;
- all taxes and license fees;
- all insurance costs incurred with respect to insurance policies obtained in connection with the operation of our business including, but not limited to, insurance covering activities of our Manager and its employees relating to the performance of our Manager's duties and obligations under the management agreement;
- costs and expenses incurred in contracting third parties for the servicing and special servicing of our assets;

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- all other actual out-of-pocket costs and expenses relating to our business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing and disposing of investments, including appraisal, reporting, audit and legal fees;
- any judgment or settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against us or any of our subsidiaries, or against any of our or our subsidiaries' directors, directors or officers in his or her capacity as such for which we or any subsidiary are required to indemnify such trustee, director or officer by any court or governmental agency, or settlement of pending or threatened proceedings;
- the costs of maintaining compliance with all federal, state and local rules and regulations, including securities regulations, or any other regulatory agency, all taxes and license fees and all insurance costs incurred on our behalf relating to our activities;
- expenses relating to any office or office facilities, including disaster backup recovery sites and facilities, maintained expressly for us and separate from offices of our Manager and reasonably required for our operations;
- the costs of the wages, salaries and benefits incurred by our Manager with respect to a dedicated or partially dedicated chief financial officer, controller, internal legal counsel and/or investor relations professional, as described above;
- costs associated with our marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote our business;
- costs of maintaining our website; and
- all other costs and expenses approved by our board of directors.

In addition, other than as expressly described above, we are not required to pay any portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of our Manager and its affiliates.

### **Services Agreement**

Our Manager is a party to a services agreement with Freedom Mortgage, pursuant to which Freedom Mortgage will provide to our Manager the personnel, services and resources as needed by our Manager to enable our Manager to carry out its obligations and responsibilities under the management agreement. We are a named third-party beneficiary to the services agreement and, as a result, have, as a non-exclusive remedy, a direct right of action against Freedom Mortgage in the event of any breach by our Manager of any of its duties, obligations or agreements under the management agreement that arise out of or result from any breach by Freedom Mortgage of its obligations under the services agreement. The term of the services agreement is one year from the closing of this offering, subject to renewal for successive annual periods by our Manager and Freedom Mortgage. In addition, the services agreement will terminate upon the termination of the management agreement. Pursuant to the services agreement, our Manager will make certain payments to Freedom Mortgage in connection with the services provided. Our Manager and Freedom Mortgage are under the common ownership and control of Mr. Middleman, our Chairman. As a result, all management fee compensation earned by our Manager and all service agreement fees paid by our Manager to Freedom Mortgage accrue to the common benefit of Mr. Middleman.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

### Acquisition of Initial Excess MSR

Upon completion of this offering and the concurrent private placement, we will invest approximately \$40.5 million of the net proceeds to acquire from Freedom Mortgage an 85% participation interest in the Excess MSR related to a pool of Ginnie Mae-eligible (FHA/VA) mortgage loans originated by Freedom Mortgage after January 1, 2011. The purchase price for our Initial Excess MSR takes into account the target yield for our investment in our Initial Excess MSR, which has been risk adjusted for our prepayment, recapture and delinquency assumptions. We expect the pool to which our Initial Excess MSR relate to have an outstanding UPB of approximately \$7.8 billion as of the closing of this offering. Freedom Mortgage will continue to own the MSR on, and will be the primary servicer of, the mortgage loans in the Initial Pool. Freedom Mortgage will also retain the remaining 15% participation interest in the Excess MSR related to the Initial Pool. We will not have any servicing duties or advance obligations associated with the mortgage loans in the Initial Pool.

In connection with our investment in our Initial Excess MSR, Freedom Mortgage will agree not to sell, transfer or otherwise encumber the MSR to which our Initial Excess MSR relate or its 15% participation interest in the Initial Pool without our prior consent. Freedom Mortgage will also agree to replenish our 85% participation interest in the Excess MSR on the mortgage loans in the Initial Pool in the event those mortgage loans are refinanced by Freedom Mortgage through its retail channel. See “Business—Our Company” for a more detailed description of the recapture terms related to the mortgage loans in the Initial Pool.

### Strategic Alliance Agreements

In addition to our investment in our Initial Excess MSR, we expect to source and acquire a substantial portion of our Excess MSR in partnership with Freedom Mortgage in the future. In connection with the completion of this offering, we will enter into a strategic alliance agreement and a flow and bulk Excess MSR purchase agreement with Freedom Mortgage. These agreements are expected to provide us with access to a robust pipeline of Excess MSR acquisition opportunities. The Excess MSR we intend to acquire from Freedom Mortgage will relate primarily to Ginnie Mae-eligible mortgage loans. Under our strategic alliance agreements:

- Freedom Mortgage will be obligated in good faith to offer us, on a monthly flow basis, the right to co-invest at least 65% but not more than 85% in the Excess MSR related to Freedom Mortgage’s MSR on mortgage loans pooled and sold by Freedom Mortgage on a servicing retained basis during the previous month; and
- Freedom Mortgage will be obligated in good faith to offer us the right to co-invest at least 40% but not more than 85% in the Excess MSR related to any MSR on mortgage loans Freedom Mortgage acquires through a bulk purchase from a third-party servicer.

Under our strategic alliance agreements, the amount of each co-investment in Excess MSR offered to us by Freedom Mortgage and the recapture terms related to the pool of loans underlying each co-investment in Excess MSR will be determined by us and Freedom Mortgage at the time our co-investment is made based on policies and procedures approved by our independent directors. Pursuant to the strategic alliance agreements, Freedom Mortgage may select an alternative servicer that must be reasonably satisfactory to us, subject to related Agency approval, if Freedom Mortgage loses its status as a servicer. We will not be obligated to purchase any Excess MSR offered to us by Freedom Mortgage pursuant to our strategic alliance agreements or otherwise. See “Business—Our Company” for a more detailed description of our strategic alliance agreements.

### Management Agreement

We have entered into a management agreement with our Manager, pursuant to which our Manager will provide for the day-to-day management of our operations. The management agreement requires our Manager to manage our business affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. All of our executive officers and the officers and employees of our manager are also officers or employees of Freedom Mortgage. As a result, the management agreement between us and our

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Manager was negotiated between related parties, and the terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. See “Our Manager and the Management Agreement,” “Business—Conflicts of Interest” and “Risk Factors—Risks Related to our Relationship with our Manager and Freedom Mortgage.”

### **Services Agreement**

Our Manager is a party to a services agreement with Freedom Mortgage, pursuant to which Freedom Mortgage provides to our Manager the personnel, services and resources as needed by our Manager to enable our Manager to carry out its obligations and responsibilities under the management agreement. We are a named third-party beneficiary to the services agreement and, as a result, have, as a non-exclusive remedy, a direct right of action against Freedom Mortgage in the event of any breach by our Manager of any of its duties, obligations or agreements under the management agreement that arise out of or result from any breach by Freedom Mortgage of its obligations under the services agreement. The term of the services agreement is one year from the closing of this offering, subject to renewal for successive annual periods by our Manager and Freedom Mortgage. In addition, the services agreement will terminate upon the termination of the management agreement. Pursuant to the services agreement, our Manager makes certain payments to Freedom Mortgage in connection with the services provided. Our Manager and Freedom Mortgage are under the common ownership and control of Mr. Middleman, our Chairman. As a result, all management fee compensation earned by our Manager and all service agreement fees paid by our Manager to Freedom Mortgage accrue to the common benefit of Mr. Middleman.

### **Indemnification Agreements**

We intend to enter into indemnification agreements with each of our current and future directors and executive officers which will require us to indemnify such persons to the fullest extent permitted by the MGCL and to pay such persons’ expenses, including attorneys’ fees, in defending any civil, criminal or other proceedings related to their service on our behalf in advance of final disposition of such proceeding. See “Certain Provisions of Maryland Law and Our Charter and Bylaws—Limitations on Liabilities and Indemnification of Directors and Officers.”

### **Investment in Common Stock**

In connection with the initial capitalization of our company, we issued 1,000 shares of our common stock to Mr. Middleman, our Chairman, for total cash consideration of \$1,000. The shares were issued in reliance on the exemption set forth in Section 4(a)(2) of the Securities Act. We will repurchase these shares from Mr. Middleman at the closing of this offering for \$1,000. Mr. Middleman will purchase directly from us in the concurrent private placement \$20.0 million in shares of our common stock, at a price per share equal to the public offering price. The shares to be issued to Mr. Middleman in the concurrent private placement will be issued in reliance on the exemption set forth in Section 4(a)(2) of the Securities Act.

### **Registration Rights**

Upon completion of this offering and the concurrent private placement, we will enter into a registration rights agreement with Mr. Middleman pursuant to which we will agree to register the resale of the shares of common stock Mr. Middleman has agreed to acquire in the concurrent private placement. We refer to these shares of common stock as the “registrable shares.” The registration rights agreement requires us to file a “shelf registration statement” to register the resale of the registrable shares as soon as practicable after we become eligible to use Form S-3, and we must maintain the effectiveness of such shelf registration statement until all the registrable shares have been sold under the shelf registration statement or become eligible for sale, without restriction, pursuant to Rule 144 under the Securities Act.

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### **LTIP Awards**

Upon completion of this offering, we expect to grant an aggregate of 37,500 LTIP units to our executive officers and directors and to certain employees of our Manager and Freedom Mortgage who provide services to us under our 2013 Equity Incentive Plan. The LTIP units granted to our executive officers and our Chairman of the Board, Mr. Middleman, and to employees of our Manager and Freedom Mortgage who provide services to us will vest ratably over a three-year period beginning on the one-year anniversary of the closing of this offering. The LTIP units granted to our independent directors will be fully vested on the date of grant.

### **Payment of Underwriting Discount, Structuring Fee and Offering Expenses**

Our Manager has agreed to pay the entire underwriting discount payable with respect to the shares of common stock sold in this offering. Our Manager will also pay certain of the underwriters a structuring fee equal to \$ ( % of the gross proceeds of this offering to us). Our Manager has agreed to pay all offering-related expenses in excess of the lesser of 1.5% of the gross proceeds of this offering and \$2.25 million.

### **Related Party Transaction Policies**

We expect that, in connection with the closing of this offering, our board of directors will adopt a written policy regarding the approval of any “related person transaction,” which is any transaction or series of transactions in which we or any of our subsidiaries is or are to be a participant, where the amount involved exceeds \$120,000, and a “related person” (as defined under SEC rules) has a direct or indirect material interest. Under the policy, a related person would need to promptly disclose to our Secretary any related person transaction and all material facts about the transaction. Our Secretary would then assess and promptly communicate that information to the audit committee of our board of directors. Based on its consideration of all of the relevant facts and circumstances, our audit committee will decide whether or not to approve such transaction. If we were to become aware of an existing related person transaction that has not been pre-approved under this policy, the transaction would be referred to this committee, which would evaluate all options available, including ratification, revision or termination of such transaction. Our policy will require any director who may be interested in a related person transaction to recuse himself or herself from any consideration of such related person transaction.

Pursuant to the MGCL, a contract or other transaction between us and a director or between us and any other corporation or other entity in which any of our directors is a director or has a material financial interest is not void or voidable solely on the grounds of such common directorship or interest, the presence of such director at the meeting at which the contract or transaction is authorized, approved or ratified or the counting of the director’s vote in favor thereof, provided that:

- the fact of the common directorship or interest is disclosed or known to our board of directors or a committee of our board, and our board or such committee authorizes, approves or ratifies the transaction or contract by the affirmative vote of a majority of disinterested directors, even if the disinterested directors constitute less than a quorum;
- the fact of the common directorship or interest is disclosed or known to our stockholders entitled to vote thereon, and the transaction or contract is authorized, approved or ratified by a majority of the votes cast by the stockholders entitled to vote other than the votes of shares owned of record or beneficially by the interested director or corporation, firm or other entity; or
- the transaction or contract is fair and reasonable to us at the time it is authorized, ratified or approved.

## DESCRIPTION OF CAPITAL STOCK

The following is a summary of the rights and preferences of our capital stock and related provisions of our charter and bylaws as they will be in effect upon the closing of this offering. While we believe that the following description covers the material terms of our capital stock, the description may not contain all of the information that is important to you. We encourage you to read carefully this entire prospectus, our charter and bylaws and the other documents we refer to for a more complete understanding of our capital stock. Copies of our charter and bylaws will be filed as exhibits to the registration statement of which this prospectus is a part. See “Where You Can Find More Information.”

### General

We are authorized to issue 600,000,000 shares of stock consisting of (i) 500,000,000 shares of common stock and (ii) 100,000,000 shares of preferred stock, each with a par value of \$0.01 per share. Under Maryland law, stockholders generally are not liable for a corporation’s debt or obligations.

### Common Stock

Immediately before the completion of this offering, we will amend and restate our charter and our bylaws. Subject to the preferential rights, if any, of holders of any other class or series of stock and to the provisions of our charter regarding restrictions on ownership and transfer of our stock, holders of shares of our common stock are entitled to receive distributions if, when and as authorized by our board of directors and declared by us out of assets legally available for distribution.

Subject to the provisions of our charter regarding restrictions on ownership and transfer of our stock and except as may otherwise be specified in the terms of any class or series of capital stock, each outstanding share of our common stock entitles the holder thereof to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as may be provided with respect to any other class or series of stock, the holders of such shares will possess the exclusive voting power. There is no cumulative voting in the election of our directors, and directors will be elected by a plurality of the votes cast in the election of directors.

Holders of shares of our common stock generally have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any securities of the Company. Subject to the provisions of our charter regarding restrictions on ownership and transfer of our stock, all holders of our common stock will have equal liquidation and other rights.

Our charter authorizes our board of directors, without stockholder approval, to reclassify any unissued shares of our common stock into other classes or series of stock and to establish the number of shares of common stock in each class or series and to set the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each such class or series.

### Preferred Stock

Our charter authorizes our board of directors, without stockholder approval, to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any class or series of preferred stock. Prior to issuance of shares of each class or series, our board of directors is required by the MGCL and our charter to set the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each such class or series. Thus, our board of directors could authorize the issuance of shares of preferred stock that have priority over our common stock with respect to dividends or rights upon liquidation or with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control of the Company



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that might involve a premium price for holders shares of our common stock or otherwise be in their best interests. As of the date of this prospectus, no shares of preferred stock are outstanding, and we have no present plans to issue any preferred stock.

### **Power to Increase or Decrease Authorized Stock and Issue Additional Shares of our Common Stock and Preferred Stock**

Our charter authorizes our board of directors, with the approval of a majority of our entire board of directors, and without stockholder approval, to amend our charter to increase or decrease the aggregate number of authorized shares of stock or the number of authorized shares of stock of any class or series without stockholder approval. We believe that the power of our board of directors to increase or decrease the number of authorized shares of stock and to classify or reclassify unissued shares of our common stock or preferred stock and thereafter to cause us to issue such classified or reclassified shares of stock will provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. The additional classes or series, as well as the additional shares of common stock or preferred stock will be available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors does not presently intend to do so, it could authorize us to issue a class or series that could, depending upon the terms of the particular class or series, delay, defer or prevent a transaction or a change in control of the Company that might involve a premium price for our common stockholders or otherwise be in their best interests.

### **Restrictions on Ownership and Transfer**

In order to qualify as a REIT for each taxable year beginning after December 31, 2013, our shares of stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, for our taxable years beginning after December 31, 2013, no more than 50% of the value of our outstanding shares of stock may be owned, directly or constructively, by five or fewer individuals (as defined in the Code to include certain entities) during the second half of any calendar year.

Because our board of directors believes it is at present essential for us to qualify as a REIT, our charter provides that, subject to certain exceptions, upon completion of this offering, no person or entity may beneficially or constructively own 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, excluding any outstanding shares of stock not treated as outstanding for federal income tax purposes, or the ownership limit. In addition, our charter provides that Mr. Middleman, our Chairman and the founder of Freedom Mortgage, may beneficially or constructively own up to 13.0% in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of our stock.

Our charter also prohibits any person from (i) beneficially or constructively owning shares of our stock following the completion of this offering if such ownership would (a) result in our being "closely held" under Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year) or (b) otherwise cause us to fail to qualify as a REIT and (ii) transferring shares of our stock after the date upon which we first have 100 stockholders if such transfer would result in our stock being beneficially owned by fewer than 100 persons. Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our stock that will or may violate any of the foregoing restrictions on transfer and ownership, or who is the intended transferee of shares of our stock which are transferred to the trust (as described below), will be required to give written notice immediately to us or in the case of a proposed or attempted transaction, to give at least 15 days' prior written notice, and provide us with such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT. The foregoing restrictions on transfer and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT, or that compliance with the restrictions on transfer and ownership is no longer required for us to qualify as a REIT.

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Our board of directors, in its sole discretion, may exempt (prospectively or retroactively) a person from certain of the restrictions described above and may establish or increase an excepted holder limit for such person. The person seeking an exemption must provide to our board of directors any such representations, covenants and undertakings as our board of directors may deem appropriate in order to conclude that granting the exemption and/or establishing or increasing an excepted holder limit, as the case may be, will not cause us to fail to qualify as a REIT. Our board of directors may also require a ruling from the IRS or an opinion of counsel, in either case in form and substance satisfactory to the board of directors in its sole discretion, as it may deem necessary or advisable in order to determine that granting the exemption will not cause us to lose our qualification as a REIT. In connection with granting a waiver of the ownership limit or creating an excepted holder limit or at any other time, our board of directors may from time to time increase or decrease the ownership limit, except that a decreased ownership limit will not be effective for any person whose ownership of our stock exceeds the decreased ownership limit at the time of the decrease until the person's ownership of our stock equals or falls below the decreased ownership limit, although any further acquisition of our stock in excess of the decreased ownership limit will violate the decreased ownership limit. Our board of directors may not increase or decrease any ownership limit if the new ownership limit would allow five or fewer individuals (including certain entities) to beneficially own more than 49.9% in value of our outstanding stock.

If shares of our stock are certificated, all such certificates will bear a legend referring to the restrictions described above (or a declaration that we will furnish a full statement about certain restrictions on transferability to a stockholder on request and without charge).

Any attempted transfer of our stock that, if effective, would result in a violation of the foregoing restrictions, will cause the number of shares of stock causing the violation (rounded up to the nearest whole share) to be automatically transferred to a charitable trust for the benefit of one or more charitable beneficiaries and the proposed transferee will not acquire any rights in such shares, except that any transfer that, if effective, would result in the violation of the restriction relating to shares of our stock being beneficially owned by fewer than 100 persons will be void ab initio. The automatic transfer will be effective as of the close of business on the business day (as defined in our charter) prior to the date of the transfer. If, for any reason, the transfer to the trust would not be effective to prevent the violation of the foregoing restrictions, our charter provides that the purported transfer in violation of the restrictions will be void ab initio. Shares of our stock held in the trust will be issued and outstanding shares of stock. The proposed transferee will not benefit economically from ownership of any shares of stock held in the trust, will have no rights to dividends or other distributions and no rights to vote or other rights attributable to the shares of stock held in the trust. The proposed transferee will have no claims, courses of action, or any other recourse whatsoever against the purported transferor of such stock.

The trustee of the trust will have all voting rights and rights to dividends or other distributions with respect to shares of stock held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or other distribution paid to the proposed transferee prior to our discovery that shares of stock have been transferred to the trust must be paid by the recipient to the trustee upon demand. Any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or other distribution paid to the trustee will be held in trust for the charitable beneficiary. Subject to Maryland law, effective as of the date that the shares have been transferred to the charitable trust, the trustee will have the authority (at the trustee's sole discretion) (i) to rescind as void any vote cast by the proposed transferee prior to our discovery that the shares have been transferred to the trust and (ii) to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that shares of our stock have been transferred to the trust, the trustee must sell the shares to a person designated by the trustee, whose ownership of the shares will not violate the above ownership and transfer limitations. Upon such sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows. The proposed transferee will receive the lesser of (i) the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in

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connection with the event causing the shares to be held in the trust (*e.g.*, a gift, devise or other similar transaction), the market price (as defined in our charter) of the shares on the day of the event causing the shares to be held in the trust and (ii) the price per share received by the trustee from the sale or other disposition of the shares (net of any commissions and other expenses). Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. The trustee may reduce the amount payable to the proposed transferee by the amount of dividends and other distributions paid to the proposed transferee and owed by the proposed transferee to the trustee. If, prior to our discovery that shares of our stock have been transferred to the trust, the shares are sold by the proposed transferee, then (i) the shares will be deemed to have been sold on behalf of the trust and (ii) to the extent that the proposed transferee received an amount for the shares that exceeds the amount the proposed transferee was entitled to receive, the excess must be paid to the trustee upon demand.

In addition, shares of our stock held in the trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in the transfer to the trust (or, if the event that resulted in the transfer to the trust did not involve a purchase of the shares of our stock at market price, *e.g.*, in the case of a devise or gift, the market price of the shares of our stock on the day of the event causing these shares to be held in trust) and (ii) the market price on the date we accept, or our designee accepts, the offer, which we may reduce by the amount of dividends and other distributions paid to the proposed transferee and owed by the proposed transferee to the trustee. We may pay the amount of such reduction to the trustee for the benefit of the charitable beneficiary. We will have the right to accept the offer until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and any dividends or other distributions held by the trustee will be paid to the charitable beneficiary.

Our charter provides that to the extent we incur any tax under the Code as the result of any “excess inclusion income” of ours being allocated to a “disqualified organization” that holds our stock in record name, we shall reduce distributions to such stockholder in an amount equal to such tax paid by us that is attributable to such stockholder’s ownership in accordance with applicable U.S. Treasury Regulations. We do not currently intend to make investments or engage in activities that generate “excess inclusion income,” but our charter does not prevent “disqualified organizations” from owning our common stock. See “Material U.S. Federal Income Tax Considerations—Taxation of Our Company” and “—Requirements for Qualification—Taxable Mortgage Pools” for a discussion of “disqualified organizations” and “excess inclusion income.”

Every owner of 5% or more (or such lower percentage as required by the Code or the regulations promulgated thereunder), in number or value, of all classes or series of our stock, including shares of common stock, within 30 days after the end of each taxable year, must give written notice to us stating the name and address of such owner, the number of shares of each class and series of our stock which the owner beneficially owns and a description of the manner in which the shares are held. Each owner must also provide to us such additional information as we may request in order to determine the effect, if any, of the beneficial ownership on our status as a REIT and to ensure compliance with the ownership limit. In addition, each owner of our stock must, upon demand, provide to us such information as we may request in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance and to ensure compliance with the restrictions on ownership and transfer of shares of our stock.

These ownership and transfer limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for our securities or might otherwise be in the best interests of our stockholders.

### **Stock Exchange Listing**

We have applied to list our common stock on the NYSE under the symbol “CHMI.”

### **Transfer Agent and Registrar**

We expect the transfer agent and registrar for our common stock to be Computershare Inc.

## SHARES ELIGIBLE FOR FUTURE SALE

Upon the completion of this offering and the concurrent private placement, we will have an aggregate of \_\_\_\_\_ shares of common stock outstanding (\_\_\_\_\_ shares if the underwriters exercise in full their over-allotment option), excluding the 1,000 shares we issued to Mr. Middleman in connection with our initial capitalization, which we will repurchase from Mr. Middleman at the closing of this offering for \$1,000. No assurance can be given as to the likelihood that an active market for our common shares will develop, the liquidity of any such market, the ability of our stockholders to sell their shares or the prices that our stockholders may obtain for any of their shares. No prediction can be made as to the effect, if any, that future sales of our common stock or the availability of our common stock for future sale will have on the market price prevailing from time to time. Sales of substantial amounts of our common stock, or the perception that such sales could occur, may affect adversely prevailing market prices of our common stock. See “Risk Factors—Risks Related to This Offering.”

### Rule 144

As defined in Rule 144, an “affiliate” of an issuer is a person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the issuer. Any shares of our common stock held by our affiliates, including the shares Mr. Middleman will purchase from us in the concurrent private placement, are restricted securities as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered under the securities laws or if they qualify for an exemption from registration under Rule 144, as described below.

In general, under Rule 144, a person (or persons whose shares are aggregated) who is not an affiliate of ours and has not been one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the restricted securities proposed to be sold for at least one year, including the holding period of any prior owner other than an affiliate, is entitled to sell his or her securities without registration and without complying with the manner of sale, current public information, volume limitation or notice provisions of Rule 144. In addition, under Rule 144, once we have been subject to the reporting requirements of the Exchange Act for at least 90 days, a person (or persons whose securities are aggregated) who is not an affiliate of ours and has not been one of our affiliates at any time during the three months preceding a sale, may sell his or her securities without registration after only a six-month holding period, subject only to the continued availability of current public information about us. Any sales by affiliates under Rule 144, even after the applicable holding periods described above, are subject to requirements and or limitations with respect to volume, manner of sale, notice and the availability of current public information about us.

### 2013 Equity Incentive Plan

Our 2013 Equity Incentive Plan provides for the grant of options to purchase shares of our common stock, stock awards, stock appreciation rights, performance units, incentive awards and other equity-based awards (including LTIP units). Our 2013 Equity Incentive Plan provides for grants up to an aggregate of 5.0% of the outstanding shares of our common stock (on a fully diluted basis) at the time of the award, subject to a maximum aggregate number of shares of our common stock that may be issued under our 2013 Equity Incentive Plan of 1,500,000 shares.

Upon completion of this offering, we expect to grant an aggregate of 37,500 LTIP units under our Equity Incentive Plan to our executive officers and directors and to employees of our Manager and Freedom Mortgage who provide services to us. For a description of our 2013 Equity Incentive Plan and the initial awards to be made pursuant to such plan, see “Management—Compensation of Directors” and “Management—2013 Equity Incentive Plan.”

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**Lock-up Agreements**

For a description of certain lock-up agreements, see “Underwriting.” In addition, Mr. Middleman, our Chairman, will purchase directly from us in the concurrent private placement \$20.0 million in shares of our common stock, at a per share price equal to the public offering price. These shares and any other shares of our common stock Mr. Middleman and his controlled affiliates, including Freedom Mortgage and our Manager, may acquire, within 12 months of the completion of this offering, will be subject to a lock-up agreement between Mr. Middleman and the underwriters for one year.

**Registration Rights**

Upon completion of this offering and the concurrent private placement, we will enter into a registration rights agreement with Mr. Middleman pursuant to which we will agree to register the resale of the shares of common stock. Mr. Middleman has agreed to acquire in the concurrent private placement. We refer to these shares of common stock as the “registrable shares.” The registration rights agreement requires us to file a “shelf registration statement” to register the resale of the registrable shares as soon as practicable after we become eligible to use Form S-3, and we must maintain the effectiveness of such shelf registration statement until all the registrable shares have been sold under the shelf registration statement or become eligible for sale, without restriction, pursuant to Rule 144 under the Securities Act.

**PRINCIPAL STOCKHOLDERS**

The following table sets forth certain information following the closing of this offering, regarding the ownership of each class of our capital stock by:

- each of our directors, including our independent director nominees;
- each of our executive officers; and
- all of our directors and executive officers as a group.

Unless otherwise indicated, each listed person's beneficial ownership includes:

- all shares the investor actually owns beneficially or of record;
- all shares over which the investor has or shares voting or dispositive control (such as in the capacity as a general partner of an investment fund); and
- all shares the investor has the right to acquire within 60 days (such as shares of restricted common stock that are currently vested or which are scheduled to vest within 60 days).

Other than Mr. Middleman, we are not aware of any holder of more than 5% of our capital stock. Unless otherwise indicated, all shares are owned directly, and the indicated person has sole voting and investment power. Except as indicated in the footnotes to the table below, the business address of the stockholders listed below is the address of our principal executive office, 301 Harper Drive, Suite 110, Moorestown, New Jersey 08057.

<u>Name and Address</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percentage of All Shares Immediately After Offering and the Concurrent Private Placement(1)</u>
Stanley Middleman(2)(3)	1,000,000	%
Jeffrey Lown II(3)	—	*
Martin Levine(3)	—	*
Joseph Murin(3)	—	*
Jonathan Kislak(3)	—	*
Robert Salcetti(3)	—	*
All directors, executive officers and independent director nominees as a group (6 persons)(3)	1,000,000	%

\* Less than one percent.

- (1) Assumes a total of \_\_\_\_\_ shares of common stock are outstanding immediately after the closing of this offering and the concurrent private placement. Does not reflect \_\_\_\_\_ shares of common stock issuable upon exercise of the underwriters' over-allotment option.
- (2) Excludes 1,000 shares of our common stock issued and sold to Mr. Middleman in connection with our initial capitalization. We will repurchase these shares from Mr. Middleman at the closing of this offering for \$1,000.
- (3) Upon completion of this offering, we will grant an aggregate of 37,500 LTIP units to our executive officers and directors and to certain employees of our Manager and Freedom Mortgage who provide services to us pursuant to our 2013 Equity Incentive Plan. The LTIP units granted to our executive officers and our Chairman of the Board, Mr. Middleman, and to employees of our Manager and Freedom Mortgage who provide services to us will vest ratably over a three-year period beginning on the one-year anniversary of the closing of this offering. The LTIP units granted to our independent directors will be fully vested on the date of grant. The number and percentage shown in the table above excludes: (i) 5,000 shares of common stock issuable upon exchange of 5,000 LTIP units to be granted to Mr. Middleman; (ii) 8,750 shares of common stock issuable upon exchange of 8,750 LTIP units to be granted to Mr. Lown; (iii) 5,000 shares of common stock issuable upon exchange of 5,000 LTIP units to be granted to Mr. Levine; and (iv) 2,500 shares of common stock issuable upon exchange of 2,500 LTIP units to be granted to each of our independent director nominees.

**CERTAIN PROVISIONS OF MARYLAND LAW  
AND OF OUR CHARTER AND BYLAWS**

The following is a summary of the material provisions of Maryland law applicable to us and of our charter and bylaws as they will be in effect upon completion of this offering. While we believe that the following description covers the material provisions of Maryland law applicable to us and the material terms of our charter and bylaws as they will be in effect upon completion of the offering, the description may not contain all of the information that is important to you. We encourage you to read carefully this entire prospectus, our charter and bylaws and the other documents we refer to for a more complete understanding of our capital stock. Copies of our charter and bylaws will be filed as exhibits to the registration statement of which this prospectus is a part. See “Where You Can Find More Information.”

**Our Board of Directors**

Our charter and bylaws provide that the number of our directors will not be less than the minimum number required under the MGCL, which is one, and, unless our bylaws are amended, not more than 15 and may be increased or decreased pursuant to our bylaws by a vote of the majority of our entire board of directors. Our charter provides that at such time as we become eligible to elect to be subject to Title 3, Subtitle 8 of the MGCL (which we expect will be upon the completion of this offering) and subject to the rights of holders of one or more classes or series of preferred stock, any and all vacancies on the board of directors may be filled only by a majority of the remaining directors, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which such vacancy occurred and until a successor is elected and qualifies. Each member of our board of directors is elected by our stockholders to serve until the next annual meeting of stockholders and until his or her successor is duly elected and qualifies. Holders of shares of our common stock will have no right to cumulative voting in the election of directors, and directors will be elected by a plurality of the votes cast in the election of directors.

**Removal of Directors**

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 at any time, but only for cause and only by the affirmative vote of holders of shares entitled to cast at least two-thirds of the votes entitled to be cast generally in the election of directors. “Cause” is defined in our charter, with respect to any particular director, as the conviction of a felony or a final judgment of a court of competent jurisdiction holding that such director caused demonstrable, material harm to us through bad faith or active and deliberate dishonesty. This provision, when coupled with the exclusive power of our board of directors to fill vacant directorships, may preclude stockholders from removing incumbent directors except for cause and by a substantial affirmative vote and filling the vacancies created by such removal with their own nominees.

**Business Combinations**

Under the MGCL, certain “business combinations” (including a merger, consolidation, statutory share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and an interested stockholder (i.e., any person (other than the corporation or any subsidiary) who beneficially owns 10% or more of the voting power of the corporation’s outstanding voting stock after the date on which the corporation had 100 or more beneficial owners of its stock, or an affiliate or associate of the corporation 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 the then outstanding stock of the corporation after the date on which the corporation had 100 or more beneficial owners of its stock) or an affiliate of an interested stockholder, are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Thereafter, any such business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of

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such corporation and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation and (2) two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected or held by an affiliate or associate of the interested stockholder, unless, among other conditions, the corporation's common stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares. A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. The board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by it.

As permitted by the MGCL, our board of directors has adopted a resolution exempting any business combination between us and any other person, provided that the business combination is first approved by our board of directors (including a majority of directors who are not affiliates or associates of such persons). However, our board of directors may repeal or modify this resolution at any time in the future, in which case the applicable provisions of this statute will become applicable to business combinations between us and interested stockholders.

### **Control Share Acquisitions**

The MGCL provides that holders of "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights with respect to the control shares except to the extent approved by the affirmative vote of two-thirds of the votes entitled to be cast on the matter with respect to such shares, excluding votes cast by (1) the person who makes or proposes to make a control share acquisition, (2) an officer of the corporation or (3) an employee of the corporation who is also a director of the corporation. "Control shares" are voting shares of stock of the corporation which, if aggregated with all other such shares of stock of the corporation previously acquired by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise, directly or indirectly, voting power in electing directors within one of the following ranges of voting power: (1) one-tenth or more but less than one-third, (2) one-third or more but less than a majority or (3) a majority or more of all voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel the board of directors to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The control share acquisition statute does not apply to, among other things: (1) shares acquired in a merger, consolidation or statutory share exchange if the corporation is a party to the transaction or (2) acquisitions approved or exempted by the charter or bylaws of the corporation.



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Our bylaws contain a provision exempting from the control share acquisition statute any acquisition by any person of shares of our stock; however, our board of directors may repeal such bylaw provision, in whole or in part at any time. There can be no assurance that such provision will not be amended or eliminated at any time in the future.

### **Maryland Unsolicited Takeovers Act**

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions of the MGCL which provide, respectively, that:

- the corporation's board of directors will be divided into three classes;
- the affirmative vote of two-thirds of all the votes entitled to be cast by stockholders generally in the election of directors is required to remove a director;
- the number of directors may be fixed only by vote of the directors;
- a vacancy on the board of directors may be filled only by the remaining directors and that directors elected to fill a vacancy will serve for the remainder of the full term of the class of directors in which the vacancy occurred; and
- the request of stockholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting is required for stockholders to require the calling of a special meeting of stockholders.

Without our having elected to be subject to Subtitle 8, our charter and bylaws already (1) require the affirmative vote of holders of shares entitled to cast at least two-thirds of all the votes entitled to be cast generally in the election of directors to remove a director from our board of directors, (2) vest in our board of directors the exclusive power to fix the number of directors, by vote of a majority of our entire board of directors, and (3) require, unless called by the Chairman of our board of directors, our Chief Executive Officer, our President or our board of directors, the request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at the meeting to call a special meeting of stockholders. Our charter provides that, subject to our eligibility to make an election under Subtitle 8, vacancies on our board of directors may be filled only by the affirmative vote of a majority of the remaining directors then in office, even if the remaining directors do not constitute a quorum, and directors elected to fill a vacancy will serve for the full term of the directorship in which the vacancy occurred and until his or her successor is duly elected and qualifies. Our board of directors is not currently classified. In the future, our board of directors may elect, without stockholder approval, to classify our board of directors or elect to be subject to any of the other provisions of Subtitle 8.

### **Charter Amendments and Extraordinary Transactions**

Under the MGCL, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a statutory share exchange or engage in similar transactions outside the ordinary course of business unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation's charter. Our charter generally provides that charter amendments requiring stockholder approval must be declared advisable by our board of directors and approved by the affirmative vote of stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter. However, our charter's provisions regarding the removal of directors and restrictions on ownership and transfer of our stock, and amendments to the vote required to amend these provisions, may be amended only if such amendment is declared advisable by our board of directors and approved by the affirmative vote of stockholders entitled to cast not less than two-thirds of all the votes entitled to be cast on the matter. In addition, we generally may not merge with or into another company, sell all or substantially all of our assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business unless such transaction

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is declared advisable by our board of directors and approved by the affirmative vote of stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter. However, because operating assets may be held by a corporation's subsidiaries, as in our situation, this may mean that one of our subsidiaries could transfer all of its assets without any vote of our stockholders.

### **Bylaw Amendments**

Our board of directors has the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

### **Advance Notice of Director Nominations and New Business**

Our bylaws provide that, with respect to an annual meeting of stockholders, nominations of individuals for election to our board of directors and the proposal of other business to be considered by our stockholders at an annual meeting of stockholders may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of our board of directors or (3) by a stockholder who was a stockholder of record both at the time of giving of notice and at the time of the meeting, who is entitled to vote at the meeting on the election of the individual so nominated or on such other business and who has complied with the advance notice procedures set forth in our bylaws, including a requirement to provide certain information about the stockholder and its affiliates and the nominee or business proposal, as applicable.

With respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting. Nominations of individuals for election to our board of directors may be made at a special meeting of stockholders at which directors are to be elected only (1) by or at the direction of our board of directors or (2) provided that the special meeting has been properly called for the purpose of electing directors, by a stockholder who was a stockholder of record both at the time of giving of notice and at the time of the meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice provisions set forth in our bylaws, including a requirement to provide certain information about the stockholder and its affiliates and the nominee.

### **Anti-Takeover Effect of Certain Provisions of Maryland Law and of Our Charter and Bylaws**

Our charter and bylaws and Maryland law contain provisions that may delay, defer or prevent a change in control or other transaction that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders, including supermajority vote and cause requirements for removal of directors, provisions that vacancies on our board of directors may be filled only by the remaining directors, for the full term of the directorship in which the vacancy occurred, the power of our board of directors to increase or decrease the aggregate number of authorized shares of stock or the number of shares of any class or series of stock, to cause us to issue additional shares of stock of any class or series and to fix the terms of one or more classes or series of stock without stockholder approval, the restrictions on ownership and transfer of our stock and advance notice requirements for director nominations and stockholder proposals. Likewise, if the provision in the bylaws opting out of the control share acquisition provisions of the MGCL or the resolution of our board of directors opting out of the business combination provisions of the MGCL were repealed or rescinded, or if a business combination was not first approved by our board of directors, these provisions of the MGCL could have similar anti-takeover effects.

### **Limitation of Directors' and Officers' Liability and Indemnification**

The MGCL permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages, except for liability resulting from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty that is established by a final judgment and is material to the cause of action. Our charter contains a provision that eliminates such liability to the maximum extent permitted by Maryland law.

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Our charter and bylaws provide for indemnification of our officers and directors against liabilities to the maximum extent permitted by the MGCL, as amended from time to time.

The MGCL requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, 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 in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify a director or officer for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received by such director or officer, unless in either case a court orders indemnification, and then only for expenses. In addition, the MGCL permits a Maryland corporation to advance reasonable expenses to a director or officer upon its receipt of:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by the director or officer or on the director's or officer's behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the director or officer did not meet the standard of conduct.

Our charter authorizes us and our bylaws obligate us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of such a proceeding to:

- any present or former director or officer of the Company who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity; and
- any individual who, while a director or officer of the Company and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, REIT, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity.

Our charter and bylaws also permit us, with the approval of our board of directors, to indemnify and advance expenses to any individual who served our predecessor in any of the capacities described above and to any employee or agent of the Company or our predecessor.

Upon completion of this offering, we will enter into indemnification agreements with each of our directors and executive officers that will provide for indemnification and advance of expenses to the maximum extent permitted by Maryland law. See "Certain Relationships and Related Transactions—Indemnification Agreements."

**REIT Qualification**

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without approval of our stockholders, if it determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

## OUR OPERATING PARTNERSHIP AND THE PARTNERSHIP AGREEMENT

The following summary of the terms of the agreement of limited partnership of our operating partnership does not purport to be complete and is subject to and qualified in its entirety by reference to the Amended and Restated Agreement of Limited Partnership of Cherry Hill Operating Partnership, LP. See “Where You Can Find More Information.”

### Management

Our operating partnership is organized as a Delaware limited partnership. We are the sole general partner of our operating partnership. We will conduct substantially all of our operations and make substantially all of our investments through the operating partnership and its subsidiaries. Pursuant to the partnership agreement, as the general partner of our operating partnership, we will have full, exclusive and complete responsibility and discretion in the management and control of the operating partnership, including the ability to cause the operating partnership to enter into certain major transactions including investments, acquisitions, dispositions and financings (including the sale of limited partnership interests to us or to third party investors), to make distributions to partners, and to cause changes in the operating partnership’s business and investment activities.

The partnership agreement will require that the operating partnership be operated in a manner that enables us to satisfy the requirements for being classified as a REIT, to avoid any federal income or excise tax liability imposed by the Code (other than any federal income tax liability associated with our retained capital gains) and to ensure that the partnership will not be classified as a “publicly traded partnership” taxable as a corporation under Section 7704 of the Code.

### Transferability of Interests

We may not voluntarily withdraw from our operating partnership or transfer or assign our interest in our operating partnership or engage in any merger, consolidation or other combination, or sale of all or substantially all of our assets in a transaction which results in a change of control of our company unless:

- we receive the consent of limited partners holding more than 50% of the partnership interests of the limited partners (other than those held by our company or its subsidiaries);
- as a result of such transaction, all limited partners will receive for each partnership unit an amount of cash, securities or other property equal or substantially equivalent in value to the greatest amount of cash, securities or other property paid in the transaction to a holder of one share of our common stock, provided that if, in connection with the transaction, a purchase, tender or exchange offer shall have been made to and accepted by the holders of more than 50% of the outstanding shares of our common stock, each holder of partnership units shall be given the option to exchange its partnership units for an amount of cash, securities or other property equal or substantially equivalent in value to the greatest amount of cash, securities or other property that a limited partner would have received had it (1) exercised its redemption right (described below) and (2) sold, tendered or exchanged pursuant to the offer shares of our common stock received upon exercise of the redemption right immediately prior to the expiration of the offer; or
- we are the surviving entity in the transaction and either (1) our stockholders do not receive cash, securities or other property in the transaction or (2) all limited partners (other than our company or our subsidiaries) receive for each partnership unit an amount of cash, securities or other property equal or substantially equivalent in value to the greatest amount of cash, securities or other property received in the transaction by our stockholders.

We also may merge with or into or consolidate with another entity if immediately after such merger or consolidation (1) substantially all of the assets of the successor or surviving entity, other than partnership units held by us, are contributed, directly or indirectly, to the partnership as a capital contribution in exchange for partnership units with a fair market value equal to the value of the assets so contributed as determined by the

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survivor in good faith and (2) the survivor expressly agrees to assume all of our obligations under the partnership agreement and the partnership agreement shall be amended after any such merger or consolidation so as to arrive at a new method of calculating the amounts payable upon exercise of the redemption right that approximates the existing method for such calculation as closely as reasonably possible.

We also may (1) transfer all or any portion of our general partnership interest to (a) a wholly owned subsidiary or (b) a parent company or a majority-owned subsidiary of a parent company, and following such transfer may withdraw as the general partner and (2) engage in a transaction required by law or by the rules of any national securities exchange on which shares of our common stock are listed.

We also may (1) merge or consolidate our operating partnership with or into any other domestic or foreign partnership, limited partnership, limited liability company or corporation or (2) sell all or substantially all of the assets of our operating partnership, and may amend the partnership agreement in connection with any such transaction, if we receive the consent of limited partners holding more than 50% of the partnership interests of the limited partners (other than those held by our company or its subsidiaries).

### **Capital Contribution**

We will contribute, directly, to our operating partnership, substantially all of the net proceeds of this offering and the concurrent private placement in exchange for OP units and as result will own substantially all of the limited partnership interests in our operating partnership upon completion of this offering and the concurrent private placement. The partnership agreement provides that if the operating partnership requires additional funds at any time in excess of funds available to the operating partnership from borrowing or capital contributions, we may borrow such funds from a financial institution or other lender and lend such funds to the operating partnership on the same terms and conditions as are applicable to our borrowing of such funds. Under the partnership agreement, we are obligated to contribute substantially all of the net proceeds of any future offering of shares as additional capital to the operating partnership. If we contribute additional capital to the operating partnership, we will receive additional partnership units and our percentage interest will be increased on a proportionate basis based upon the amount of such additional capital contributions and the value of the operating partnership at the time of such contributions. Conversely, the percentage interests of the other limited partners, if any, will be decreased on a proportionate basis in the event of additional capital contributions by us. In addition, if we contribute additional capital to the operating partnership, we will revalue the assets of the operating partnership to its fair market value (as determined by us) and the capital accounts of the partners will be adjusted to reflect the manner in which the unrealized gain or loss inherent in such assets (that has not been reflected in the capital accounts previously) would be allocated among the partners under the terms of the partnership agreement if there were a taxable disposition of such assets for their fair market value (as determined by us) on the date of the revaluation. The operating partnership may issue preferred partnership interests, in connection with acquisitions of assets or otherwise, which could have priority over OP units with respect to distributions from the operating partnership, including the OP units we own as the general partner.

### **Redemption Rights**

Pursuant to the partnership agreement, beginning one year after the issuance of any OP units, limited partners (other than us) have redemption rights, which enable them to cause the operating partnership to redeem their OP units in exchange for cash or, at our option, our shares of our common stock on a one-for-one basis. The cash redemption amount per unit is based on the market price of our common stock at the time of redemption. The number of shares of our common stock issuable upon redemption of limited partnership interests held by limited partners may be adjusted upon the occurrence of certain events such as stock dividends, stock subdivisions or combinations. Notwithstanding the foregoing, a limited partner will not be entitled to exercise its redemption rights if the delivery of shares of our common stock to the redeeming limited partner would:

- result in any person owning, directly or indirectly, common stock in excess of the stock ownership limit in our charter;

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- result in our common stock being owned by fewer than 100 persons (determined without reference to any rules of attribution);
- result in our being “closely held” within the meaning of Section 856(h) of the Code;
- cause us to fail to qualify as a REIT under the Code; or
- cause the acquisition of our common stock by such redeeming limited partner to be “integrated” with any other distribution of common stock for purposes of complying with the registration provisions of the Securities Act.

We may, in our sole and absolute discretion, waive any of these restrictions.

### **Partnership Expenses**

In addition to the administrative and operating costs and expenses incurred by the operating partnership, the operating partnership generally will pay all of our administrative costs and expenses, including:

- all expenses relating to our continuity of existence and our subsidiaries’ operations;
- all expenses relating to offerings and registration of securities;
- all expenses associated with the preparation and filing of any of our periodic or other reports and communications under federal, state or local laws or regulations;
- all expenses associated with our compliance with laws, rules and regulations promulgated by any regulatory body; and
- all of our other operating or administrative costs incurred in the ordinary course of business on behalf of the operating partnership.

These expenses, however, do not include any of our administrative and operating costs and expenses incurred that are attributable to assets that are owned by us directly rather than by the operating partnership or its subsidiaries.

### **Fiduciary Responsibilities**

Our directors have duties under applicable Maryland law to, among other things, manage us in a manner consistent with our best interests. At the same time, we, as the general partner of our operating partnership, will have fiduciary duties to manage our operating partnership in a manner beneficial to our operating partnership and its partners. Our duties, as general partner to our operating partnership and its limited partners, therefore, may come into conflict with the duties of our directors to us. We will be under no obligation to give priority to the separate interests of the limited partners of our operating partnership or our company in deciding whether to cause the operating partnership to take or decline to take any actions. In the event of a conflict between the interests of our stockholders and the interests of the limited partners of our operating partnership, we will endeavor in good faith to resolve the conflict in a manner not adverse to either our stockholders or the limited partners; provided, that for so long as we own a controlling interest in our operating partnership, any such conflict that we, in our sole and absolute discretion, determine cannot be resolved in a manner not adverse to either our stockholders or the limited partners of our operating partnership will be resolved in favor of our stockholders.

The limited partners of our operating partnership expressly acknowledge that, as the general partner of our operating partnership, we are acting for the benefit of the operating partnership, the limited partners and our company collectively.

### **Distributions**

The partnership agreement will provide that the operating partnership will distribute cash from operations (including net sale or refinancing proceeds, but excluding net proceeds from the sale of the operating

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partnership's assets in connection with the liquidation of the operating partnership) at such time and in such amounts as determined by us in our sole discretion, to us and the limited partners in accordance with their respective percentage interests in the operating partnership.

Upon liquidation of the operating partnership, after payment of, or adequate provision for, debts and obligations of the partnership, including any partner loans, any remaining assets of the partnership will be distributed to us and the limited partners with positive capital accounts in accordance with their respective positive capital account balances.

### **LTIP Units**

In general, LTIP units are a class of partnership units in our operating partnership and will receive the same quarterly per unit distributions as the other outstanding OP units in our operating partnership. Initially, each LTIP unit will have a capital account balance of zero and, therefore, will not have full parity with OP units with respect to liquidating distributions. However, the operating partnership agreement provides that "book gain," or economic appreciation, in our assets realized by our operating partnership as a result of the actual sale of all or substantially all of our operating partnership's assets or the revaluation of our operating partnership's assets as provided by applicable U.S. Treasury Regulations, will be allocated first to the LTIP unit holders until the capital account per LTIP unit is equal to the average capital account per-unit of our OP units in our operating partnership. The partnership agreement provides that our operating partnership's assets will be revalued upon the occurrence of certain events, specifically additional capital contributions by us or other partners, the redemption of a partnership interest, a liquidation (as defined in the U.S. Treasury Regulations) of our operating partnership or the issuance of a partnership interest (including LTIP units) to a new or existing partner as consideration for the provision of services to, or for the benefit of, our operating partnership.

Upon equalization of the capital accounts of the LTIP unit holders with the average per-unit capital account of our OP units, the LTIP units will achieve full parity with the OP units for all purposes, including with respect to liquidating distributions. If such parity is reached, LTIP units will vest, and vested LTIP units, subject to the terms and conditions of the partnership agreement, may be converted into an equal number of OP units at any time, and thereafter enjoy all the rights of OP units. If a sale or revaluation of assets occurs at a time when our operating partnership's assets have appreciated sufficiently since the last revaluation, the LTIP units would achieve full parity with the OP units upon such sale or revaluation. In the absence of sufficient appreciation in the value of our operating partnership's assets at the time of a sale or revaluation, full parity would not be reached.

Consequently, an LTIP unit may never become convertible because the value of our operating partnership's assets has not appreciated sufficiently between revaluation dates to equalize capital accounts. Until and unless parity is reached, the value for a given number of vested LTIP units will be less than the value of an equal number of shares of our common stock.

### **Allocations**

Profits and losses of the partnership (including depreciation and amortization deductions) for each fiscal year generally will be allocated to us and the other limited partners in accordance with the respective percentage interests in the partnership. Notwithstanding the foregoing, our operating partnership will allocate gain on the sale of all or substantially all of its assets first to holders of LTIP units, and will, upon the occurrence of certain specified events, revalue its assets with any net increase in valuation allocated first to the LTIP units, in each case to equalize the capital accounts of such holders with the average capital account per unit of the general partner's OP units. All of the foregoing allocations are subject to compliance with the provisions of Sections 704(b) and 704(c) of the Code and U.S. Treasury Regulations promulgated thereunder. To the extent U.S. Treasury Regulations promulgated pursuant to Section 704(c) of the Code permit, we, as the general partner, will have the authority to elect the method to be used by the operating partnership for allocating items with respect to contributed property acquired in connection with this offering for which fair market value differs from the adjusted tax basis at the time of contribution, and such election will be binding on all partners.



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**Term**

The operating partnership will continue until dissolved upon:

- our bankruptcy, dissolution removal or withdrawal (unless the limited partners elect to continue the partnership);
- the passage of 90 days after the sale or other disposition of all or substantially all of the assets of the partnership;
- the redemption of all partnership units (other than those held by us, if any); or
- an election by us in our capacity as the general partner.

**Tax Matters**

We are the tax matters partner of the operating partnership and, as such, have authority to handle tax audits and to make tax elections under the Code on behalf of the operating partnership.

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

This section summarizes the material U.S. federal income tax considerations that you, as a stockholder, may consider relevant. Hunton & Williams LLP has acted as our counsel, has reviewed this summary, and is of the opinion that the discussion contained herein is accurate in all material respects. Because this section is a summary, it does not address all aspects of taxation that may be relevant to particular stockholders in light of their personal investment or tax circumstances, or to certain types of stockholders that are subject to special treatment under the U.S. federal income tax laws, such as:

- insurance companies;
- tax-exempt organizations (except to the extent discussed in “—Taxation of Tax-Exempt U.S. Holders” below);
- financial institutions or broker-dealers;
- non-U.S. individuals and non-U.S. corporations (except to the extent discussed in “—Taxation of Non-U.S. Holders” below);
- U.S. expatriates;
- persons who mark-to-market our common stock;
- subchapter S corporations;
- U.S. stockholders (as defined below) whose functional currency is not the U.S. dollar;
- regulated investment companies and REITs, and their investors;
- trusts and estates (except to the extent discussed herein);
- persons who receive our common stock through the exercise of employee stock options or otherwise as compensation;
- persons holding our common stock as part of a “straddle,” “hedge,” “conversion transaction,” “synthetic security” or other integrated investment;
- persons subject to the alternative minimum tax provisions of the Code;
- persons holding our common stock through a partnership or similar pass-through entity; and
- persons holding a 10% or more (by vote or value) beneficial interest in our common stock.

This summary assumes that stockholders hold our common stock as a capital asset for U.S. federal income tax purposes, which generally means as property held for investment.

The statements in this section are not intended to be, and should not be construed as, tax advice. The statements in this section are based on the Code, current, temporary and proposed U.S. Treasury regulations, the legislative history of the Code, current administrative interpretations and practices of the IRS, and court decisions. The reference to IRS interpretations and practices includes the IRS practices and policies endorsed in private letter rulings, which are not binding on the IRS except with respect to the taxpayer that receives the ruling. In each case, these sources are relied upon as they exist on the date of this discussion. Future legislation, U.S. Treasury regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law on which the information in this section is based. Any such change could apply retroactively. We have not received any rulings from the IRS concerning our qualification as a REIT. Accordingly, even if there is no change in the applicable law, no assurance can be provided that the statements made in the following discussion, which do not bind the IRS or the courts, will not be challenged by the IRS or will be sustained by a court if so challenged.

**WE URGE YOU TO CONSULT YOUR TAX ADVISER REGARDING THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE PURCHASE, OWNERSHIP AND SALE OF OUR COMMON STOCK**

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AND OF OUR ELECTION TO BE TAXED AS A REIT. SPECIFICALLY, YOU SHOULD CONSULT YOUR TAX ADVISER REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN, AND OTHER TAX CONSEQUENCES OF SUCH PURCHASE, OWNERSHIP, SALE AND ELECTION, AND REGARDING POTENTIAL CHANGES IN APPLICABLE TAX LAWS.

### **Taxation of Our Company**

We have in effect an election to be taxed as a pass-through entity under subchapter S of the Code, but intend to revoke such election prior to the closing of this offering. We will elect and intend to qualify to be taxed as a REIT under Sections 856 through 860 of the Code commencing with our short taxable year ending on December 31, 2013. We believe that, commencing with our short taxable year ending December 31, 2013, we will be organized and will operate in such a manner as to qualify for taxation as a REIT under the federal income tax laws, and we intend to continue to operate in such a manner, but no assurances can be given that we will operate in a manner so as to qualify or remain qualified as a REIT. This section discusses the laws governing the federal income tax treatment of a REIT and its stockholders. These laws are highly technical and complex.

In connection with this offering, Hunton & Williams LLP will render an opinion that, commencing with our short taxable year ending on December 31, 2013, we will be organized in conformity with the requirements for qualification and taxation as a REIT under the U.S. federal income tax laws, and our proposed method of operation will enable us to satisfy the requirements for qualification and taxation as a REIT under the U.S. federal income tax laws for our short taxable year ending December 31, 2013 and subsequent taxable years. Investors should be aware that Hunton & Williams LLP's opinion will be based upon customary assumptions, will be conditioned upon certain representations made by us as to factual matters, including representations regarding the nature of our assets and the conduct of our business, will not be binding upon the IRS or any court and will speak as of the date issued. In addition, Hunton & Williams LLP's opinion will be based on existing federal income tax law governing qualification as a REIT, which is subject to change either prospectively or retroactively. 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 federal income tax laws. Those qualification tests involve the percentage of income that we earn from specified sources, the percentage of our assets that fall within specified categories, the diversity of our share ownership, and the percentage of our earnings that we distribute. Hunton & Williams LLP will not review our compliance with those tests on a continuing basis. Accordingly, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements. Hunton & Williams LLP's opinion does not foreclose the possibility that we may have to use one or more of the REIT "savings" provisions discussed below, which could require us to pay an excise or penalty tax (which could be material) in order for us to maintain our REIT qualification. For a discussion of the tax consequences of our failure to qualify as a REIT, see "—Failure to Qualify."

If we qualify as a REIT, we generally will not be subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders, but taxable income generated by any domestic taxable REIT subsidiaries, or TRSs, will be subject to regular corporate income tax. However, we will be subject to federal tax in the following circumstances:

- We will pay federal income tax on our taxable income, including net capital gain, that we do not distribute to stockholders during, or within a specified time period after, the calendar year in which the income is earned.
- We may be subject to the "alternative minimum tax" on any items of tax preference, including any deductions of net operating losses, that we do not distribute or allocate to stockholders.
- We will pay income tax at the highest corporate rate on:
  - net income from the sale or other disposition of property acquired through foreclosure, or foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, and

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- other non-qualifying income from foreclosure property.
- We will pay a 100% tax on net income earned from sales or other dispositions of property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business.
- If we fail to satisfy the 75% gross income test or the 95% gross income test, as described below under “—Gross Income Tests,” but nonetheless continue to qualify as a REIT because we meet other requirements, we will be subject to a 100% tax on:
  - the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, multiplied, in either case, by
  - a fraction intended to reflect our profitability.
- If we fail to satisfy the asset tests (other than a de minimis failure of the 5% asset test, the 10% vote test or the 10% value test, as described below under “—Asset Tests”), as long as the failure was due to reasonable cause and not to willful neglect, we dispose of the assets or otherwise comply with such asset tests within six months after the last day of the quarter in which we identify such failure and we file a schedule with the IRS describing the assets that caused such failure, we will pay a tax equal to the greater of \$50,000 or the product of the highest U.S. federal corporate tax rate (currently, 35%) and the net income from the non-qualifying assets during the period in which we failed to satisfy such asset tests.
- If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, and the failure was due to reasonable cause and not to willful neglect, we will be required to pay a penalty of \$50,000 for each such failure.
- We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet recordkeeping requirements intended to monitor our compliance with rules relating to the composition of a REIT’s stockholders, as described below in “—Requirements for Qualification.”
- If we fail to distribute during a calendar year at least the sum of: (i) 85% of our REIT ordinary income for the year, (ii) 95% of our REIT capital gain net income for the year and (iii) any undistributed taxable income from earlier periods, we will pay a 4% nondeductible excise tax on the excess of the required distribution over the amount we actually distributed, plus any retained amounts on which income tax has been paid at the corporate level.
- We may elect to retain and pay income tax on our net long-term capital gain. In that case, a U.S. stockholder would be taxed on its proportionate share of our undistributed long-term capital gain (to the extent that we make a timely designation of such gain to the stockholder) and would receive a credit or refund for its proportionate share of the tax we paid.
- We will be subject to a 100% excise tax on transactions between us and a TRS that are not conducted on an arm’s-length basis.
- The earnings of any TRS that we form will be subject to U.S. federal corporate income tax.
- If we acquire any asset from a C corporation, or a corporation that generally is subject to full corporate level tax, in a merger or other transaction in which we acquire a basis in the asset that is determined by reference either to the C corporation’s basis in the asset or to another asset, we will pay tax at the highest regular corporate rate applicable if we recognize gain on the sale or disposition of the asset during the 10-year period after we acquire the asset. The amount of gain on which we will pay tax is the lesser of:
  - the amount of gain that we recognize at the time of the sale or disposition, and
  - the amount of gain that we would have recognized if we had sold the asset at the time we acquired it, assuming that the C corporation will not elect, in lieu of this treatment, to be subject to an immediate tax when the asset is acquired.

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- If we were to own a residual interest in a real estate mortgage investment conduit, or REMIC, we would be taxable at the highest corporate rate on the portion of any excess inclusion income that we derive from the REMIC residual interests equal to the percentage of our common stock that is held in record name by “disqualified organizations.” Although the law is unclear, IRS guidance indicates that similar rules may apply to a REIT that owns an equity interest in a taxable mortgage pool. To the extent that we own a REMIC residual interest or a taxable mortgage pool through a TRS, we will not be subject to this tax. A “disqualified organization” includes (i) the United States; (ii) any state or political subdivision of the United States; (iii) any foreign government; (iv) any international organization; (v) any agency or instrumentality of any of the foregoing; (vi) any other tax-exempt organization (other than a farmer’s cooperative described in section 521 of the Code) that is exempt from income taxation and is not subject to taxation under the unrelated business taxable income provisions of the Code; and (vii) any rural electrical or telephone cooperative. We do not currently intend to hold REMIC residual interests, but we may engage in securitization transactions and other financing activities that may result in treatment of us or a portion of our assets as a taxable mortgage pool. For a discussion of “excess inclusion income,” see “—Requirements for Qualification—Taxable Mortgage Pools and Excess Inclusion Income.”

In addition, notwithstanding our qualification as a REIT, we may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for U.S. federal income tax purposes. Moreover, as further described below, any domestic TRS in which we own an interest will be subject to federal, state and local corporate income tax on its taxable income. In addition, we may be subject to a variety of taxes other than U.S. federal income tax, including state and local franchise, property and other taxes and foreign taxes. We could also be subject to tax in situations and on transactions not presently contemplated.

### **Requirements for Qualification**

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

1. It is managed by one or more trustees or directors.
2. Its beneficial ownership is evidenced by transferable shares or by transferable certificates of beneficial interest.
3. It would be taxable as a domestic corporation, but for the REIT provisions of the federal income tax laws.
4. It is neither a financial institution nor an insurance company subject to special provisions of the federal income tax laws.
5. At least 100 persons are beneficial owners (determined without reference to any rules of attribution) of its shares or ownership certificates.
6. Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, which the federal income tax laws define to include certain entities, during the last half of any taxable year.
7. It elects to be taxed as a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements that must be met to elect and maintain REIT qualification.
8. It meets certain other qualification tests, described below, regarding the nature of its income and assets and the distribution of its income.
9. It uses the calendar year as its taxable year.
10. It has no earnings and profits from any non-REIT taxable year at the close of any taxable year.

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We must meet requirements 1 through 4 and 9 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Requirements 5 and 6 apply to us beginning with our 2014 taxable year. If we comply with all the requirements for ascertaining the ownership of our outstanding stock in a taxable year and have no reason to know that we violated requirement 6, we will be deemed to have satisfied requirement 6 for that taxable year. For purposes of determining stock ownership under requirement 6, an “individual” generally includes a supplemental unemployment compensation benefits plan, a private foundation, or a portion of a trust permanently set aside or used exclusively for charitable purposes. An “individual” generally does not include a trust that is a qualified employee pension or profit sharing trust under the federal income tax laws, however, and beneficiaries of such a trust will be treated as holding our stock in proportion to their actuarial interests in the trust for purposes of requirement 6. We believe that we will issue stock with sufficient diversity of ownership to satisfy requirements 5 and 6. In addition, our charter restricts the ownership and transfer of our stock so that we should continue to satisfy these requirements. These restrictions, however, may not ensure that we will, in all cases, be able to satisfy these stock ownership requirements. If we fail to satisfy these stock ownership requirements, we may not qualify as a REIT. The provisions of our charter restricting the ownership and transfer of our stock are described in “Description of Capital Stock—Restrictions on Ownership and Transfer.” To monitor compliance with the stock ownership requirements, we generally will be required to maintain records regarding the actual ownership of our stock. To do so, we must demand written statements each year from the record holders of significant percentages of our stock pursuant to which the record holders must disclose the actual owners of the stock (i.e., the persons required to include our dividends in their gross income). We must maintain a list of those persons failing or refusing to comply with this demand as part of our records. We could be subject to monetary penalties if we fail to comply with these record-keeping requirements. If you fail or refuse to comply with the demands, you will be required by U.S. Treasury regulations to submit a statement with your tax return disclosing your actual ownership of our stock and other information. In addition, we must satisfy all relevant filing and other administrative requirements that must be met to elect and maintain REIT status. We intend to comply with these requirements.

### **Qualified REIT Subsidiaries**

A corporation that is a “qualified REIT subsidiary” is not treated as a corporation separate from its parent REIT. All assets, liabilities, and items of income, deduction, and credit of a qualified REIT subsidiary are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A qualified REIT subsidiary is a corporation, other than a TRS, all of the shares of which is owned, directly or through one or more qualified REIT subsidiaries or disregarded entities, by the REIT. Thus, in applying the requirements described herein, any qualified REIT subsidiary that we own will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit.

### **Other Disregarded Entities and Partnerships**

An unincorporated domestic entity, such as a limited liability company, that has a single owner generally is not treated as an entity separate from its parent for U.S. federal income tax purposes. An unincorporated domestic entity with two or more owners generally is treated as a partnership for U.S. federal income tax purposes. In the case of a REIT that is a partner in a partnership that has other partners, the REIT is treated as owning its proportionate share of the assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. For purposes of the 10% value test (see “—Asset Tests”), our proportionate share is based on our proportionate interest in the equity interests and certain debt securities issued by the partnership. For all of the other asset and income tests, our proportionate share is based on our proportionate interest in the capital interests in the partnership. Our proportionate share of the assets, liabilities, and items of income of any partnership, joint venture, or limited liability company that is treated as a partnership for U.S. federal income tax purposes in which we acquire an interest, directly or indirectly, will be treated as our assets and gross income for purposes of applying the various REIT qualification requirements.

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In the event that a disregarded subsidiary of ours ceases to be wholly-owned—for example, if any equity interest in the subsidiary is acquired by a person other than us or another disregarded subsidiary of ours—the subsidiary’s separate existence would no longer be disregarded for U.S. federal income tax purposes. Instead, the subsidiary would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect our ability to satisfy the various asset and gross income requirements applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the total value or total voting power of the outstanding securities of another corporation. See “—Asset Tests” and “—Gross Income Tests.”

We have control of our operating partnership and generally intend to control any subsidiary partnerships and limited liability companies, and we intend to operate them in a manner consistent with the requirements for our qualification as a REIT. We may from time to time be a limited partner or non-managing member in some of our partnerships and limited liability companies. If a partnership or limited liability company in which we own an interest takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. In addition, it is possible that a partnership or limited liability company could take an action which could cause us to fail a gross income or asset test, and that we would not become aware of such action in time to dispose of our interest in the partnership or limited liability company or take other corrective action on a timely basis. In that case, we could fail to qualify as a REIT unless we were entitled to relief, as described below.

### **Taxable REIT Subsidiaries**

A REIT is permitted to own up to 100% of the stock of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. The subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation with respect to which a TRS directly or indirectly owns more than 35% of the voting power or value of the outstanding securities will automatically be treated as a TRS. However, an entity will not qualify as a TRS if it directly or indirectly operates or manages a lodging or health care facility or, generally, provides to another person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated. We generally may not own more than 10%, as measured by voting power or value, of the securities of a corporation that is not a qualified REIT subsidiary or a REIT unless we and such corporation elect to treat such corporation as a TRS. Overall, no more than 25% of the value of a REIT’s assets may consist of stock or securities of one or more TRSs.

The separate existence of a TRS or other taxable corporation, unlike a disregarded subsidiary as discussed above, is not ignored for U.S. federal income tax purposes. Accordingly, a domestic TRS would generally be subject to corporate income tax on its earnings, which may reduce the cash flow generated by us and our subsidiaries in the aggregate and our ability to make distributions to our stockholders. A REIT is not treated as holding the assets of a TRS or other taxable subsidiary corporation or as receiving any income that the subsidiary earns. Rather, the stock issued by the subsidiary is an asset in the hands of the REIT, and the REIT generally recognizes as income the dividends, if any, that it receives from the subsidiary. This treatment can affect the gross income and asset test calculations that apply to the REIT, as described below. Because a parent REIT does not include the assets and income of such subsidiary corporations in determining the parent REIT’s compliance with the REIT requirements, such entities may be used by the parent REIT to undertake indirectly activities that the REIT rules might otherwise preclude it from doing directly or through pass-through subsidiaries or render commercially unfeasible (for example, activities that give rise to certain categories of income such as non-qualifying hedging income or inventory sales).

Certain restrictions imposed on TRSs are intended to ensure that such entities will be subject to appropriate levels of federal income taxation. First, a TRS may not deduct interest payments made in any year to an affiliated REIT to the extent that such payments exceed, generally, 50% of the TRS’s adjusted taxable income for that year (although the TRS may carry forward to, and deduct in, a succeeding year the disallowed interest amount if the

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50% test is satisfied in that year). In addition, if amounts are paid to a REIT or deducted by a TRS due to transactions between a REIT, its tenants and/or a TRS, that exceed the amount that would be paid to or deducted by a party in an arm's-length transaction, the REIT generally will be subject to an excise tax equal to 100% of such excess. We intend that all of our transactions with any TRS that we form will be conducted on an arm's-length basis, but there can be no assurance that we will be successful in this regard.

We may form or invest in domestic or foreign TRSs in the future. To the extent that our TRSs pay any taxes, they will have less cash available for distribution to us. If dividends are paid by domestic TRSs to us, then the dividends we designate and pay to our stockholders who are taxed at individual rates, up to the amount of dividends that we receive from such entities, generally will be eligible to be taxed at the reduced 20% maximum federal rate applicable to qualified dividend income. See “—Taxation of U.S. Holders—Taxation of Taxable U.S. Holders on Distributions on Common Stock.”

### **Taxable Mortgage Pools and Excess Inclusion Income**

An entity, or a portion of an entity, may be classified as a taxable mortgage pool under the Code if:

- substantially all of its assets consist of debt obligations or interests in debt obligations;
- more than 50% of those debt obligations are real estate mortgage loans or interests in real estate mortgage loans as of specified testing dates;
- the entity has issued debt obligations that have two or more maturities; and
- the payments required to be made by the entity on its debt obligations “bear a relationship” to the payments to be received by the entity on the debt obligations that it holds as assets.

Under applicable U.S. Treasury regulations, if less than 80% of the assets of an entity (or a portion of an entity) consist of debt obligations, these debt obligations are not considered to comprise “substantially all” of its assets, and therefore the entity would not be treated as a taxable mortgage pool.

A taxable mortgage pool generally is treated as a corporation for U.S. federal income tax purposes; it cannot be included in any consolidated federal corporate income tax return. However, if a REIT is a taxable mortgage pool, or if a REIT owns a qualified REIT subsidiary that is a taxable mortgage pool, then a portion of the REIT's income will be treated as “excess inclusion income” and a portion of the dividends the REIT pays to its stockholders will be considered to be excess inclusion income. Similarly, a portion of the income from a REMIC residual interest may be treated as excess inclusion income. A stockholder's share of excess inclusion income (i) would not be allowed to be offset by any losses otherwise available to the stockholder, (ii) would be subject to tax as unrelated business taxable income, or UBTI, in the hands of most types of stockholders that are otherwise generally exempt from U.S. federal income tax, and (iii) would result in the application of U.S. federal income tax withholding at the maximum rate (30%), without reduction under any otherwise applicable income tax treaty, to the extent allocable to most types of foreign stockholders. IRS guidance indicates that a REIT's excess inclusion income will be allocated among its stockholders in proportion to its dividends paid. However, the manner in which excess inclusion income would be allocated to dividends attributable to a tax year that are not paid until a subsequent tax year or to dividends attributable to a portion of a tax year when no excess inclusion income-generating assets were held or how such income is to be reported to stockholders is not clear under current law. Although the law is unclear, the IRS has taken the position that a REIT is taxable at the highest corporate tax rate on the portion of any excess inclusion income that it derives from an equity interest in a taxable mortgage pool equal to the percentage of its stock that is held in record name by “disqualified organizations” (as defined above under “—Taxation of Our Company”). Similar rules apply if we own a residual interest in a REMIC. If as a result of ownership by “disqualified organizations,” we are subject to tax on any excess inclusion income, under our declaration of trust, we will reduce distributions to such stockholders by the amount of tax paid by us that is attributable to such stockholder's ownership. U.S. Treasury regulations provide that such a reduction in distributions does not give rise to a preferential dividend that could adversely affect our compliance



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with the distribution requirement. See “—Distribution Requirements.” To the extent that stock owned by “disqualified organizations” is held by a broker or other nominee, the broker/dealer or other nominees would be liable for a tax at the highest corporate tax rate on the portion of our excess inclusion income allocable to the stock held by the broker/dealer or other nominee on behalf of the “disqualified organizations.” A regulated investment company or other pass-through entity owning our stock will be subject to tax at the highest corporate tax rate on any excess inclusion income allocated to its record name owners that are “disqualified organizations.” We do not currently intend to hold REMIC residual interests (other than through a TRS), but we may engage in securitization transactions and other financing activities that may result in treatment of us or a portion of our assets as a taxable mortgage pool.

### **Gross Income Tests**

We must satisfy two gross income tests annually to qualify and maintain our qualification as a REIT.

First, at least 75% of our gross income for each taxable year must consist of defined types of income that we derive, directly or indirectly, from investments relating to real property or mortgage loans on real property or qualified temporary investment income. Qualifying income for purposes of the 75% gross income test generally includes:

- rents from real property;
- interest on debt secured by a mortgage on real property or on interests in real property;
- dividends or other distributions on, and gain from the sale of, shares in other REITs;
- gain from the sale of real estate assets;
- income and gain derived from foreclosure property (as described below);
- income derived from a REMIC in proportion to the real estate assets held by the REMIC, unless at least 95% of the REMIC’s assets are real estate assets, in which case all of the income derived from the REMIC; and
- income derived from the temporary investment of new capital that is attributable to the issuance of our stock or a public offering of our debt with a maturity date of at least five years and that we receive during the one-year period beginning on the date on which we received such new capital.

Second, in general, at least 95% of our gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test (except for income derived from the temporary investment of new capital), other types of interest and dividends, gain from the sale or disposition of stock or securities or any combination of these. Certain income items do not qualify for either gross income test. Other types of income are excluded from both the numerator and the denominator in one or both of the gross income tests. For example, gross income from the sale of property that we hold primarily for sale to customers in the ordinary course of business, income and gain from “hedging transactions,” as defined in “—Hedging Transactions,” and gross income attributable to cancellation of indebtedness, or “COD,” income will be excluded from both the numerator and the denominator for purposes of both the 75% and 95% gross income tests. In addition, certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. See “—Foreign Currency Gain.” For purposes of the 75% and 95% gross income tests, we are treated as receiving our proportionate share of our operating partnership’s gross income. We will monitor the amount of our non-qualifying income and will seek to manage our investment portfolio to comply at all time with the gross income tests. The following paragraphs discuss the specific application of the gross income tests to us.

### **Dividends**

Our share of any dividends received from any corporation (including dividends from any TRS we may form, but excluding any REIT) in which we own an equity interest will qualify for purposes of the 95% gross income

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test but not for purposes of the 75% gross income test. Our share of any dividends received from any other REIT in which we own an equity interest, if any, will be qualifying income for purposes of both gross income tests.

### **Interest**

The term “interest,” as defined for purposes of both gross income tests, generally excludes any amount that is based in whole or in part on the income or profits of any person. However, interest generally includes the following:

- an amount that is based on a fixed percentage or percentages of receipts or sales; and
- an amount that is based on the income or profits of a debtor, as long as the debtor derives substantially all of its income from the real property securing the debt from leasing substantially all of its interest in the property, and only to the extent that the amounts received by the debtor would be qualifying “rents from real property” if received directly by a REIT.

If a loan contains a provision that entitles a REIT to a percentage of the borrower’s gain upon the sale of the real property securing the loan or a percentage of the appreciation in the property’s value as of a specific date, income attributable to that loan provision will be treated as gain from the sale of the property securing the loan, which generally is qualifying income for purposes of both gross income tests, provided that the property is not inventory or dealer property in the hands of the borrower or the REIT.

Interest on debt secured by a mortgage on real property or on interests in real property, including, for this purpose, market discount, original issue discount, discount points, prepayment penalties, loan assumption fees, and late payment charges that are not compensation for services, generally is qualifying income for purposes of the 75% gross income test. However, if the loan is secured by real property and other property and the highest principal amount of a loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of (i) the date the REIT agreed to originate or acquire the loan or (ii) as discussed below, in the event of a “significant modification,” the date we modified the loan, a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the portion of the principal amount of the loan that is not secured by real property—that is, the amount by which the loan balance exceeds the applicable value of the real estate that secures the loan.

We intend to invest in Excess MSR. The IRS has issued a private letter ruling to another REIT holding that Excess MSR 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 that private letter ruling and other IRS guidance regarding excess mortgage servicing fees, we generally intend to treat our investments in Excess MSR as producing qualifying income for purposes of the 75% and 95% gross income tests to the extent the underlying mortgage loans produce qualifying income for purposes of those tests, as described above. However, we do not intend to seek our own private letter ruling. Thus, the IRS could successfully take the position that Excess MSR do not produce qualifying income, presumably by recharacterizing Excess MSR by treating a portion of the income we receive from an Excess MSR as reasonable compensation for servicing the underlying mortgage loans. A successful challenge of our treatment of Excess MSR could result in our being treated as failing the 95% gross income test and possibly the 75% gross income test. If we failed one or both of those tests and qualified for the “savings” provision described below under “—Failure to Satisfy Gross Income Tests,” we would be required to pay penalty tax, which could be material, in order to maintain our REIT qualification. If we did not qualify for that “savings” provision, we would fail to qualify as a REIT. See “—Failure to Qualify.”

We intend to invest in Agency RMBS that are pass-through certificates and CMOs, and we may invest in non-Agency RMBS that are pass-through certificates and CMOs and directly in residential mortgage loans. Other than income from derivative instruments, as described below, we expect that all of the income of our Agency

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RMBS, non-Agency RMBS and residential mortgage loans will be qualifying income for purposes of the 95% gross income test. In the case of RMBS treated as interests in a grantor trust for U.S. federal income tax purposes, we would be treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust. The interest on such mortgage loans, and any residential mortgage loans that we own directly, would be qualifying income for purposes of the 75% gross income test to the extent that the obligation is adequately secured by real property, as discussed above. In the case of RMBS treated as regular interests in a REMIC for U.S. federal income tax purposes, income derived from REMIC interests will generally be treated as qualifying income for purposes of the 75% gross income test. If less than 95% of the assets of the REMIC are real estate assets, however, then only a proportionate part of our interest in the REMIC and income derived from the interest will qualify for purposes of the 75% gross income test. In addition, some REMIC securitizations include imbedded interest rate swap or cap contracts or other derivative instruments that potentially could produce non-qualifying income for the holders of the related REMIC securities. We expect that any interest income from an RMBS that is not treated as an interest in a grantor trust or an interest in a REMIC will not be qualifying income for purposes of the 75% gross income test. We expect that a sufficient portion of our income from our Excess MSRs, Agency RMBS, non-Agency RMBS and residential mortgage loans will be qualifying income so that we will satisfy both the 75% and 95% gross income tests. However, there can be no assurance that we will satisfy both the 75% and 95% gross income tests.

We generally intend to engage in TBA transactions that are treated as “hedging transactions” as defined in “—Hedging Transactions.” With respect to contracts for forward settling transactions such as TBAs that are not hedging transactions, the law is unclear with respect to the qualification of income and gains from dispositions of contracts for forward settling transactions as qualifying income for purposes of the 75% gross income test. Until we receive a favorable private letter ruling from the IRS or we receive an opinion of counsel to the effect that income and gain from the disposition of such contracts for forward settling transactions 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 contracts for forward settling transactions (other than hedging transactions) and any non-qualifying income to no more than 25% of our gross income for each calendar year. Accordingly, our ability to dispose of such contracts for forward settling transactions, through dollar roll transactions or otherwise, could be limited. Moreover, even if we are advised by counsel that income and gains from dispositions of such contracts for forward settling transactions should be treated as qualifying income, it is possible that the IRS could successfully take the position that such income is not qualifying income. In the event that such income were determined not to be qualifying for the 75% gross income test, we could be subject to a penalty tax or we could fail to qualify as a REIT if such income and any other non-qualifying income exceeds 25% of our gross income. See “—Failure to Qualify.”

Although we have no current intention to acquire distressed mortgage loans, we may acquire distressed mortgage loans in the future. Revenue Procedure 2011-16 provides that the IRS will treat distressed mortgage loans acquired by a REIT that are secured by real property and other property as producing, in part, non-qualifying income for the 75% gross income test. Specifically, Revenue Procedure 2011-16 indicates that interest income on such a distressed mortgage loan will be treated as qualifying income based on the ratio of: (i) the fair market value of the real property securing the debt determined as of the date the REIT committed to acquire the loan; and (ii) the face amount of the loan (and not the purchase price or current value of the loan). The face amount of a distressed mortgage loan will typically exceed the fair market value of the real property securing the mortgage loan on the date the REIT commits to acquire the loan. To the extent we invest in distressed mortgage loans, we intend to do so in a manner consistent with maintaining our qualification as a REIT.

We may modify the term of any residential mortgage loans we acquire. Under the Code, if the terms of a loan are modified in a manner constituting a “significant modification,” such modification triggers a deemed exchange of the original loan for the modified loan. IRS Revenue Procedure 2011-16 provides a safe harbor pursuant to which we will not be required to redetermine the fair market value of the real property securing a loan for purposes of the gross income and asset tests in connection with a loan modification that is (i) occasioned

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by a borrower default or (ii) made at a time when we reasonably believe that the modification to the loan will substantially reduce a significant risk of default on the original loan. To the extent we significantly modify loans in a manner that does not qualify for that safe harbor, we will be required to redetermine the value of the real property securing the loan at the time it was significantly modified, which could result in a portion of the interest income on the loan being treated as nonqualifying income for purposes of the 75% gross income test and a portion of the value of the loan being treated as a non-qualifying asset for the 75% asset test. In determining the value of the real property securing such a loan, we generally will not obtain third-party appraisals but rather will rely on internal valuations.

We may invest opportunistically in other types of mortgage and real estate-related assets. To the extent we invest in such assets, we must do so in a manner that will enable us to satisfy the 75% and 95% gross income tests described above.

### ***Hedging Transactions***

From time to time, we will enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase these items, and futures and forward contracts and TBAs. Except to the extent provided by U.S. Treasury Regulations, income and gain from “hedging transactions” will be excluded from gross income for purposes of both the 75% and 95% gross income tests. A “hedging transaction” includes any transaction entered into in the normal course of our trade or business primarily to manage the risk of interest rate changes, price changes, or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets (“liability hedge”). A “hedging transaction” also includes any transaction entered into primarily to manage risk of currency fluctuations with respect to any item of income or gain that is qualifying income for purposes of the 75% or 95% gross income test (or any property which generates such income or gain). We are required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated, or entered into and satisfy other identification requirements. To the extent that we hedge for other purposes, or to the extent that a portion of the hedged assets are not treated as “real estate assets” (as described below under “—Asset Tests”) or we enter into derivative transactions that are not liability hedges or we fail to satisfy the identification requirements with respect to a hedging transaction, the income from those transactions will likely be treated as non-qualifying income for purposes of both gross income tests. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT, but we cannot assure you that we will be able to do so. We may conduct some or all of our hedging activities (including hedging activities relating to currency risk) through a TRS or other corporate entity, the income from which may be subject to federal income tax, rather than by participating in the arrangements directly or through pass-through subsidiaries.

### ***Fee Income***

We anticipate deriving income from fees in certain circumstances. Fee income generally will be qualifying income for purposes of both the 75% and 95% gross income tests if it is received in consideration for entering into an agreement to make a loan secured by real property and the fees are not determined by income and profits. Other fees, including amounts paid in respect of an MSR as reasonable compensation for servicing the underlying mortgage loans, generally are not qualifying income for purposes of either gross income test. Any fees earned by a TRS, like other income earned by a TRS, will not be included in the REIT’s gross income for purposes of the gross income tests. Although no complete assurances can be provided, we anticipate that any fee income we will earn will be de minimis and will not impair our ability to satisfy the 95% and 75% gross income tests.

### ***Foreign Currency Gain***

Certain foreign currency gains will be excluded from gross income for purposes of one or both of the gross income tests. “Real estate foreign exchange gain” will be excluded from gross income for purposes of the 75%

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and 95% gross income tests. Real estate foreign exchange gain generally includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 75% gross income test, foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations secured by mortgages on real property or on interest in real property and certain foreign currency gain attributable to certain “qualified business units” of a REIT. “Passive foreign exchange gain” will be excluded from gross income for purposes of the 95% gross income test. Passive foreign exchange gain generally includes real estate foreign exchange gain as described above, and also includes foreign currency gain attributable to any item of income or gain that is qualifying income for purposes of the 95% gross income test and foreign currency gain attributable to the acquisition or ownership of (or becoming or being the obligor under) obligations. These exclusions for real estate foreign exchange gain and passive foreign exchange gain do not apply to foreign currency gain derived from dealing, or engaging in substantial and regular trading, in securities. Such gain is treated as non-qualifying income for purposes of both the 75% and 95% gross income tests.

### **Rents from Real Property**

Although we have no current intention to do so, we may acquire real property or an interest therein in the future. To the extent that we acquire real property or an interest therein, rents we receive will qualify as “rents from real property” in satisfying the gross income requirements for a REIT described above only if the following conditions are met:

- *First*, the amount of rent must not be based in whole or in part on the income or profits of any person. An amount received or accrued generally will not be excluded, however, from rents from real property solely by reason of being based on fixed percentages of receipts or sales.
- *Second*, rents we receive from a “related party tenant” will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a TRS, at least 90% of the property is leased to unrelated tenants, the rent paid by the TRS is substantially comparable to the rent paid by the unrelated tenants for comparable space and the rent is not attributable to an increase in rent due to a modification of a lease with a “controlled TRS” (i.e., a TRS in which we own directly or indirectly more than 50% of the voting power or value of the stock). A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant.
- *Third*, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.
- *Fourth*, we generally must not operate or manage our real property or furnish or render services to our tenants, other than through an “independent contractor” who is adequately compensated and from whom we do not derive revenue. We may, however, provide services directly to tenants if the services are “usually or customarily rendered” in connection with the rental of space for occupancy only and are not considered to be provided for the tenants’ convenience. In addition, we may provide a minimal amount of “non-customary” services to the tenants of a property, other than through an independent contractor, as long as our income from the services does not exceed 1% of our income from the related property. Furthermore, we may own up to 100% of the stock of a TRS, which may provide customary and noncustomary services to tenants without tainting our rental income from the related properties.

### **Prohibited Transactions**

A REIT will incur a 100% tax on the net income (including foreign currency gain) derived from any sale or other disposition of property, other than foreclosure property, that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. Any such income will be excluded from the application of the 75% and 95% gross income tests. Whether a REIT holds an asset “primarily for sale to customers in the ordinary course of a trade or business” depends on the facts and circumstances in effect from time to time, including those

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related to a particular asset. We believe that none of our assets will be held primarily for sale to customers and that a sale of any of our assets will not be in the ordinary course of our business. No assurance, however, can be given that the IRS will not successfully assert a contrary position, in which case we would be subject to the prohibited transaction tax on the sale of those assets. To the extent we intend to dispose of an asset that may be treated as held “primarily for sale to customers in the ordinary course of a trade or business,” we may contribute the asset to a TRS prior to the disposition and marketing thereof. No assurance can be given that the IRS will respect the transaction by which dealer property is contributed to our TRS; if such transaction is not respected, then we may be treated as having engaged in a prohibited transaction, and our net income therefrom would be subject to a 100% tax. Moreover, if we securitize loans through a REMIC structure, the transaction would be treated as a sale for tax purposes and the sale may be subject to the prohibited transactions tax. As a result, if we securitize our loans in REMIC transactions, we will likely conduct those securitizations through a TRS.

### ***Foreclosure Property***

We will be subject to tax at the maximum corporate rate on any income (including foreign currency gain) from foreclosure property, other than income that otherwise would be qualifying income for purposes of the 75% gross income test, less expenses directly connected with the production of that income. Gross income from foreclosure property will qualify, however, under the 75% and 95% gross income tests. Foreclosure property is any real property, including interests in real property, and any personal property incident to such real property:

- that is acquired by a REIT as the result of the REIT having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or default was imminent on a lease of such property or on indebtedness that such property secured;
- for which the related loan or lease was acquired by the REIT at a time when the default was not imminent or anticipated; and
- for which the REIT makes a proper election to treat the property as foreclosure property.

A REIT will not be considered, however, to have foreclosed on a property where the REIT takes control of the property as a mortgagee-in-possession and cannot receive any profit or sustain any loss except as a creditor of the mortgagor. Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property, or longer if an extension is granted by the Secretary of the U.S. Treasury. This grace period terminates and foreclosure property ceases to be foreclosure property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test (disregarding income from foreclosure property), or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test (disregarding income from foreclosure property);
- on which any construction takes place on the property, other than completion of a building or any other improvement, where more than 10% of the construction was completed before default became imminent; or
- which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business that is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income.

### ***Failure to Satisfy Gross Income Tests***

If we fail to satisfy one or both of the gross income tests for any taxable year, we nevertheless may qualify as a REIT for that year if we are entitled to qualify for relief under certain provisions of the federal income tax laws. Those relief provisions generally will be available if:

- our failure to meet those tests is due to reasonable cause and not to willful neglect; and

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- following such failure for any taxable year, a schedule of the sources of our income is filed with the IRS in accordance with regulations prescribed by the Secretary of the U.S. Treasury.

We cannot with certainty predict whether any failure to meet these tests will qualify for the relief provisions. If the IRS were to determine that we failed the 75% gross income test or the 95% gross income test because income produced by our investments in Excess MSR is not qualifying income, it is possible that the IRS would not consider our position taken with respect to such income, and accordingly our failure to satisfy the 75% gross income test or the 95% gross income test, to be due to reasonable cause and not due to willful neglect. If these relief provisions are inapplicable to a particular set of circumstances involving us, we will not qualify as a REIT. As discussed above in “—Taxation of Our Company,” even if the relief provisions apply, we would incur a 100% tax on the gross income attributable to the greater of the amount by which we fail the 75% gross income test or the 95% gross income test, multiplied, in either case, by a fraction intended to reflect our profitability.

### **Asset Tests**

To qualify as a REIT, we also must satisfy the following asset tests at the end of each quarter of each taxable year.

*First*, at least 75% of the value of our total assets must consist of:

- cash or cash items, including certain receivables and investments in money market funds;
- government securities;
- interests in real property, including leaseholds and options to acquire real property and leaseholds;
- interests in mortgage loans secured by real property;
- stock in other REITs;
- investments in stock or debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or public offerings of debt with at least a five-year term; and
- regular or residual interests in a REMIC. However, if less than 95% of the assets of a REMIC consist of assets that are qualifying real estate-related assets under the federal income tax laws, determined as if we held such assets, we will be treated as holding directly our proportionate share of the assets of such REMIC.

*Second*, of our investments not included in the 75% asset class, the value of our interest in any one issuer’s securities (other than any TRS we may own) may not exceed 5% of the value of our total assets (the “5% asset test”).

*Third*, of our investments not included in the 75% asset class, we may not own more than 10% of the total voting power or 10% of the total value of any one issuer’s outstanding securities (the “10% vote test” and the “10% value test,” respectively).

*Fourth*, no more than 25% of the value of our total assets may consist of the securities of one or more TRSs.

*Fifth*, no more than 25% of the value of our total assets may consist of the securities of TRSs and other non-TRS taxable subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test (the “25% securities test”).

For purposes of these asset tests, we are treated as holding our proportionate share of our operating partnership’s assets. For purposes of the 5% asset test, the 10% vote test and the 10% value test, the term

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“securities” does not include stock in another REIT, equity or debt securities of a qualified REIT subsidiary or TRS, mortgage loans or mortgage-backed securities that constitute real estate assets, or equity interests in a partnership. For purposes of the 10% value test, the term “securities” does not include:

- “straight debt” securities, which is defined as a written unconditional promise to pay on demand or on a specified date a sum certain in money if (i) the debt is not convertible, directly or indirectly, into stock, and (ii) the interest rate and interest payment dates are not contingent on profits, the borrower’s discretion, or similar factors. “Straight debt” securities do not include any securities issued by a partnership or a corporation in which we or any “controlled TRS” hold “non-straight” debt securities that have an aggregate value of more than 1% of the issuer’s outstanding securities. However, “straight debt” securities include debt subject to the following contingencies:
  - a contingency relating to the time of payment of interest or principal, as long as either (i) there is no change to the effective yield of the debt obligation, other than a change to the annual yield that does not exceed the greater of 0.25% or 5% of the annual yield, or (ii) neither the aggregate issue price nor the aggregate face amount of the issuer’s debt obligations held by us exceeds \$1 million and no more than 12 months of unaccrued interest on the debt obligations can be required to be prepaid; and
  - a contingency relating to the time or amount of payment upon a default or prepayment of a debt obligation, as long as the contingency is consistent with customary commercial practice;
- any loan to an individual or an estate;
- any “section 467 rental agreement,” other than an agreement with a related party tenant;
- any obligation to pay “rents from real property”;
- certain securities issued by governmental entities that are not dependent in whole or in part on the profits of (or payments made by) a non-governmental entity;
- any security (including debt securities) issued by another REIT;
- any debt instrument of an entity treated as a partnership for U.S. federal income tax purposes in which we are a partner to the extent of our proportionate interest in the equity and certain debt securities issued by that partnership; or
- any debt instrument of an entity treated as a partnership for U.S. federal income tax purposes not described in the preceding bullet points if at least 75% of the partnership’s gross income, excluding income from prohibited transactions, is qualifying income for purposes of the 75% gross income test described above in “—Gross Income Tests.”

For purposes of the 10% value test, our proportionate share of the assets of a partnership is our proportionate interest in any securities issued by the partnership, without regard to the securities described in the last two bullet points above.

We intend to invest in Excess MSR. The IRS has issued a private letter ruling to another REIT holding that Excess MSR produce qualifying income for purposes of the 75% asset 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 that private letter ruling and other IRS guidance regarding excess mortgage servicing fees, we generally intend to treat our investments in Excess MSR as qualifying assets for purposes of the 75% asset test to the extent the underlying mortgage loans are qualifying for purposes of such test, as described above. However, we do not intend to seek our own private letter ruling. Thus, the IRS could successfully take the position that Excess MSR are not qualifying assets, presumably by recharacterizing Excess MSR as an interest in reasonable compensation for servicing the underlying mortgage loans. A successful challenge of our treatment of Excess MSR could result in our being treated as failing the 75% asset test. If we failed the 75% asset test and qualified for the “savings” provision described below, we would be required to pay penalty tax, which could be material, in order



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to maintain our REIT qualification. If we did not qualify for that “savings” provision, we would fail to qualify as a REIT. See “—Failure to Qualify.”

We intend to invest in Agency RMBS that are pass-through certificates or CMOs, and we may invest in non-Agency RMBS that are pass-through certificates or CMOs or directly in residential mortgage loans. In the case of RMBS treated as interests in a grantor trust for U.S. federal income tax purposes, we will be treated as owning an undivided beneficial ownership interest in the mortgage loans held by the grantor trust. Such mortgage loans, and any residential mortgage loans that we own directly, will generally qualify as real estate assets for purposes of the 75% asset test to the extent that they are secured by real property. Revenue Procedure 2011-16 provides a safe harbor under which the IRS has stated that it will not challenge a REIT’s treatment of a loan as being, in part, a qualifying real estate asset in an amount equal to the lesser of (1) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan or (2) the fair market value of the loan on the date of the relevant quarterly REIT asset testing date. In the case of RMBS treated as regular interests in a REMIC for U.S. federal income tax purposes, such interests will generally qualify as real estate assets for purposes of the 75% asset test. If less than 95% of the assets of a REMIC are real estate assets, however, then only a proportionate part of our interest in the REMIC qualifies for purposes of the REIT asset test.

To the extent any of our investments in Agency RMBS are not treated as real estate assets, we expect such Agency RMBS will be treated as government securities because they are issued or guaranteed as to principal or interest by the United States or by a person controlled or supervised by and acting as an instrumentality of the government of the United States pursuant to authority granted by the Congress of the United States. Our investments in non-Agency RMBS that are not interests in a grantor trust or REMIC or government securities will not be treated as qualifying assets for purposes of the 75% asset test and will be subject to the 5% asset test, the 10% value test, the 10% vote test and the 25% securities test described above.

We may also invest directly in residential mortgage loans, including, in the future, distressed loans. As discussed above under “—Gross Income Tests,” under the applicable U.S. Treasury regulations, if a loan is secured by real property and other property and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of (i) the date we agreed to acquire or originate the loan or (ii) in the event of a significant modification, the date we modified the loan, then a portion of the interest income from such a loan will not be qualifying income for purposes of the 75% gross income test but will be qualifying income for purposes of the 95% gross income test. Although the law is not entirely clear, a portion of the loan will also likely be a non-qualifying asset for purposes of the 75% asset test. Revenue Procedure 2011-16 provides a safe harbor under which the IRS has stated that it will not challenge a REIT’s treatment of a loan as being, in part, a qualifying real estate asset in an amount equal to the lesser of (i) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan or (ii) the fair market value of the loan on the date of the relevant quarterly REIT asset testing date. Under the safe harbor when the current value of a distressed mortgage loan exceeds the fair market value of the real property that secures the loan, determined as of the date we committed to acquire or originate the loan, the excess will be treated as a nonqualifying asset. Accordingly, an increasing portion of a distressed mortgage loan will be treated as a non-qualifying asset as the value of the distressed mortgage loan increases. To the extent we invest in residential mortgage loans (including distressed loans), we intend to do so in a manner consistent with qualifying and maintaining our qualification as a REIT.

We have entered, and may in the future enter, into repurchase agreements under which we nominally sold certain of our assets to a counterparty and simultaneously entered into an agreement to repurchase the sold assets in exchange for a purchase price that reflects a financing charge. Based on positions the IRS has taken in analogous situations, we believe that these transactions would be treated as secured debt and that we would be treated for REIT asset and income test purposes as the owner of the assets that would be the subject of such agreements notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own our assets

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subject to sale and repurchase agreements during the term of such agreements, in which case we could fail to qualify as a REIT.

We may purchase Agency RMBS through forward settling transactions, including TBAs. The law is unclear with respect to the qualification of contracts for forward settling transactions as real estate assets or Government securities for purposes of the 75% asset test. Until we receive a favorable private letter ruling from the IRS or we receive an opinion from counsel to the effect that contracts for forward settling transactions should be treated as qualifying assets for purposes of the 75% asset test, we will limit our investment in contracts for forward settling transactions and any non-qualifying assets to no more than 25% of our total assets at the end of any calendar quarter and will limit our investments in contracts for forward settling transactions with a single counterparty to no more than 5% of our total assets at the end of any calendar quarter. Accordingly, our ability to purchase Agency RMBS through contracts for forward settling transactions could be limited. Moreover, even if we are advised by counsel that contracts for forward settling transactions should be treated as qualifying assets, it is possible that the IRS could successfully take the position that such assets are not qualifying assets. In the event that such assets were determined not to be qualifying for the 75% asset test, we could be subject to a penalty tax or we could fail to qualify as a REIT if the value of our contracts for forward settling transactions and any non-qualifying assets exceeds 25% of our total assets at the end of any calendar quarter or if the value of our investments in contracts for forward settling transactions with a single counterparty exceeds 5% of our total assets at the end of any calendar quarter. See “—Failure to Qualify.”

Derivative instruments, other than possibly TBAs as discussed in the prior paragraph, generally are not qualifying assets for purposes of the 75% asset test. Thus, interest rate swaps, futures contracts, and other similar instruments that are used in “hedging transactions” as defined in “—Hedging Transactions,” are non-qualifying assets for purposes of the 75% asset test. As discussed above, we may invest opportunistically in other types of mortgage-related assets. To the extent we invest in such assets, we intend to do so in a manner that will enable us to satisfy each of the asset tests described above. However, we cannot assure you that we will be able to satisfy the asset tests described above. We will monitor the status of our assets for purposes of the various asset tests and seek to manage our portfolio to comply at all times with such tests. No assurance, however, can be given that we will continue to be successful in this effort. In this regard, to determine our compliance with these requirements, we will have to value our investment in our assets to ensure compliance with the asset tests. Although we seek to be prudent in making these estimates, no assurances can be given that the IRS might not disagree with these determinations and assert that a different value is applicable, in which case we might not satisfy the 75% asset test and the other asset tests and, thus, would fail to qualify as a REIT. If we fail to satisfy the asset tests at the end of a calendar quarter, we will not lose our REIT qualification so long as:

- we satisfied the asset tests at the end of the preceding calendar quarter; and
- the discrepancy between the value of our assets and the asset test requirements arose from changes in the market values of our assets and was not wholly or partly caused by the acquisition of one or more nonqualifying assets.

If we did not satisfy the condition described in the second item, above, we still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose.

If we violate the 5% asset test, the 10% vote test or the 10% value test described above at the end of any calendar quarter, we will not lose our REIT qualification if (i) the failure is de minimis (up to the lesser of 1% of the total value of our assets or \$10 million) and (ii) we dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identified such failure. In the event of a more than de minimis failure of any of the asset tests, as long as the failure was due to reasonable cause and not to willful neglect, we will not lose our REIT qualification if we (i) dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identified such failure, (ii) file a schedule with the IRS describing the assets that caused such failure in accordance with regulations promulgated by the Secretary of the U.S. Treasury and (iii) pay a tax equal to the greater of \$50,000 or the product of the highest

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U.S. federal corporate tax rate (currently, 35%) and the net income from the non-qualifying assets during the period in which we failed to satisfy the asset tests. If the IRS were to determine that we failed the 5% asset test or 75% asset test because contracts for forward settling transactions are not qualifying assets, it is possible that the IRS would not consider our position taken with respect to such assets, and accordingly our failure to satisfy the 5% asset test or 75% asset test, to be due to reasonable cause and not due to willful neglect. Similarly, if the IRS were to determine that we failed the 75% asset test because our Excess MSRs are not qualifying assets, it is possible that the IRS would not consider our position taken with respect to such assets, and accordingly our failure to satisfy the 75% asset test, to be due to reasonable cause and not due to willful neglect. If the IRS were to successfully assert these positions, we would fail to qualify as a REIT. See “—Failure to Qualify.” Accordingly, it is not possible to state whether we would be entitled to the benefit of these relief provisions with regard to this issue or in any other circumstances. If these relief provisions are inapplicable to a particular set of circumstances involving us, we will fail to qualify as a REIT.

We believe that the Excess MSRs, Agency RMBS, non-Agency RMBS, and other assets that we may hold will satisfy the foregoing asset test requirements. We will monitor the status of our assets and our future acquisition of assets to ensure that we comply with those requirements, but we cannot assure you that we will be successful in this effort. No independent appraisals will be obtained to support our estimates of and conclusions as to the value of our assets and securities, or in many cases, the real estate collateral for the mortgage loans that support our Agency RMBS and non-Agency RMBS. Moreover, the values of some assets may not be susceptible to a precise determination. As a result, no assurance can be given that the IRS will not contend that our ownership of securities and other assets violates one or more of the asset tests applicable to REITs.

### **Distribution Requirements**

Each taxable year, we must distribute dividends, other than capital gain dividends and deemed distributions of retained capital gain, to our stockholders in an aggregate amount at least equal to:

- the sum of
  - 90% of our “REIT taxable income,” computed without regard to the dividends paid deduction and our net capital gain, and
  - 90% of our after-tax net income, if any, from foreclosure property, minus
  - the sum of certain items of non-cash income.

We must make such distributions in the taxable year to which they relate, or in the following taxable year if either (i) we declare the distribution before we timely file our federal income tax return for the year and pay the distribution on or before the first regular dividend payment date after such declaration or (ii) we declare the distribution in October, November or December of the taxable year, payable to stockholders of record on a specified day in any such month, and we actually pay the dividend before the end of January of the following year. The distributions under clause (i) are taxable to the stockholders in the year in which paid, and the distributions in clause (ii) are treated as paid on December 31 of the prior taxable year. In both instances, these distributions relate to our prior taxable year for purposes of the 90% distribution requirement.

In order for distributions to be counted as satisfying the annual distribution requirements for REITs, and to provide us with a REIT-level tax deduction, the distributions must not be “preferential dividends.” A dividend is not a preferential dividend if the distribution is (i) pro-rata among all outstanding shares within a particular class and (ii) in accordance with the preferences among different classes of stock as set forth in our organizational documents.

We will pay federal income tax on taxable income, including net capital gain, that we do not distribute to stockholders. Furthermore, if we fail to distribute during a calendar year, or by the end of January following the

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calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

- 85% of our REIT ordinary income for such year,
- 95% of our REIT capital gain income for such year, and
- any undistributed taxable income from prior periods,

we will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts we actually distribute.

We may elect to retain and pay income tax on the net long term capital gain we recognize in a taxable year. See “—Taxation of U.S. Holders—Taxation of Taxable U.S. Holders on Distributions on Common Stock.” If we so elect, we will be treated as having distributed any such retained amount for purposes of the REIT distribution requirements and the 4% nondeductible excise tax described above.

We intend to make timely distributions in the future sufficient to satisfy the annual distribution requirements and to avoid corporate income tax and the 4% nondeductible excise tax.

It is possible that, from time to time, we may experience timing differences between the actual receipt of cash, including distributions from our subsidiaries, and actual payment of deductible expenses and the inclusion of that income and deduction of such expenses in arriving at our REIT taxable income. Possible examples of those timing differences include the following:

- Because we may deduct capital losses only to the extent of our capital gains, we may have taxable income that exceeds our economic income.
- We will recognize taxable income in advance of the related cash flow with respect to our investments that are deemed to have original issue discount. We generally must accrue original issue discount based on a constant yield method that takes into account projected prepayments but that defers taking into account credit losses until they are actually incurred.
- We may acquire investments that are treated as having “market discount” for U.S. federal income tax purposes, because the investments are debt instruments that we acquire for an amount less than their principal amount. We do not intend to elect to recognize market discount currently. Under the market discount rules, we may be required to treat portions of gains on sale of market discount bonds as ordinary income and may be required to include some amounts of principal payments received on market discount bonds as ordinary income. The recognition of market discount upon receipt of principal payments results in an acceleration of the recognition of taxable income to periods prior to the receipt of the related economic income. Further, to the extent that such an investment does not fully amortize according to its terms, we may never receive the economic income attributable to previously recognized market discount.

Although several types of non-cash income are excluded in determining the annual distribution requirement, we will incur corporate income tax and the 4% nondeductible excise tax with respect to those non-cash income items if we do not distribute those items on a current basis. As a result of the foregoing, we may have less cash than is necessary to distribute all of our taxable income and thereby avoid corporate income tax and the excise tax imposed on certain undistributed income. In such a situation, we may need to borrow funds, sell assets or make taxable distributions of our stock or debt securities.

We may satisfy the 90% distribution test with taxable distributions of our stock or debt securities. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in stock as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for U.S. federal income tax purposes. Those rulings may be relied upon only by taxpayers whom

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they were issued, but we could request a similar ruling from the IRS. In addition, the IRS previously issued a revenue procedure authorizing publicly traded REITs to make elective cash/stock dividends, but that revenue procedure no longer applies. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and stock. We have no current intention to make a taxable dividend payable in cash and our stock. Under certain circumstances, we may be able to correct a failure to meet the distribution requirement for a year by paying “deficiency dividends” to our stockholders in a later year. We may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest and may be required to pay a penalty to the IRS based upon the amount of any deduction we take for deficiency dividends.

### **Recordkeeping Requirements**

We must maintain certain records in order to qualify as a REIT. In addition, to avoid a monetary penalty, we must request on an annual basis information from our stockholders designed to disclose the actual ownership of our outstanding stock. We intend to comply with these requirements.

### **Failure to Qualify**

If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, we could avoid disqualification if our failure is due to reasonable cause and not to willful neglect and we pay a penalty of \$50,000 for each such failure. In addition, there are relief provisions for a failure of the gross income tests and asset tests, as described in “—Gross Income Tests” and “—Asset Tests.” If we fail to qualify as a REIT in any taxable year, and no relief provision applies, we would be subject to federal income tax and any applicable alternative minimum tax on our taxable income at regular corporate rates. In calculating our taxable income in a year in which we fail to qualify as a REIT, we would not be able to deduct amounts paid out to stockholders. In fact, we would not be required to distribute any amounts to stockholders in that year. In such event, to the extent of our current or accumulated earnings and profits, all distributions to stockholders would be taxable as ordinary income. Subject to certain limitations of the federal income tax laws, corporate stockholders might be eligible for the dividends received deduction and stockholders taxed at individual rates might be eligible for the reduced federal income tax rate of 20% on such dividends. Unless we qualified for relief under specific statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. We cannot predict whether in all circumstances we would qualify for such statutory relief.

### **Taxation of U.S. Holders**

The term “U.S. holder” means a beneficial owner of our common stock that, for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any of its States or the District of Columbia;
- an estate whose income is subject to federal income taxation regardless of its source; or
- any trust if (i) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) it has a valid election in place to be treated as a U.S. person.

If a partnership, entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our common stock, the federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership and certain determinations made at the partner level. If you are a partner in a partnership holding our common stock, you should consult your tax advisor regarding the consequences of the purchase, ownership and disposition of our common stock by the partnership.

## **Taxation of Taxable U.S. Holders on Distributions on Common Stock**

As long as we qualify as a REIT, a taxable U.S. holder must generally take into account as ordinary income distributions made out of our current or accumulated earnings and profits that we do not designate as capital gain dividends or retained long-term capital gain. A U.S. holder will not qualify for the dividends received deduction generally available to corporations. In addition, dividends paid to a U.S. holder generally will not qualify for the 20% tax rate for “qualified dividend income.”

The maximum tax rate for qualified dividend income received by taxpayers taxed at individual rates is 20%. Qualified dividend income generally includes dividends paid to U.S. holders taxed at individual rates by domestic C corporations and certain qualified foreign corporations. Because we are not generally subject to federal income tax on the portion of our REIT taxable income distributed to our stockholders (see “—Taxation of Our Company” above), our dividends generally will not be eligible for the 20% rate on qualified dividend income. As a result, our ordinary REIT dividends will be taxed at the higher tax rate applicable to ordinary income. Currently, the highest marginal individual income tax rate on ordinary income is 39.6%. However, the 20% tax rate for qualified dividend income will apply to our ordinary REIT dividends (i) attributable to dividends received by us from certain non-REIT corporations (e.g., dividends from any domestic TRSs), (ii) to the extent attributable to income upon which we have paid corporate income tax (e.g., to the extent that we distribute less than 100% of our taxable income) and (iii) attributable to income in the prior taxable year from the sales of “built-in gain” property acquired by us from C corporations in carryover basis transactions (less the amount of corporate tax on such income). In general, to qualify for the reduced tax rate on qualified dividend income, a U.S. holder must hold our stock for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which our common stock become ex-dividend. Individuals, trusts and estates whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on dividends received from us.

A U.S. holder generally will take into account distributions that we properly designate as capital gain dividends as long-term capital gain, to the extent that they do not exceed our actual net capital gain for the taxable year, without regard to the period for which the U.S. holder has held our common stock. A corporate U.S. holder may, however, be required to treat up to 20% of certain capital gain dividends as ordinary income.

We may elect to retain and pay income tax on the net long-term capital gain that we recognize in a taxable year. In that case, to the extent we designate such amount on a timely notice to such stockholder, a U.S. holder would be taxed on its proportionate share of our undistributed long-term capital gain. The U.S. holder would receive a credit or refund for its proportionate share of the tax we paid. The U.S. holder would increase the basis in its common stock by the amount of its proportionate share of our undistributed long-term capital gain, minus its share of the tax we paid.

A U.S. holder will not incur tax on a distribution in excess of our current and accumulated earnings and profits if the distribution does not exceed the adjusted basis of the U.S. holder’s common stock. Instead, the distribution will reduce the adjusted basis of such common stock. A U.S. holder will recognize a distribution in excess of both our current and accumulated earnings and profits and the U.S. holder’s adjusted basis in his or her common stock as long-term capital gain, or short-term capital gain if the common stock have been held for one year or less, assuming the common stock are a capital asset in the hands of the U.S. holder. In addition, if we declare a distribution in October, November or December of any year that is payable to a U.S. holder of record on a specified date in any such month, such distribution shall be treated as both paid by us and received by the U.S. holder on December 31 of such year, provided that we actually pay the distribution during January of the following calendar year, as described in “—Distribution Requirements.”

Stockholders may not include in their individual income tax returns any of our net operating losses or capital losses. Instead, these losses are generally carried over by us for potential offset against our future income. Taxable distributions from us and gain from the disposition of our common stock will not be treated as passive activity income and, therefore, a U.S. holder generally will not be able to apply any “passive activity losses,”

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such as losses from certain types of limited partnerships in which such U.S. holder is a limited partner, against such income. In addition, taxable distributions from us and gain from the disposition of our common stock generally will be treated as investment income for purposes of the investment interest limitations. We will notify stockholders after the close of our taxable year as to the portions of the distributions attributable to that year that constitute ordinary income, return of capital and capital gain.

We may recognize taxable income in excess of our economic income, known as 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, U.S. holders at times may be required to pay 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 federal income tax liabilities may reduce a U.S. holder'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. For example, if an investor with a 30% tax rate purchases a taxable bond with an annual interest rate of 10% on its face value, the investor's before-tax return on the investment would be 10% and the investor's after-tax return would be 7%. However, if the same investor purchased our common stock at a time when the before-tax rate of return was 10%, the investor's after-tax rate of return on such common stock might be somewhat less than 7% as a result of our phantom income. In general, as the ratio of our phantom income to our total income increases, the after-tax rate of return received by a taxable U.S. holder will decrease. If excess inclusion income from a taxable mortgage pool or REMIC residual interest is allocated to any U.S. holder that income will be taxable in the hands of the U.S. holder and would not be offset by any net operating losses of the U.S. holder that would otherwise be available. See "—Requirements for Qualification—Taxable Mortgage Pools and Excess Inclusion Income." As required by IRS guidance, we would notify our stockholders if a portion of a dividend paid by us is attributable to excess inclusion income. We intend to avoid generating excess inclusion income for our stockholders.

### **Taxation of Taxable U.S. Holders on the Disposition of Common Stock**

In general, a U.S. holder who is not a dealer in securities must treat any gain or loss realized upon a taxable disposition of our common stock as long-term capital gain or loss if the U.S. holder has held such common stock for more than one year and otherwise as short-term capital gain or loss. In general, a U.S. holder will realize gain or loss in an amount equal to the difference between the sum of the fair market value of any property and the amount of cash received in such disposition and the U.S. holder's adjusted tax basis. A holder's adjusted tax basis generally will equal the U.S. holder's acquisition cost, increased by the excess of net capital gains deemed distributed to the U.S. holder (discussed above) less tax deemed paid by such U.S. holder on such gains and reduced by any returns of capital. However, a U.S. holder must treat any loss upon a sale or exchange of common stock held by such holder for six months or less as a long-term capital loss to the extent of capital gain dividends and any other actual or deemed distributions from us that such U.S. holder treats as long term capital gain. All or a portion of any loss that a U.S. holder realizes upon a taxable disposition of our common stock may be disallowed if the U.S. holder purchases our common stock (or substantially similar common stock) within 30 days before or after the disposition.

### **Capital Gains and Losses**

A taxpayer generally must hold a capital asset for more than one year for gain or loss derived from its sale or exchange to be treated as long-term capital gain or loss. The maximum tax rate on long-term capital gain applicable to U.S. holders taxed at individual rates is 20% for sales and exchanges of assets held for more than one year. The maximum tax rate on long-term capital gain from the sale or exchange of "section 1250 property," or depreciable real property, is 25%, which applies to the lesser of the total amount of the gains or the accumulated depreciation on the Section 1250 property. Individuals, trusts and estates whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on gain from the sale of our common stock. With respect to distributions that we designate as capital gain dividends and any retained capital gain that we are

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deemed to distribute, we will designate whether such a distribution is taxable to U.S. holders taxed at individual rates at a 20% or 25% rate. The highest marginal individual income tax rate currently is 39.6%. Thus, the tax rate differential between capital gain and ordinary income for those taxpayers may be significant. In addition, the characterization of income as capital gain or ordinary income may affect the deductibility of capital losses, including capital losses recognized upon the disposition of our stock. A non-corporate taxpayer may deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of \$3,000. A non-corporate taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at ordinary corporate rates. A corporate taxpayer may deduct capital losses only to the extent of capital gains, with unused losses being carried back three years and forward five years.

### **Information Reporting Requirements and Withholding**

We or the applicable withholding agent will report to U.S. holders and to the IRS the amount and the tax character of distributions we pay during each calendar year, and the amount of tax we withhold, if any. Under the backup withholding rules, a U.S. holder may be subject to backup withholding at a rate of 28% with respect to distributions unless such holder:

- is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact; or
- provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with the applicable requirements of the backup withholding rules.

A U.S. holder who does not provide the applicable withholding agent with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the U.S. holder's income tax liability. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the U.S. holder's U.S. federal income tax liability if certain required information is timely furnished to the IRS. U.S. holders are urged to consult their own tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding. In addition, the applicable withholding agent may be required to withhold a portion of distributions to any U.S. holders who fail to certify their U.S. status. For payments made after December 31, 2013, a U.S. withholding tax at a 30% rate generally will be imposed on dividends received by U.S. holders who own our common stock through foreign accounts or foreign intermediaries if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed, for payments made after December 31, 2016, on proceeds from the sale of our common stock by U.S. holders who own our common stock through foreign accounts or foreign intermediaries. We will not pay any additional amounts in respect of amounts withheld.

### **Taxation of Tax-Exempt U.S. Holders**

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from federal income taxation. They are subject, however, to taxation on their UBTI. While many investments in real estate generate UBTI, the IRS has issued a ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute UBTI so long as the exempt employee pension trust does not otherwise use the stock of the REIT in an unrelated trade or business of the pension trust. Based on that ruling, amounts that we distribute to tax-exempt stockholders generally should not constitute UBTI so long as our common stock are not otherwise used in an unrelated trade or business. However, if a tax-exempt stockholder were to finance its investment in our common stock with debt, a portion of the income that it receives from us would constitute UBTI pursuant to the "debt-financed property" rules. In addition, our dividends that are attributable to excess inclusion income will constitute UBTI in the hands of most tax-exempt stockholders. See "—Requirements for Qualification—Taxable Mortgage Pools and Excess Inclusion Income." However, we intend to avoid generating excess inclusion income for our stockholders. Moreover,



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social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans that are exempt from taxation under special provisions of the federal income tax laws are subject to different UBTI rules, which generally will require them to characterize distributions that they receive from us as UBTI. Finally, in certain circumstances, a qualified employee pension or profit sharing trust that owns more than 10% of our stock must treat a percentage of the dividends that it receives from us as UBTI. Such percentage is equal to the gross income we derive from an unrelated trade or business, determined as if we were a pension trust, divided by our total gross income for the year in which we pay the dividends. That rule applies to a pension trust holding more than 10% of our stock only if:

- the percentage of our dividends that the tax-exempt trust must treat as UBTI is at least 5%;
- we qualify as a REIT by reason of the modification of the rule requiring that no more than 50% of our stock be owned by five or fewer individuals that allows the beneficiaries of the pension trust to be treated as holding our stock in proportion to their actuarial interests in the pension trust; and
- either:
  - one pension trust owns more than 25% of the value of our stock; or
  - A group of pension trusts individually holding more than 10% of the value of our stock collectively owns more than 50% of the value of our stock.

Tax-exempt U.S. holders are urged to consult their tax advisors regarding the U.S. federal, state, local, and foreign tax consequences of owning our common stock.

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

The term “non-U.S. holder” means a beneficial owner of our common stock that is not a U.S. holder or a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes). The rules governing federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and other foreign holders are complex. This section is only a summary of such rules. We urge non-U.S. holders to consult their tax advisors to determine the impact of federal, state and local income tax laws on ownership of our common stock, including any reporting requirements.

For most non-U.S. holders, investment in a REIT that invests principally in mortgage loans and mortgage-backed securities is not the most tax-efficient way to invest in such assets. That is because receiving distributions of income derived from such assets in the form of REIT dividends subjects most non-U.S. holders to withholding taxes that direct investment in those asset classes, and the direct receipt of interest and principal payments with respect to them, would not.

A non-U.S. holder that receives a distribution from us that is not attributable to gain from our sale or exchange of “United States real property interests,” as defined below, and that we do not designate as a capital gain dividend or retained capital gain will recognize ordinary income to the extent that we pay the distribution out of our current or accumulated earnings and profits. A withholding tax equal to 30% of the gross amount of the distribution ordinarily will apply unless an applicable tax treaty reduces or eliminates the tax. Our dividends that are attributable to excess inclusion income will be subject to the 30% withholding tax, without reduction for any otherwise applicable income tax treaty. See “—Requirements for Qualification—Taxable Mortgage Pools and Excess Inclusion Income.” We intend to avoid generating excess inclusion income for our stockholders. If a distribution is treated as effectively connected with the non-U.S. holder’s conduct of a U.S. trade or business, the distribution will not incur the 30% withholding tax, but the non-U.S. holder generally will be subject to federal income tax on the distribution at graduated rates, in the same manner as U.S. holders are taxed on distributions and also may be subject to the 30% branch profits tax in the case of a corporate non-U.S. holder. In general, non-U.S. holders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our common stock. It is expected that the applicable withholding agent will withhold U.S. income tax at the

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rate of 30% on the gross amount of any distribution that we do not designate as a capital gain distribution or retained capital gain and is paid to a non-U.S. holder unless either:

- a lower treaty rate applies and the non-U.S. holder files with the applicable withholding agent an IRS Form W-8BEN evidencing eligibility for that reduced rate, or
- the non-U.S. holder files with the applicable withholding agent an IRS Form W-8ECI claiming that the distribution is effectively connected income.

Capital gain dividends received or deemed received by a non-U.S. holder from us that are not attributable to gain from our sale or exchange of “United States real property interests,” as defined below, are generally not subject to U.S. federal income or withholding tax, unless either (1) the non-U.S. holder’s investment in our common stock is effectively connected with a U.S. trade or business conducted by such non-U.S. holder (in which case the non-U.S. holder will be subject to the same treatment as U.S. holders with respect to such gain) or (2) the non-U.S. holder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and has a “tax home” in the U.S. (in which case the non-U.S. holder will be subject to a 30% tax on the individual’s net capital gain for the year).

A non-U.S. holder will not incur tax on a distribution on the common stock in excess of our current and accumulated earnings and profits if the excess portion of the distribution does not exceed the adjusted tax basis of its common stock. Instead, the excess portion of the distribution will reduce such non-U.S. holder’s adjusted tax basis of its common stock. A non-U.S. holder will be subject to tax on a distribution that exceeds both our current and accumulated earnings and profits and the adjusted basis of its common stock, if the non-U.S. holder otherwise would be subject to tax on gain from the sale or disposition of its common stock, as described below. Because we generally cannot determine at the time we make a distribution whether the distribution will exceed our current and accumulated earnings and profits, it is expected that the applicable withholding agent normally will withhold tax on the entire amount of any distribution at the same rate applicable to withholding on a dividend. However, a non-U.S. holder may obtain a refund of amounts that the applicable withholding agent withheld if we later determine that a distribution in fact exceeded our current and accumulated earnings and profits.

For payments made after December 31, 2013, a U.S. withholding tax at a 30% rate generally will be imposed on dividends paid to certain non-U.S. holders if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed, for payments made after December 31, 2016, on proceeds from the sale of our common stock received by certain non-U.S. holders. If payment of withholding taxes is required, non-U.S. holders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect to such dividends and proceeds will be required to seek a refund from the IRS to obtain the benefit of such exemption or reduction. We will not pay any additional amounts in respect of any amounts withheld.

For any year in which we qualify as a REIT, a non-U.S. holder may incur tax on distributions that are attributable to gain from our sale or exchange of “United States real property interests” under special provisions of the federal income tax laws known as “FIRPTA.” The term “United States real property interests” includes interests in real property and shares in corporations at least 50% of whose assets consist of interests in real property. The term “United States real property interests” generally does not include residential mortgage loans or mortgage-backed securities such as Agency RMBS or non-Agency RMBS. As a result, we do not anticipate that we will generate material amounts of gain that would be subject to FIRPTA. Under the FIRPTA rules, a non-U.S. holder is taxed on distributions attributable to gain from sales of United States real property interests as if the gain were effectively connected with a U.S. business of the non-U.S. holder. A non-U.S. holder thus would be taxed on such a distribution at the normal capital gain rates applicable to U.S. holders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual. A non-U.S. corporate holder not entitled to treaty relief or exemption also may be subject to the 30% branch profits tax on such a distribution. Unless a non-U.S. holder qualifies for the exception described in the next paragraph,

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the applicable withholding agent must withhold 35% of any such distribution that we could designate as a capital gain dividend. A non-U.S. holder may receive a credit against such holder's tax liability for the amount withheld.

Capital gain distributions on our common stock that are attributable to our sale of real property will be treated as ordinary dividends, rather than as gain from the sale of a United States real property interest, as long as (i) our common stock are "regularly traded" on an established securities market in the United States and (ii) the non-U.S. holder does not own more than 5% of our common stock during the one-year period preceding the distribution date. As a result, non-U.S. holders generally would be subject to withholding tax on such capital gain distributions in the same manner as they are subject to withholding tax on ordinary dividends.

We anticipate that our common stock will be treated as being regularly traded on an established securities market in the United States following this offering. If our common stock are not regularly traded on an established securities market in the United States or the non-U.S. holder owned more than 5% of our common stock at any time during the one-year period prior to the distribution, capital gain distributions that are attributable to our sale of real property would be subject to tax under FIRPTA. Moreover, if a non-U.S. holder disposes of our common stock during the 30-day period preceding a dividend payment, and such non-U.S. holder (or a person related to such non-U.S. holder) acquires or enters into a contract or option to acquire our common stock within 61 days of the 1st day of the 30 day period described above, and any portion of such dividend payment would, but for the disposition, be treated as a United States real property interest capital gain to such non-U.S. holder, then such non-U.S. holder will be treated as having United States real property interest capital gain in an amount that, but for the disposition, would have been treated as United States real property interest capital gain.

A non-U.S. holder generally will not incur tax under FIRPTA with respect to gain realized upon a disposition of our common stock as long as we are not a United States real property holding corporation during a specified testing period. If at least 50% of a REIT's assets are United States real property interests, then the REIT will be a United States real property holding corporation. We do not anticipate that we will be a United States real property holding corporation based on our investment strategy. In the unlikely event that at least 50% of the assets we hold were determined to be United States real property interests, gains from the sale of our common stock by a non-U.S. holder could be subject to a FIRPTA tax. However, even if that event were to occur, a non-U.S. holder generally would not incur tax under FIRPTA on gain from the sale of our common stock if we were a "domestically controlled qualified investment entity." A domestically controlled qualified investment entity includes a REIT in which, at all times during a specified testing period, less than 50% in value of its stock are held directly or indirectly by non-U.S. persons. We believe that upon the effective date of our REIT election we will be a domestically controlled qualified investment entity, and that a sale of our common stock would not be subject to taxation under FIRPTA. No assurance can be given, however, that upon the closing of this offering we will remain a domestically controlled qualified investment entity.

If our common stock are regularly traded on an established securities market in the United States, an additional exception to the tax under FIRPTA on gain from share sales will be available, even if we do not qualify as a domestically controlled qualified investment entity at the time the non-U.S. holder sells our common stock. Under that exception, the gain from such a sale by such a non-U.S. holder will not be subject to tax under FIRPTA if:

- our common stock is considered regularly traded under applicable U.S. Treasury Regulations on an established securities market, such as the New York Stock Exchange; and
- the non-U.S. holder owned, actually or constructively, 5% or less of the applicable class of our stock at all times during a specified testing period.

As noted above, we anticipate that our common stock will be treated as being regularly traded on an established securities market following this offering. If the gain on the sale of our common stock were taxed

under FIRPTA, a non-U.S. holder would be taxed on that gain in the same manner as U.S. holders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals.

Backup withholding will generally not apply to payments of dividends made by us or our paying agents, in their capacities as such, to a non-U.S. holder provided that the non-U.S. holder furnishes to the applicable withholding agent the required certification as to its non-U.S. status, such as providing a valid IRS Form W-8BEN or W-8ECI, or certain other requirements are met.

Notwithstanding the foregoing, backup withholding may apply if the applicable withholding agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient. Payments of the net proceeds from a disposition or a redemption effected outside the United States by a non-U.S. holder made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) generally will apply to such a payment if the broker has certain connections with the U.S. unless the broker has documentary evidence in its records that the beneficial owner is a non-U.S. holder and specified conditions are met or an exemption is otherwise established. Payment of the net proceeds from a disposition by a non-U.S. holder of common stock made by or through the U.S. office of a broker is generally subject to information reporting and backup withholding unless the non-U.S. holder certifies under penalties of perjury that it is not a U.S. person and satisfies certain other requirements, or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the non-U.S. holder's U.S. federal income tax liability if certain required information is timely furnished to the IRS. Non-U.S. holders are urged to consult their own tax advisors regarding application of backup withholding to them and the availability of, and procedure for obtaining an exemption from, backup withholding.

## **Other Tax Consequences**

### ***Tax Aspects of Our Investments in Our Operating Partnership and Subsidiary Partnerships***

The following discussion summarizes certain U.S. federal income tax considerations applicable to our direct or indirect investments in our operating partnership and any subsidiary partnerships or limited liability companies that we form or acquire (each individually a "Partnership" and, collectively, the "Partnerships"). This discussion does not cover state or local tax laws or any U.S. federal tax laws other than income tax laws.

*General.* We conduct our activities through our operating partnership, and the operating partnership may hold investments through entities that are classified as partnerships for U.S. federal income tax purposes. In general, partnerships are "pass-through" entities that are not subject to U.S. federal income tax. Rather, the partners are allocated their proportionate shares of the items of income, gain, loss, deduction and credit of a partnership, and are potentially subject to tax on these items, without regard to whether the partners receive a distribution from the partnership. We will include in our income our proportionate share of any partnership items arising from our operating partnership and any other partnerships in which we or our operating partnership holds an interest for purposes of the various REIT income tests and in computation of our REIT taxable income. Moreover, for purposes of the REIT asset tests, we will include in our calculations our proportionate share of any assets held by such partnerships. Our proportionate share of a partnership's assets and income is based on our capital interest in the partnership.

*Classification as Partnerships.* We will be entitled to include in our income our distributive share of each Partnership's income and to deduct our distributive share of each Partnership's losses only if such Partnership is

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classified for U.S. federal income tax purposes as a partnership (or an entity that is disregarded for U.S. federal income tax purposes if the entity is treated as having only one owner or member for U.S. federal income tax purposes) rather than as a corporation or an association taxable as a corporation. An unincorporated entity with at least two owners or members will be classified as a partnership, rather than as a corporation, for U.S. federal income tax purposes if it:

- is treated as a partnership under the Treasury Regulations relating to entity classification (the “check-the-box regulations”); and
- is not a “publicly-traded partnership.”

Under the check-the-box regulations, an unincorporated entity with at least two owners or members may elect to be classified either as an association taxable as a corporation or as a partnership. If such an entity fails to make an election, it generally will be treated as a partnership (or an entity that is disregarded for U.S. federal income tax purposes if the entity is treated as having only one owner or member for U.S. federal income tax purposes) for U.S. federal income tax purposes. Our operating partnership intends to be classified as a partnership for U.S. federal income tax purposes and will not elect to be treated as an association taxable as a corporation under the check-the-box regulations.

A publicly-traded partnership is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. A publicly-traded partnership will not, however, be treated as a corporation for any taxable year if, for each taxable year beginning after December 31, 1987 in which it was classified as a publicly-traded partnership, 90% or more of the partnership’s gross income for such year consists of certain passive-type income, including real property rents, gains from the sale or other disposition of real property, interest, and dividends, or the “90% passive income exception”. Treasury Regulations provide limited safe harbors from the definition of a publicly-traded partnership. Pursuant to one of those safe harbors or the “private placement exclusion,” interests in a partnership will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if (i) all interests in the partnership were issued in a transaction or transactions that were not required to be registered under the Securities Act and (ii) the partnership does not have more than 100 partners at any time during the partnership’s taxable year. In determining the number of partners in a partnership, a person owning an interest in an entity that is a partnership, grantor trust, or S corporation that owns an interest in the partnership is treated as a partner in such partnership only if (i) substantially all of the value of the owner’s interest in the entity is attributable to the entity’s direct or indirect interest in the partnership and (ii) a principal purpose of the use of the entity is to permit the partnership to satisfy the 100-partner limitation. We expect that our operating partnership and any other partnership in which we own an interest will qualify for the private placement exception.

We have not requested, and do not intend to request, a ruling from the IRS that our operating partnership will be classified as a partnership for U.S. federal income tax purposes. If for any reason our operating partnership were taxable as a corporation, rather than as a partnership, for U.S. federal income tax purposes, we likely would not be able to qualify as a REIT unless we qualified for certain relief provisions. See “—Gross Income Tests” and “—Asset Tests.” In addition, any change in a Partnership’s classification for tax purposes might be treated as a taxable event, in which case we might incur tax liability without any related cash distribution. See “—Distribution Requirements.” Further, items of income and deduction of such Partnership would not pass through to us or its other partners, and we and its other partners would be treated as stockholders for tax purposes. Consequently, such Partnership would be required to pay income tax at corporate rates on its net income, and distributions to us and its other partners would constitute dividends that would not be deductible in computing such Partnership’s taxable income.

### ***Income Taxation of the Partnerships and their Partners***

*Partners, Not the Partnerships, Subject to Tax.* A partnership is not a taxable entity for U.S. federal income tax purposes. Rather, we are required to take into account our allocable share of each Partnership’s income,

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gains, losses, deductions, and credits for any taxable year of such Partnership ending within or with our taxable year, without regard to whether we have received or will receive any distribution from such Partnership.

*Partnership Allocations.* Although a partnership agreement generally will determine the allocation of income and losses among partners, such allocations will be disregarded for tax purposes if they do not comply with the provisions of the U.S. federal income tax laws governing partnership allocations. If an allocation is not recognized for U.S. federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. Each Partnership's allocations of taxable income, gain, and loss are intended to comply with the requirements of the U.S. federal income tax laws governing partnership allocations.

*Tax Allocations With Respect to Partnership Properties.* We may acquire properties in exchange for OP units in the future. Income, gain, loss, and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated in a manner such that the contributing partner is charged with, or benefits from, respectively, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of the unrealized gain or unrealized loss ("built-in gain" or "built-in loss") is generally equal to the difference between the fair market value of the contributed property at the time of contribution and the adjusted tax basis of such property at the time of contribution (a "book-tax difference").

Any property purchased for cash initially by our operating partnership will have an adjusted tax basis equal to the amount paid, resulting in no book-tax difference. Allocations with respect to book-tax differences are solely for U.S. federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners. The U.S. Treasury Department has issued regulations requiring partnerships to use a "reasonable method" for allocating items with respect to which there is a book-tax difference and outlining several reasonable allocation methods. Under certain available methods, the carryover basis of contributed properties in the hands of our operating partnership (i) could cause us to be allocated lower amounts of depreciation deductions for tax purposes than would be allocated to us if all contributed properties were to have a tax basis equal to their fair market value at the time of the contribution and (ii) in the event of a sale of such properties, could cause us to be allocated taxable gain in excess of the economic or book gain allocated to us as a result of such sale, with a corresponding benefit to the contributing partners. An allocation described in (ii) above might cause us to recognize taxable income in excess of cash proceeds in the event of a sale or other disposition of property, which might adversely affect our ability to comply with the REIT distribution requirements and may result in a greater portion of our distributions being taxed as dividends. We have not yet decided what method will be used to account for book-tax differences for properties that may be acquired in exchange for OP units by our operating partnership in the future.

Our operating partnership will revalue its assets upon any grant of LTIP units and thereafter upon the occurrence of certain specified events permitted under the Treasury Regulations (including a subsequent issuance of LTIP units), and any increase in valuation since the time of grant of such LTIP units or the last revaluation event from the time of grant until such event will be allocated first to the existing LTIP units holders to equalize the capital accounts of such holders with the capital accounts of holders of our other outstanding partnership units. Upon equalization of the capital accounts of the LTIP unit holders with the capital accounts of the other holders of our OP units, the LTIP units will achieve full parity with our other OP units for all purposes, including with respect to liquidating distributions. See "Our Operating Partnership and the Partnership Agreement—LTIP Units." The liquidation value of an LTIP unit upon grant will be zero because liquidating distributions are required to be made in accordance with the partners' positive capital account balances (and at the time of the grant of an LTIP unit, the capital account of the holder of such LTIP unit is zero with respect to such LTIP unit).

### ***Sale of a Partnership's Property***

Generally, any gain realized by a Partnership on the sale of property held by the Partnership for more than one year will be long-term capital gain, except for any portion of such gain that is treated as depreciation or cost recovery recapture. Under Section 704(c) of the Code, any gain or loss recognized by a Partnership on the disposition of contributed properties will be allocated first to the partners of the Partnership who contributed such properties to the extent of their built-in gain or loss on those properties for U.S. federal income tax purposes. The partners' built-in gain or loss on such contributed properties will equal the difference between the partners' proportionate share of the book value of those properties and the partners' tax basis allocable to those properties at the time of the contribution as reduced for any decrease in the "book-tax difference." See "—Income Taxation of the Partnerships and their Partners—Tax Allocations With Respect to Partnership Properties." Any remaining gain or loss recognized by the Partnership on the disposition of the contributed properties, and any gain or loss recognized by the Partnership on the disposition of the other properties, will generally be allocated among the partners in accordance with their respective interests in the Partnership.

Our share of any gain realized by a Partnership on the sale of any property held by the Partnership as inventory or other property held primarily for sale to customers in the ordinary course of the Partnership's trade or business will be treated as income from a prohibited transaction that is subject to a 100% prohibited transactions tax. Such prohibited transaction income also may have an adverse effect upon our ability to satisfy the income tests for REIT status. See "—Gross Income Tests." We do not presently intend to acquire or hold or to allow any Partnership to acquire or hold any property, other than through a taxable REIT subsidiary, that represents inventory or other property held primarily for sale to customers in the ordinary course of our or such Partnership's trade or business.

### **Legislative or Other Actions Affecting REITs**

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time. The REIT rules are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, which may result in statutory changes as well as revisions to regulations and interpretations. Additionally, several of the tax considerations described herein are currently under review and are subject to change. Prospective stockholders are urged to consult with their own tax advisors regarding the effect of potential changes to the federal tax laws on an investment in our common stock.

### **State, Local and Foreign Taxes**

We and/or our subsidiaries and common stockholders may be subject to taxation by various states, localities or foreign jurisdictions, including those in which we, our subsidiaries, or our common stockholders transact business, own property or reside. We or our subsidiaries may own properties located in numerous jurisdictions and may be required to file tax returns in some or all of those jurisdictions. The state, local and foreign tax treatment of us and our common stockholders may differ from the federal income tax treatment of us and our common stockholders described above. Consequently, common stockholders should consult their tax advisors regarding the application and effect of state, local and foreign income and other tax laws upon an investment in our common stock.

## ERISA CONSIDERATIONS

A fiduciary of a pension, profit sharing, retirement or other employee benefit plan, or plan, subject to the Employee Retirement Income Security Act of 1974, as amended, or ERISA, should consider the fiduciary standards under ERISA in the context of the plan's particular circumstances before authorizing an investment of a portion of such plan's assets in the shares of our common stock. Accordingly, among other things, such fiduciary should consider (i) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA, (ii) whether the investment is in accordance with the documents and instruments governing the plan as required by Section 404(a)(1)(D) of ERISA, and (iii) whether the investment is prudent under ERISA. In addition to the imposition of general fiduciary standards of investment prudence and diversification, ERISA, and the corresponding provisions of the Code, prohibit a wide range of transactions involving the assets of the plan and persons who have certain specified relationships to the plan ("parties in interest" within the meaning of ERISA and "disqualified persons" within the meaning of the Internal Revenue Code). A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the plan that is engaged in such a non-exempt prohibited transaction may be subject to penalties under ERISA and the Code. Thus, a plan fiduciary considering an investment in the shares of common stock also should consider whether the acquisition or the continued holding of the shares of common stock might constitute or give rise to a direct or indirect prohibited transaction that is not subject to an exemption issued by the Department of Labor, or the DOL.

The DOL has issued final regulations, or the DOL Regulations, as to what constitutes assets of an employee benefit plan under ERISA. Under the DOL Regulations and Section 3(42) of ERISA, if a plan acquires an equity interest in an entity, which interest is neither a "publicly offered security" nor a security issued by an investment company registered under the 1940 Act, the plan's assets would include, for purposes of the fiduciary responsibility provisions of ERISA, both the equity interest and an undivided interest in each of the entity's underlying assets unless certain specified exceptions apply. The DOL Regulations define a publicly offered security as a security that is "widely held," "freely transferable," and either part of a class of securities registered under the Exchange Act, or sold pursuant to an effective registration statement under the Securities Act (provided the securities are registered under the Exchange Act within 120 days after the end of the fiscal year of the issuer during which the public offering occurred). The shares of our common stock are being sold in an offering registered under the Securities Act and will be registered under the Exchange Act.

The DOL Regulations provide that a security is "widely held" only if it is part of a class of securities that is owned by 100 or more investors independent of the issuer and of one another. A security will not fail to be "widely held" because the number of independent investors falls below 100 subsequent to the initial public offering as a result of events beyond the issuer's control. We expect the common stock to be "widely held" upon completion of the initial public offering.

The DOL Regulations provide that whether a security is "freely transferable" is a factual question to be determined on the basis of all relevant facts and circumstances. The DOL Regulations further provide that when a security is part of an offering in which the minimum investment is \$10,000 or less, as is the case with this offering, certain restrictions ordinarily will not, alone or in combination, affect the finding that such securities are "freely transferable." We believe that the restrictions imposed under our charter on the transfer of our common stock are limited to the restrictions on transfer generally permitted under the DOL Regulations and are not likely to result in the failure of common stock to be "freely transferable." The DOL Regulations only establish a presumption in favor of the finding of free transferability, and, therefore, no assurance can be given that the DOL will not reach a contrary conclusion.

Assuming that the common stock will be "widely held" and "freely transferable," we believe that our common stock will be publicly offered securities for purposes of the DOL Regulations and that our assets will not be deemed to be "plan assets" of any plan that invests in our common stock.



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Certain individuals, including us, our Manager, our Operating Partnership and any of their respective affiliates may be parties in interest and disqualified persons with respect to plans subject to ERISA or the Code. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if our common stock is acquired or held by a plan with respect to which we, our Manager, our Operating Partnership or any of their respective affiliates is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, in certain cases, depending in part on the type of plan fiduciary making the decision to acquire our common stock and the circumstances under which such decision is made. Accordingly, each holder of our common stock will be deemed to have represented and agreed that its purchase and holding of such common stock (or any interest therein) will not constitute or result in a non exempt prohibited transaction under ERISA or Section 4975 of the Code.

**UNDERWRITING**

Under the terms and subject to the conditions in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Barclays Capital Inc. and Morgan Stanley & Co. LLC are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them, severally, the number of shares of common stock indicated below:

<u>Name</u>	<u>Number of Shares</u>
Barclays Capital Inc.	
Morgan Stanley & Co. LLC	
Citigroup Global Markets Inc.	
UBS Securities LLC	
<b>Total:</b>	

The underwriters and the representatives are collectively referred to as the “underwriters” and the “representatives,” respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters’ over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the offering price listed on the cover page of this prospectus and part to certain dealers, which may include the underwriters, at such offering price less a selling commission not in excess of \$ per share. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

We have granted to the underwriters an over-allotment option, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares of common stock, in whole or in part, at the public offering price listed on the cover page of this prospectus. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the over-allotment option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter’s name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.

The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us. These amounts are shown assuming both no exercise and full exercise of the underwriters’ option to purchase up to an additional shares of common stock.

	<u>Per Share</u>	<u>Total</u>	
		<u>No Exercise</u>	<u>Full Exercise</u>
Public offering price	\$	\$	\$
Underwriting discounts and commissions(1)	\$	\$	\$
Proceeds, before expenses, to us	\$	\$	\$

(1) Our Manager has agreed to pay the entire underwriting discounts and commissions in connection with this offering. Excludes an aggregate structuring fee equal to % of the gross proceeds of this offering, or \$ (\$ if the underwriters exercise their over-allotment option in full), payable by our Manager to certain of the underwriters.

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The estimated offering expenses payable by us (including up to \$10,000 in reimbursement of certain underwriters' counsel fees), exclusive of the underwriting discounts and commissions and the structuring fee which our Manager has agreed to pay, are approximately \$ . Our Manager has agreed to pay all offering-related expenses in excess of the lesser of 1.5% of the gross proceeds of this offering and \$2.25 million.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed 5% of the total number of shares of common stock offered by them.

We have applied to list our common stock on the New York Stock Exchange under the trading symbol "CHMI."

Other than as described below, there are no past or current material relationships between the underwriters or their affiliates and us. Upon completion of this offering or shortly thereafter, we expect to have entered into master repurchase agreements with certain of the underwriters, including Barclays Capital Inc., Morgan Stanley & Co. LLC, Citigroup Global Markets Inc. and UBS Securities LLC, or their affiliates, pursuant to which these underwriters or their affiliates may receive customary fees and expenses. Certain of the underwriters, including Barclays Capital Inc., Morgan Stanley & Co. LLC, Citigroup Global Markets Inc. and UBS Securities LLC, or their affiliates also maintain warehouse facilities with Freedom Mortgage. In addition, certain of the underwriters, including Barclays Capital Inc. and Morgan Stanley & Co. LLC, or their affiliates currently engage in trading activities with Freedom Mortgage, and in the future may be lenders under one or more repurchase agreements or may be lenders to, or counterparties in securities, derivatives and other trading activities with us or Freedom Mortgage. The underwriters and their affiliates may in the future engage in investment banking, lending and other commercial dealings in the ordinary course of business with us or Freedom Mortgage. They would receive customary fees and commissions for these services.

Subject to certain limited exceptions, we and all of our directors and officers, our Manager and Freedom Mortgage have agreed that, without the prior written consent of Barclays Capital Inc. and Morgan Stanley & Co. LLC on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus, and Mr. Middleman, our Chairman, has agreed that, without the prior written consent of Barclays Capital Inc. and Morgan Stanley & Co. LLC on behalf of the underwriters, he and any of his controlled affiliates, including Freedom Mortgage or our Manager, will not, during a period of 12-months after the completion of this offering (in each case, the "restricted period"):

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock;
- file any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock,

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, we and each such person agrees that, without the prior written consent of Barclays Capital Inc. and Morgan Stanley & Co. LLC on behalf of the underwriters, we or such other person will not, during the restricted period, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

Barclays Capital Inc. and Morgan Stanley & Co. LLC, in their sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time with or without notice.

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In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares of common stock available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, shares of common stock in the open market to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

A prospectus in electronic format may be made available on websites maintained by one or more underwriters, or selling group members, if any, participating in this offering. The representatives may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make Internet distributions on the same basis as other allocations.

### **Pricing of the Offering**

Prior to this offering, there has been no public market for our common stock. The initial public offering price was determined by negotiations between us and the representatives. We cannot assure you, however, that the price at which our common stock will sell in the public market after this offering will not be lower than the initial public offering price or that an active trading market in our shares will develop and continue after this offering.

### **Selling Restrictions**

#### ***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) an offer to the public of any shares of our common stock may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any shares of our common stock may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares of our common stock shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

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For the purposes of this provision, the expression an “offer to the public” in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of our common stock to be offered so as to enable an investor to decide to purchase any shares of our common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

### **United Kingdom**

Each underwriter has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the shares of our common stock in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares of our common stock in, from or otherwise involving the United Kingdom.

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are “qualified investors” (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, which, as amended, we refer to as the Order, and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

### **Switzerland**

This document, as well as any other material relating to the shares which are the subject to the offering contemplated by this prospectus, do not constitute an issue prospectus pursuant to Article 652a and/or 1156 of the Swiss Code of Obligations. The shares will not be listed on the SIX Swiss Exchange and, therefore, the documents relating to the shares, including, but not limited to, this document, do not claim to comply with the disclosure standards of the listing rules of the SIX Swiss Exchange. The shares are being offered in Switzerland by way of a private placement, i.e., to a small number of selected investors only, without any public offer and only to investors who do not purchase the shares with the intention to distribute them to the public. The investors will be individually approached by the issuer from time to time. This document, as well as any other material relating to the shares, is personal and confidential and do not constitute an offer to any other person. This document may only be used by those investors to whom it has been handed out in connection with the offering described herein and may neither directly nor indirectly be distributed or made available to other persons without express consent of the issuer. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

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### **Australia**

No prospectus or other disclosure document (as defined in the Corporations Act 2001 (Cth) of Australia (“Corporations Act”)) in relation to the shares has been or will be lodged with the Australian Securities & Investments Commission (“ASIC”). This document has not been lodged with ASIC and is only directed to certain categories of exempt persons. Accordingly, if you receive this document in Australia:

- (a) you confirm and warrant that you are either:
  - (i) a “sophisticated investor” under section 708(8)(a) or (b) of the Corporations Act;
  - (ii) a “sophisticated investor” under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant’s certificate to us which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;
  - (iii) a person associated with the company under section 708(12) of the Corporations Act; or
  - (iv) a “professional investor” within the meaning of section 708(11)(a) or (b) of the Corporations Act, and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act, any offer made to you under this document is void and incapable of acceptance; and
- (b) you warrant and agree that you will not offer any of the shares for resale in Australia within 12 months of such shares being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

### **Hong Kong**

The shares may not be offered or sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32, Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of the issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the shares which are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) or any rules made under that Ordinance.

### **Japan**

No securities registration statement (“SRS”) has been filed under Article 4, Paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) (“FIEL”) in relation to the shares. The shares are being offered in a private placement to “qualified institutional investors” (tekikaku-kikan-toshika) under Article 10 of the Cabinet Office Ordinance concerning Definitions provided in Article 2 of the FIEL (the Ministry of Finance Ordinance No. 14, as amended) (“QIIs”), under Article 2, Paragraph 3, Item 2 i of the FIEL. Any QII acquiring the shares in this offer may not transfer or resell those shares except to other QIIs.

### **Korea**

The shares may not be offered, sold and delivered directly or indirectly, or offered or sold to any person for reoffering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the Korea Securities and Exchange Act and the Foreign Exchange Transaction Law and the decrees and regulations thereunder. The shares have not been registered with the Financial Services Commission of Korea for public offering in Korea. Furthermore, the shares may not be resold

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to Korean residents unless the purchaser of the shares complies with all applicable regulatory requirements (including but not limited to government approval requirements under the Foreign Exchange Transaction Law and its subordinate decrees and regulations) in connection with the purchase of the shares.

### **Singapore**

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (1) to an institutional investor under Section 274 of the Securities and Future Act, Chapter 289 of Singapore (the “SFA”), (2) to a “relevant person” as defined in Section 275(2) of the SFA, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed and purchased under Section 275 of the SFA by a relevant person which is:

- (1) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (2) a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole whole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the shares under Section 275 of the SFA except:
  - (a) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA) and in accordance with the conditions, specified in Section 275 of the SFA;
  - (b) (in the case of a corporation) where the transfer arises from an offer referred to in Section 275(1A) of the SFA, or (in the case of a trust) where the transfer arises from an offer that is made on terms that such rights or interests are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;
  - (c) where no consideration is or will be given for the transfer; or
  - (d) where the transfer is by operation of law.

### **LEGAL MATTERS**

Certain legal matters will be passed upon for us by Hunton & Williams LLP. In addition, the description of U.S. federal income tax consequences contained in the section of the prospectus entitled “Material U.S. Federal Income Tax Considerations” is based on the opinion of Hunton & Williams LLP. Certain legal matters relating to this offering will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP. Certain matters relating to Maryland law, including the validity of the shares of common stock, will be passed upon for us by Venable LLP.

## **EXPERTS**

The financial statements of Cherry Hill Mortgage Investment Corp. at December 31, 2012 and for the two-month period from October 31, 2012 (date of inception) to December 31, 2012 appearing in this prospectus have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report of given on the authority of such firm as experts in accounting and auditing.

## **WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-11, including exhibits and schedules filed with the registration statement of which this prospectus is a part, under the Securities Act with respect to the shares of common stock to be sold in this offering. This prospectus does not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to us and the common stock to be sold in this offering, reference is made to the registration statement, including the exhibits and schedules to the registration statement. Copies of the registration statement, including the exhibits and schedules to the registration statement, may be examined without charge at the public reference room of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Information about the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0300. Copies of all or a portion of the registration statement may be obtained from the public reference room of the SEC upon payment of prescribed fees. Our SEC filings, including our registration statement, are also available to you, free of charge, on the SEC's website at [www.sec.gov](http://www.sec.gov).

As a result of this offering, we will become subject to the information and reporting requirements of the Exchange Act and will file periodic reports, proxy statements and will make available to our stockholders annual reports containing audited financial information for each year and quarterly reports for the first three quarters of each fiscal year containing unaudited interim financial information.



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors  
Cherry Hill Mortgage Investment Corporation

We have audited the accompanying balance sheet of Cherry Hill Mortgage Investment Corporation as of December 31, 2012 and the related statement of operations, stockholder's deficit and cash flows for the two month period from October 31, 2012 (date of inception) to December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cherry Hill Mortgage Investment Corporation at December 31, 2012, and the results of its operations and its cash flows for the two month period from October 31, 2012 (date of inception) to December 31, 2012 in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

New York, NY  
April 29, 2013

**Cherry Hill Mortgage Investment Corp.**

**Balance Sheet – Development Stage**

**December 31, 2012**

<b>Assets</b>	
Cash	\$ 1,000
<b>Total Assets</b>	<u>1,000</u>
<b>Liabilities and Stockholder's deficit</b>	
<b>Liabilities</b>	
Accrued expenses	25,000
<b>Total Liabilities</b>	<u>25,000</u>
<b>Stockholder's deficit</b>	
Common stock, \$0.01 par value, 1,000 shares authorized, 1,000 shares issued and outstanding	10
Additional paid-in-capital	990
Deficit accumulated during the development stage	(25,000)
<b>Total Stockholder's deficit</b>	<u>(24,000)</u>
<b>Total Liabilities and Stockholder's deficit</b>	<u>\$ 1,000</u>

*See accompanying notes.*

**Cherry Hill Mortgage Investment Corp.**

**Statement of Operations – Development Stage**

**For the two month period from October 31, 2012 (date of inception) to December 31, 2012**

Audit Fees	<u>\$25,000</u>
Total Expenses	<u>25,000</u>
Net Loss	<u>\$25,000</u>

*See accompanying notes.*

Cherry Hill Mortgage Investment Corp.

Statement of Stockholder's Deficit – Development Stage

For the two month period from October 31, 2012 (date of inception) to December 31, 2012

	Common Stock		Additional Paid-In Capital	Deficit Accumulated During the Development stage	Stockholder's Deficit
	Shares	Amount			
Balance October 31, 2012 (date of inception)	—	\$ —	\$ —	\$ —	\$ —
Common shares issued to founder on December 4th, 2012	1,000	10	990	—	1,000
Net loss	—	—	—	(25,000)	(25,000)
Balance at December 31, 2012	<u>1,000</u>	<u>\$ 10</u>	<u>\$ 990</u>	<u>\$ (25,000)</u>	<u>\$ (24,000)</u>

See accompanying notes.

**Cherry Hill Mortgage Investment Corp.**

**Statement of Cash Flows – Development Stage**

**For the two month period from October 31, 2012 (date of inception) to December 31, 2012**

<b>Cash flows from operating activities:</b>	
Net loss	\$(25,000)
<b>Net cash used in operating activities:</b>	
Increase in Accrued Expenses	25,000
Net cash used in operating activities	—
<b>Cash flows from financing activities:</b>	
Proceeds from issuance of common shares to founder	1,000
Net cash provided by financing activities	1,000
Net increase in cash	1,000
Cash beginning of period	—
Cash end of period	<u>\$ 1,000</u>

*See accompanying notes.*

**Cherry Hill Mortgage Investment Corp.**

**Notes to Financial Statements – Development Stage**

**December 31, 2012**

**1. Organization**

Cherry Hill Mortgage Investment Corp. (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 1,000 shares of common stock. The Company has not commenced operations.

**2. Formation of the Company and Initial Public Offering**

The Company intends to conduct an initial public offering (the “IPO”) and a concurrent private placement of common stock, which is anticipated to be finalized in 2013. Substantially all of the net proceeds from the IPO are intended to be used to invest in Agency mortgage-backed securities (“MBS”) and excess mortgage servicing rights on residential mortgage loans.

The Company will be 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 sole stockholder of the Company is Stanley Middleman. On December 4, 2012, Stanley Middleman made a \$1,000 initial capital contribution to the Company.

The Company will be managed by Cherry Hill Mortgage Management, LLC (the Manager), a Delaware limited liability company which is controlled by Stanley Middleman.

The Company is taxable as a regular Subchapter C corporation for the two month period from October 31, 2012 (date of inception) to December 31, 2012.

**3. Significant accounting policies**

**Use of estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the balance sheet, in addition to the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation allowance on deferred tax assets.

**Underwriting commissions and offering costs**

Underwriting commissions and offering costs to be incurred in connection with the Company’s IPO will be reflected as a reduction of additional paid-in-capital. Costs incurred that are not directly associated with the completion of the IPO will be expensed as incurred. As of April 29, 2013, the Manager has incurred \$0.3 million of costs relating to the IPO. Upon completion of the IPO, the Company will reimburse the Manager for up to \$1.95 million of costs associated with the IPO (other than the underwriting discount and the structuring fee which the Manager has agreed to pay) pursuant to the Management Agreement.

**Cherry Hill Mortgage Investment Corp.**

**Notes to Financial Statements – Development Stage (continued)**

**3. Significant accounting policies (continued)**

**Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2010-06, Improving Disclosures About Fair Value Measurements. The ASU requires enhanced disclosures about purchases, sales, issuances, and settlements on a gross basis relating to Level III measurements. The disclosure is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU did not have a material impact on our financial statement disclosures.

On July 21, 2010, the FASB issued an update to ASC 310, Receivables, by requiring more robust and disaggregated disclosures about the credit quality of a company's loans held for investment and if applicable, its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of (1) the nature of a company's credit risk associated with its financing receivables and (2) the company's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The adoption of this ASU did not have a material impact on our financial statement disclosures.

**4. Related Party Transactions**

The Company has entered into a 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"). The Management Agreement requires the Manager to manage the Company's business affairs in conformity with the policies and the investment guidelines that are approved and monitored by the Company's Board of Directors. All of the Company's executive officers and the officers and employees of the Manager are also officers or employees of Freedom Mortgage Corporation ("Freedom Mortgage").

The Manager will be party to a services agreement with Freedom Mortgage, pursuant to which Freedom Mortgage provides to the Manager the personnel, services and resources as needed by the Manager to enable the Manager to carry out its obligations and responsibilities under the Management Agreement (the "Services 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 Freedom Mortgage 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 Freedom Mortgage of its obligations under the Services Agreement. The Services Agreement will terminate upon the termination of the Management Agreement. Pursuant to the Services Agreement, the Manager will make certain payments to Freedom Mortgage in connection with the services provided.

The Manager and Freedom Mortgage are under the common ownership and control of Stanley Middleman, the Company's sole stockholder.

**5. Indirect Expenses**

From October 31, 2012 (date of inception) to December 31, 2012, the Company shared office space with Freedom Mortgage Corporation. In accordance with the Management Agreement between the Company and the Manager, the Manager has not allocated rent, overhead, reimbursable executives' salaries, and other miscellaneous office expenses to the Company, as it has not commenced operations and not generated revenue



**Cherry Hill Mortgage Investment Corp.**

**Notes to Financial Statements – Development Stage (continued)**

**5. Indirect Expenses (continued)**

during the period. The Manager will not commence allocating expenses to the Company until the first month during which the Company commences operations subsequent to the completion of the IPO and the concurrent private placement. The Company monitors and maintains a separate record of such expenses. From October 31, 2012 (date of inception) to December 31, 2012, such expenses amounted to \$40 thousand.

The Manager has adequate resources independent of the Company to pay these expenses, and the Company has no additional obligation, either direct or indirect, to compensate any party for these expenses.

**6. Income Taxes**

For the period October 31, 2012 (date of inception) through December 31, 2012, the Company is taxable as a corporation, and as such, is subject to federal, state and local taxation. The Company incurred certain expenses during the period but has not commenced operations. The Company recorded a deferred tax asset of \$10 thousand related to these start up expenses. Given that the Company is in its first year of operations and is not expected to realize the benefits of the deferred tax asset, management concluded that a full valuation allowance is required in accordance with the provisions of ASC 740.

As of December 31, 2012, the Company had no unrecognized tax benefits. The Company's federal, state and local income tax returns for the period from October 31, 2012 (date of inception) through December 31, 2012 are subject to examination by the Internal Revenue Service and various state and local authorities.

**7. Subsequent Events**

The Company has evaluated subsequent events for recognition and disclosure through April 29, 2013, the date the financial statements were available to be issued. Based on this evaluation, the Company has determined that none of the events were required to be recognized or disclosed in the financial statements.

**Cherry Hill Mortgage Investment Corp.****Balance Sheet – Development Stage**

	<u>March 31,</u> 2013 (Unaudited)	<u>December 31,</u> 2012
<b>Assets</b>		
Cash	\$ 404	\$ 1,000
Due from Cherry Hill Mortgage Management, LLC	500	—
Total assets	<u>904</u>	<u>1,000</u>
<b>Liabilities and stockholder's deficit</b>		
<b>Liabilities:</b>		
Accrued expenses	\$ 60,000	\$ 25,000
Total liabilities	<u>60,000</u>	<u>25,000</u>
<b>Stockholder's deficit:</b>		
Common stock, \$0.01 par value, 1,000 shares authorized, 1,000 shares issued and outstanding	10	10
Additional paid-in-capital	990	990
Deficit accumulated during the development stage	<u>(60,096)</u>	<u>(25,000)</u>
Total stockholder's deficit	<u>(59,096)</u>	<u>(24,000)</u>
Total liabilities and stockholder's deficit	<u>\$ 904</u>	<u>\$ 1,000</u>

See accompanying notes.

**Cherry Hill Mortgage Investment Corp.**  
**Statement of Operations – Development Stage**

	Three Month Period Ended March 31, 2013	Cumulative Since October 31, 2012 (Date of Inception) Through March 31, 2013
	(Unaudited)	
Audit fees	\$ 35,000	\$ 60,000
Bank charges	96	96
Total expenses	<u>35,096</u>	<u>60,096</u>
Net Loss	<u>\$ 35,096</u>	<u>\$ 60,096</u>

See accompanying notes.

**Cherry Hill Mortgage Investment Corp.****Statement of Stockholder's Deficit – Development Stage****Three Month Period Ending March 31, 2013 and for the Cumulative Period from  
October 31, 2012 (Date of Inception) to March 31, 2013**

	Common Stock Shares	Amount	Additional Paid-In Capital  (Unaudited)	Deficit Accumulated During the Development Stage	Stockholder's Deficit
Balance October 31, 2012 (date of inception)	—	\$ —	\$ —	\$ —	\$ —
Common shares issued to founder on December 4th, 2012	1,000	10	990	—	1,000
Net loss	—	—	—	(25,000)	(25,000)
Balance at December 31, 2012	1,000	10	990	(25,000)	(24,000)
Net loss	—	—	—	(35,096)	(35,096)
Balance at March 31, 2013	<u>1,000</u>	<u>\$ 10</u>	<u>\$ 990</u>	<u>\$ (60,096)</u>	<u>\$ (59,096)</u>

*See accompanying notes.*

**Cherry Hill Mortgage Investment Corp.**  
**Statement of Cash Flows – Development Stage**

	Three Month Period Ended March 31, 2013	Cumulative Since October 31, 2012 (Date of Inception) Through March 31, 2013
(Unaudited)		
<b>Cash flows from operating activities</b>		
Net loss	\$ (35,096)	\$ (60,096)
Net cash used (provided) in operating activities:		
Increase in accrued expenses	35,000	60,000
Increase in due from Cherry Hill Mortgage Management, LLC	(500)	(500)
Net cash used in operating activities	(596)	(596)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common shares to founder	—	1,000
Net cash provided by financing activities	—	1,000
Net increase (decrease) in cash	(596)	404
Cash beginning of period	1,000	—
Cash end of period	<u>\$ 404</u>	<u>\$ 404</u>

See accompanying notes.

**Cherry Hill Mortgage Investment Corp.**  
**Notes to Financial Statements – Development Stage**  
**(Unaudited)**  
**March 31, 2013**

**1. Organization**

Cherry Hill Mortgage Investment Corp. (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 1,000 shares of common stock. The Company has not commenced operations.

**2. Formation of the Company and Initial Public Offering**

The Company intends to conduct an initial public offering (the “IPO”) and a concurrent private placement of common stock, which is anticipated to be finalized in 2013. Substantially all of the net proceeds from the IPO are intended to be used to invest in Agency mortgage-backed securities (“MBS”) and excess mortgage servicing rights on residential mortgage loans.

The Company will be 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 sole stockholder of the Company is Stanley Middleman. On December 4, 2012, Stanley Middleman made a \$1,000 initial capital contribution to the Company.

The Company will be managed by Cherry Hill Mortgage Management, LLC (the Manager), a Delaware limited liability company which is controlled by Stanley Middleman.

The Company was taxable as a Subchapter C corporation for the two month period from October 31, 2012 (date of inception) to December 31, 2012. Beginning January 1, 2013, the Company has elected to be taxed as a Subchapter S corporation and as such, all federal tax liabilities are the responsibility of the shareholder.

**3. Significant accounting policies**

**Use of estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the balance sheet, in addition to the reported amount revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation allowance on deferred tax assets.

**Underwriting commissions and offering costs**

Underwriting commissions and offering costs to be incurred in connection with the Company’s IPO will be reflected as a reduction of additional paid-in-capital. Costs incurred that are not directly associated with the completion of the IPO will be expensed as incurred. As of March 31, 2013, the Manager has incurred \$0.6 million of costs relating to the IPO. Upon completion of the IPO, the Company will reimburse the Manager for the costs associated with the IPO (other than the underwriting discount and the structuring fee which the Manager has agreed to pay) in an amount equal to the lesser of 1.5% of the gross proceeds from the IPO and \$2.25 million.

**Cherry Hill Mortgage Investment Corp.**

**Notes to Financial Statements – Development Stage (continued)  
(Unaudited)**

**4. Related Party Transactions**

The Company has entered into a 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"). The Management Agreement requires the Manager to manage the Company's business affairs in conformity with the policies and the investment guidelines that are approved and monitored by the Company's Board of Directors. All of the Company's executive officers and the officers and employees of the Manager are also officers or employees of Freedom Mortgage Corporation ("Freedom Mortgage").

The Manager is be party to a services agreement with Freedom Mortgage, pursuant to which Freedom Mortgage provides to the Manager the personnel, services and resources as needed by the Manager to enable the Manager to carry out its obligations and responsibilities under the Management Agreement (the "Services 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 Freedom Mortgage 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 Freedom Mortgage of its obligations under the Services Agreement. The term of the Services Agreement is one year from the closing of the IPO, subject to renewal for successive annual periods. In addition, the Services Agreement will terminate upon the termination of the Management Agreement. Pursuant to the Services Agreement, the Manager will make certain payments to Freedom Mortgage in connection with the services provided.

The Manager and Freedom Mortgage are under the common ownership and control of Stanley Middleman, the Company's sole stockholder.

**5. Indirect Expenses**

From October 31, 2012 (date of inception) to December 31, 2012 and for the quarter ended March 31, 2013, the Company shared office space with Freedom Mortgage Corporation. In accordance with the Management Agreement between the Company and the Manager, the Manager has not allocated rent, overhead, reimbursable executives' salaries, and other miscellaneous office expenses to the Company, as it has not commenced operations and not generated revenue during the period. The Manager will not commence allocating expenses to the Company until the first month during which the Company commences operations subsequent to the completion of the IPO and the concurrent private placement. The Company monitors and maintains a separate record of such expenses. For the three month period ending March 31, 2013 and for the cumulative period from October 31, 2012 (date of inception) to March 31, 2013 such expenses amounted to \$300,000 and \$340,000 respectively.

The Manager has adequate resources independent of the Company to pay these expenses, and the Company has no additional obligation, either direct or indirect, to compensate any party for these expenses.

**6. Income Taxes**

For the period October 31, 2012 (date of inception) through December 31, 2012, the Company is taxable as a Subchapter C corporation, and as such, is subject to federal, state and local taxation. The Company incurred certain expenses during the period but has not commenced operations. The Company recorded a deferred tax asset of \$10,000 related to these start up expenses. Given that the Company is in its first year of operations and is not expected to realize the benefits of the deferred tax asset, management concluded that a full valuation allowance is required in accordance with the provisions of ASC 740.

**Cherry Hill Mortgage Investment Corp.**

**Notes to Financial Statements – Development Stage (continued)  
(Unaudited)**

**6. Income Taxes (continued)**

Beginning January 1, 2013, the Company has elected to be taxed as a Subchapter S corporation, and as such, all federal tax liabilities are the responsibility of the Company's sole stockholder. The Company has no state and local income tax liability for the period that it is an S corporation.

As of December 31, 2012 and March 31, 2013, the Company had no unrecognized tax benefits. The Company's federal, state and local income tax returns for the period from October 31, 2012 (date of inception) through December 31, 2012 are subject to examination by the Internal Revenue Service and various state and local authorities.

**7. Subsequent Events**

The Company has evaluated subsequent events for recognition and disclosure through May 28, 2013, the date the financial statements were available to be issued. Based on this evaluation, the Company has determined that none of the events were required to be recognized or disclosed in the financial statements.



## Shares



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Prospectus  
, 2013

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**Barclays**  
**Morgan Stanley**  
**Citigroup**  
**UBS Investment Bank**

**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 31. Other Expenses of Issuance and Distribution.**

The following table shows the fees and expenses to be paid by us in connection with the sale and distribution of the securities being registered hereby. All amounts except the SEC registration fee are estimated.

SEC registration fee	\$ 20,392
FINRA filing fee	22,925
NYSE listing fee	25,000
Legal fees and expenses (including Blue Sky fees)	1,200,000
Accounting fees and expenses	150,000
Printing and engraving expenses	150,000
Transfer agent fees and expenses	3,800
Miscellaneous	2,883
<b>Total</b>	<b><u>\$ 1,575,000</u></b>

**Item 32. Sales to Special Parties.**

None.

**Item 33. Recent Sales of Unregistered Securities.**

In connection with the initial capitalization of our company, we issued 1,000 shares of our common stock to Mr. Middleman, our Chairman, for total cash consideration of \$1,000. The shares were issued on December 4, 2012 in reliance on the exemption set forth in Section 4(a)(2) of the Securities Act. We will repurchase these shares from Mr. Middleman at the closing of this offering for \$1,000. Mr. Middleman will purchase directly from us in the concurrent private placement \$20.0 million in shares of our common stock at a price per share equal to the public offering price. The shares to be issued to Mr. Middleman in the concurrent private placement will be issued in reliance on the exemption set forth in Section 4(a)(2) of the Securities Act.

**Item 34. Indemnification and Limitation of Liability of Directors and Officers.**

The Maryland General Corporation Law ("MGCL") permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages, except for liability resulting from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty that is established by a final judgment and is material to the cause of action. Our charter contains a provision that eliminates such liability to the maximum extent permitted by Maryland law.

Our charter and bylaws provide for indemnification of our officers and directors against liabilities to the maximum extent permitted by the MGCL, as amended from time to time.

The MGCL requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, 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 in that

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capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify a director or officer for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received by such director or officer, unless in either case a court orders indemnification, and then only for expenses. In addition, the MGCL permits a Maryland corporation to advance reasonable expenses to a director or officer upon its receipt of:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by the director or officer or on the director's or officer's behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the director or officer did not meet the standard of conduct.

Our charter will authorize us and our bylaws will obligate us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of such a proceeding to:

- any present or former director or officer of the Company who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity; and
- any individual who, while a director or officer of the Company and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity.

Our charter and bylaws will also permit us, with the approval of our board of directors, to indemnify and advance expenses to any individual who served our predecessor in any of the capacities described above and to any employee or agent of the Company or our predecessor.

Upon completion of this offering, we intend to enter into indemnification agreements with each of our directors and executive officers that will provide for indemnification to the maximum extent permitted by Maryland law.

Insofar as the foregoing provisions permit indemnification of directors, officers or persons controlling us for liability arising under the Securities Act, we have been informed that in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

### **Item 35. Treatment of Proceeds from Stock Being Registered**

None of the proceeds will be credited to an account other than the appropriate capital share account.

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### **Item 36. Financial Statements and Exhibits**

(a) *Financial Statements.* See page F-1 for an index to the financial statements included in the registration statement.

(b) *Exhibits.* The list of exhibits following the signature page of this registration statement is incorporated by reference herein, following is a complete list of exhibits filed as part of the registration statement, which are incorporated herein:

### **Item 37. Undertakings**

(a) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to trustees, officers or controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby further undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4), or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Mount Laurel, State of New Jersey, on May 28, 2013.

**CHERRY HILL MORTGAGE INVESTMENT CORPORATION**

By: /s/ Stanley C. Middleman  
Stanley C. Middleman  
Chairman of the Board of Directors

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the date indicated.

<u>/s/ Stanley C. Middleman</u> Stanley C. Middleman	Chairman of the Board of Directors	May 28, 2013
<u>/s/ Jeffrey B. Lown II</u> Jeffrey B. Lown II	President and Chief Investment Officer ( <i>Principal Executive Officer</i> )	May 28, 2013
<u>/s/ Martin J. Levine</u> Martin J. Levine	Chief Financial Officer, Treasurer and Secretary ( <i>Principal Financial and Accounting Officer</i> )	May 28, 2013

**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Description</u>
1.1*	Form of Underwriting Agreement.
3.1	Form of Articles of Amendment and Restatement of Cherry Hill Mortgage Investment Corporation.
3.2	Amended and Restated Bylaws of Cherry Hill Mortgage Investment Corporation.
4.1	Specimen Common Stock Certificate.
4.2	Form of Registration Rights Agreement between Stanley Middleman and Cherry Hill Mortgage Investment Corporation.
5.1*	Opinion of Venable LLP (including consent of such firm).
8.1*	Opinion of Hunton & Williams LLP (including consent of such firm).
10.1*	Strategic Alliance Agreement between Cherry Hill Mortgage Investment Corporation and Freedom Mortgage Corporation.
10.2*	Flow and Bulk Excess MSR Acquisition Agreement between Cherry Hill Mortgage Investment Corporation and Freedom Mortgage Corporation.
10.3*	Excess MSRs Acquisition and Recapture Agreement between Cherry Hill Mortgage Investment Corporation and Freedom Mortgage Corporation.
10.4	Management Agreement between Cherry Hill Mortgage Investment Corporation and Cherry Hill Mortgage Management, LLC.
10.5	Services Agreement between Cherry Hill Mortgage Management, LLC and Freedom Mortgage Corporation.
10.6	Form of Indemnification Agreement.
10.7*	2013 Equity Incentive Plan.
10.8	Agreement of Limited Partnership of Cherry Hill Operating Partnership, LP.
10.9*	Form of LTIP Unit Vesting Agreement
10.10	Form of Stock Purchase Agreement between Stanley Middleman and Cherry Hill Mortgage Investment Corporation.
21.1	Subsidiaries of Cherry Hill Mortgage Investment Corporation.
23.1*	Consent of Venable LLP (included in Exhibit 5.1).
23.2*	Consent of Hunton & Williams LLP (including in Exhibit 8.1).
23.3	Consent of Ernst & Young LLP.
99.1†	Consent of Jeffrey B. Lown II, director nominee.
99.2	Consent of Joseph J. Murin, independent director nominee.
99.3	Consent of Jonathan Kislak, independent director nominee.
99.4	Consent of Robert Salcetti, independent director nominee.

\* To be filed by amendment.

† Previously filed.

**CHERRY HILL MORTGAGE INVESTMENT CORPORATION****ARTICLES OF AMENDMENT AND RESTATEMENT**

FIRST: Cherry Hill Mortgage Investment Corporation, a Maryland corporation, desires to amend and restate its charter as currently in effect and as hereinafter amended.

SECOND: The provisions of the charter of Cherry Hill Mortgage Investment Corporation, which are now in effect and as amended and restated hereby in accordance with the Maryland General Corporation Law, are as follows:

**ARTICLE I****INCORPORATION**

Daniel M. LeBey, Esq., whose address is c/o Hunton & Williams LLP, Riverfront Plaza, East Tower, 951 E. Byrd Street, Richmond, Virginia 23219, being at least 18 years of age, formed a corporation under the general laws of the State of Maryland on October 31, 2012.

**ARTICLE II****NAME**

The name of the corporation is Cherry Hill Mortgage Investment Corporation (the "Corporation").

**ARTICLE III****PURPOSE**

The purposes for which the Corporation is formed are to engage in any lawful act or activity (including, without limitation or obligation, engaging in business as a REIT (as hereinafter defined) under the Internal Revenue Code of 1986, as amended, or any successor statute (the "Code")) for which corporations may be organized under the general laws of the

State of Maryland as now or hereafter in force. For purposes of the charter of the Corporation (the "Charter"), "REIT" means a real estate investment trust under Sections 856 through 860 of the Code.

#### **ARTICLE IV**

##### **PRINCIPAL OFFICE IN MARYLAND AND RESIDENT AGENT**

The address of the principal office of the Corporation in the State of Maryland is c/o Capitol Corporate Services, Inc., 6600 Rockledge Drive, Suite 410, Bethesda, Maryland 20817. The name and address of the resident agent of the Corporation are Capitol Corporate Services, Inc., 6600 Rockledge Drive, Suite 410, Bethesda, Maryland 20817. The resident agent is a Maryland corporation.

#### **ARTICLE V**

##### **PROVISIONS FOR DEFINING, LIMITING AND REGULATING CERTAIN POWERS OF THE CORPORATION AND OF THE STOCKHOLDERS AND DIRECTORS**

Section 5.1 Number of Directors. The business and affairs of the Corporation shall be managed under the direction of the board of directors of the Corporation (the "Board of Directors"). The number of directors of the Corporation shall initially be one, which number may be increased or decreased only by the Board of Directors pursuant to the Bylaws of the Corporation (the "Bylaws"), but shall never be less than the minimum number required by the Maryland General Corporation Law, or any successor statute (the "MGCL"). The name of the director who shall serve until the first annual meeting of stockholders and until his successor is duly elected and qualifies is Stanley C. Middleman.

Any vacancy on the Board of Directors may be filled in the manner provided in the Bylaws.



Notwithstanding the foregoing, the Corporation elects, at such time as it becomes eligible to make the election provided for under Section 3-802(b) of the MGCL, that, except as may be provided by the Board of Directors in setting the terms of any class or series of Preferred Stock (as defined in Section 6.1), any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which such vacancy occurred and until his or her successor is duly elected and qualifies.

Section 5.2 Extraordinary Actions. Except as specifically provided in Section 5.8 (relating to removal of directors) and in the last sentence of Article VIII, notwithstanding any provision of law permitting or requiring any action to be taken or approved by the affirmative vote of stockholders entitled to cast a greater number of votes, any such action shall be effective and valid if declared advisable by the Board of Directors and taken or approved by the affirmative vote of stockholders entitled to cast a majority of all the votes entitled to be cast on the matter.

Section 5.3 Authorization by Board of Stock Issuance. The Board of Directors may authorize the issuance from time to time of shares of stock of the Corporation of any class or series, whether now or hereafter authorized, or securities or rights convertible into shares of its stock of any class or series, whether now or hereafter authorized, for such consideration as the Board of Directors may deem advisable (or without consideration in the case of a stock split or stock dividend), subject to such restrictions or limitations, if any, as may be set forth in the Charter or the Bylaws. Notwithstanding the foregoing, in the event the Corporation is subject to the Maryland Control Share Acquisition Act, holders of shares of stock shall be entitled to exercise rights of an objecting stockholder under Section 3-708(a) of the Maryland General Corporation Law, unless otherwise provided in the Bylaws of the Corporation.

Section 5.4 Preemptive Rights and Appraisal Rights. Except as may be provided by the Board of Directors in setting the terms of classified or reclassified shares of stock pursuant to Section 6.4 or as may otherwise be provided by a contract approved by the Board of Directors, no holder of shares of stock of the Corporation shall, as such holder, have any preemptive right to purchase or subscribe for any additional shares of stock of the Corporation or any other security of the Corporation which it may issue or sell. Holders of shares of stock shall not be entitled to exercise any rights of an objecting stockholder provided for under Title 3, Subtitle 2 of the MGCL unless the Board of Directors, upon the affirmative vote of a majority of the Board of Directors, shall determine that such rights apply, with respect to all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which holders of such shares would otherwise be entitled to exercise such rights.

Section 5.5 Indemnification. (a) The Corporation shall have the power, to the maximum extent permitted by Maryland law in effect from time to time, to obligate itself to indemnify, and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding without requiring a preliminary determination of the ultimate entitlement to indemnification to, (i) any individual who is a present or former director or officer of the Corporation or (ii) any individual who, while a director or officer of the Corporation and at the request of the Corporation, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, real estate investment trust, partnership, joint venture, trust, limited liability company, employee benefit plan or any other enterprise from and against any

claim or liability to which such person may become subject or which such person may incur by reason of his or her service in any of the foregoing capacities. The Corporation shall have the power, with the approval of the Board of Directors, to provide such indemnification and advancement of expenses to a person who served a predecessor of the Corporation in any of the capacities described in (i) or (ii) above and to any employee or agent of the Corporation or a predecessor of the Corporation.

(b) The Corporation may, to the fullest extent permitted by law, purchase and maintain insurance on behalf of any person described in the preceding paragraph against any liability which may be asserted against such person.

(c) The indemnification provided herein shall not be deemed to limit the right of the Corporation to indemnify any other person for any such expenses to the maximum extent permitted by law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from the Corporation may be entitled under any agreement, vote of stockholders or disinterested directors, or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

Section 5.6 Determinations by Board. The determination as to any of the following matters, made by or pursuant to the direction of the Board of Directors consistent with the Charter, shall be final and conclusive and shall be binding upon the Corporation and every holder of shares of its stock: the amount of the net income of the Corporation for any period and the amount of assets at any time legally available for the payment of dividends, redemption of its stock or the payment of other distributions on its stock; the amount of paid-in surplus, net assets, other surplus, annual or other net profit, cash flow, funds from operations, net assets in excess of capital, undivided profits or excess of profits over losses on sales of assets; the amount, purpose,

time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been paid or discharged); any interpretation or resolution of any ambiguity with respect to any provision of the Charter (including any of the terms, preferences, conversion or other rights, voting powers or rights, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption of any class or series of stock of the Corporation) or of the Bylaws; the fair value, or any sale, bid or asked price to be applied in determining the fair value, of any asset owned or held by the Corporation or of any shares of stock of the Corporation; the number of shares of stock of any class or series of the Corporation; any matter relating to the acquisition, holding and disposition of any assets by the Corporation; or any other matter relating to the business and affairs of the Corporation or required or permitted by applicable law, the Charter or Bylaws or otherwise to be determined by the Board of Directors.

Section 5.7 REIT Qualification. The Board of Directors, without any action by the stockholders of the Corporation, shall have the authority to cause the Corporation to elect to qualify for federal income tax treatment as a REIT. Following such election, if the Board of Directors determines that it is no longer in the best interests of the Corporation to continue to be qualified as a REIT, the Board of Directors, without any action by the stockholders of the Corporation, may revoke or otherwise terminate the Corporation's REIT election pursuant to Section 856(g) of the Code. In addition, the Board of Directors, without any action by the stockholders of the Corporation, in its sole and absolute discretion, may (a) determine that compliance with any restriction or limitation on stock ownership and transfers set forth in Article VII of the Charter is no longer required in order for the Corporation to qualify as a REIT and (b) make any other determination or take any other action pursuant to Article VII of the Charter.

Section 5.8 Removal of Directors. Subject to the rights of holders of one or more classes or series of Preferred Stock to elect or remove one or more directors, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause, and then only by the affirmative vote of holders of shares entitled to cast at least two-thirds of all the votes entitled to be cast generally in the election of directors. For the purpose of this paragraph, "cause" shall mean, with respect to any particular director, conviction of a felony or a final judgment of a court of competent jurisdiction holding that such director caused demonstrable, material harm to the Corporation through bad faith or active and deliberate dishonesty.

Section 5.9 Advisor Agreements. The Board of Directors may authorize the execution and performance by the Corporation of one or more agreements with any person, corporation, association, company, trust, partnership (limited or general), limited liability company or other organization whereby, subject to the supervision and control of the Board of Directors, any such other person, corporation, association, company, trust, partnership (limited or general), limited liability company or other organization shall render or make available to the Corporation managerial, investment, advisory and/or related services, office space and other services and facilities (including, if deemed advisable by the Board of Directors, the management or supervision of the investments of the Corporation) upon such terms and conditions as may be provided in such agreement or agreements (including, if deemed fair and equitable by the Board of Directors, the compensation payable thereunder by the Corporation).

## ARTICLE VI

### STOCK

Section 6.1 Authorized Shares. The Corporation has authority to issue 600,000,000 shares of stock, consisting of 500,000,000 shares of common stock, \$0.01 par value per share ("Common Stock"), and 100,000,000 shares of preferred stock, \$0.01 par value per share ("Preferred Stock"). The aggregate par value of all authorized shares of stock having par value is \$6,000,000. If shares of one class of stock are classified or reclassified into shares of another class of stock pursuant to Section 6.2, 6.3 or 6.4 of this Article VI, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of stock of all classes that the Corporation has authority to issue shall not be more than the total number of shares of stock set forth in the first sentence of this paragraph. The Board of Directors, with the approval of a majority of the entire Board of Directors, and without any action by the stockholders of the Corporation, may amend the Charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Corporation has authority to issue.

Section 6.2 Common Stock. Subject to the provisions of Article VII and except as may otherwise be specified in the Charter, each share of Common Stock shall entitle the holder thereof to one vote. The Board of Directors may, without stockholder approval, reclassify any unissued shares of Common Stock from time to time into one or more classes or series of stock.

Section 6.3 Preferred Stock. The Board of Directors may, without stockholder approval, classify any unissued shares of Preferred Stock and reclassify any previously classified but unissued shares of Preferred Stock of any series from time to time, into one or more classes or series of stock.

Section 6.4 Classified or Reclassified Shares. Prior to issuance of classified or reclassified shares of any class or series, the Board of Directors by resolution shall: (a) designate that class or series to distinguish it from all other classes and series of stock of the Corporation; (b) specify the number of shares to be included in the class or series; (c) set or change, subject to the provisions of Article VII and subject to the express terms of any class or series of stock of the Corporation outstanding at the time, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series; and (d) cause the Corporation to file articles supplementary with the State Department of Assessments and Taxation of Maryland (“SDAT”). Any of the terms of any class or series of stock set or changed pursuant to clause (c) of this Section 6.4 may be made dependent upon facts or events ascertainable outside the Charter (including determinations by the Board of Directors or other facts or events within the control of the Corporation) and may vary among holders thereof, provided that the manner in which such facts, events or variations shall operate upon the terms of such class or series of stock is clearly and expressly set forth in the articles supplementary or other Charter document.

Section 6.5 Distributions. The Board of Directors from time to time may authorize the Corporation to declare and pay to stockholders such dividends or other distributions in cash or other assets of the Corporation or in securities of the Corporation, including in shares of one class of the Corporation’s stock payable to holders of shares of another class of stock of the Corporation, or from any other source as the Board of Directors in its sole and absolute discretion shall determine. The exercise of the powers and rights of the Board of Directors pursuant to this Section 6.5 shall be subject to the provisions of any class or series of shares of the Corporation’s stock at the time outstanding.

Section 6.6 Stockholders' Consent in Lieu of Meeting. Any action required or permitted to be taken at any meeting of the holders of Common Stock entitled to vote generally in the election of directors may be taken without a meeting by consent, in writing or by electronic transmission, in any manner and by any vote permitted by the MGCL and set forth in the Bylaws.

Section 6.7 Charter and Bylaws. The rights of all stockholders and the terms of all stock are subject to the provisions of the Charter and the Bylaws. The Board of Directors shall have the exclusive power to adopt, alter or repeal any provision of the Bylaws and to make new Bylaws.

Section 6.8 Tax on Disqualified Organizations. To the extent that the Corporation incurs any tax pursuant to Section 860E(e)(6) of the Code as the result of any "excess inclusion" income (within the meaning of Section 860E of the Code) of the Corporation being allocated to a "disqualified organization" (as defined in Section 860E(e)(5) of the Code) that holds Common Stock or Preferred Stock in record name, the Corporation shall reduce the distributions payable to any such "disqualified organization" whose ownership of Common Stock or Preferred Stock caused such tax to be incurred by an amount equal to such tax, in the manner described in Treasury Regulations Section 1.860E-2(b)(4).

## ARTICLE VII

### RESTRICTION ON TRANSFER AND OWNERSHIP OF SHARES

Section 7.1 Definitions. In addition to the terms defined elsewhere in this Charter, for the purpose of this Article VII, the following terms shall have the following meanings:

Beneficial Ownership. The term "Beneficial Ownership" shall mean ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 544 of the Code, as modified by Sections 856(h)(1)(B) and 856(h)(3)(A) of the Code. The terms "Beneficial Owner," "Beneficially Owns" and "Beneficially Owned" shall have the correlative meanings.



Business Day. The term “Business Day” shall mean any day, other than a Saturday or a Sunday that is neither a legal holiday nor a day on which banking institutions in the State of New York are authorized or required by law, regulation or executive order to close.

Capital Stock. The term “Capital Stock” shall mean all classes or series of stock of the Corporation, including, without limitation, Common Stock and Preferred Stock.

Charitable Beneficiary. The term “Charitable Beneficiary” shall mean one or more beneficiaries of the Charitable Trust as determined pursuant to Section 7.3.6, provided that each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

Charitable Trust. The term “Charitable Trust” shall mean any trust provided for in Section 7.3.1.

Constructive Ownership. The term “Constructive Ownership” shall mean ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

ERISA. The term “ERISA” shall have the meaning specified in the definition of “Benefit Plan Investor.”

Excepted Holder. The term “Excepted Holder” shall mean a Person for whom an Excepted Holder Limit is created by the Charter or by the Board of Directors pursuant to Section 7.2.7, and shall include, but shall not be limited to, Stanley C. Middleman, as long as the Excepted Holder Limit for Stanley C. Middleman (as described below) remains in effect.

Excepted Holder Limit. The term “Excepted Holder Limit” shall mean, provided that the affected Excepted Holder agrees to comply with the requirements established by the Charter or by the Board of Directors pursuant to Section 7.2.7 and subject to adjustment pursuant to Section 7.2.8, the percentage limit established for an Excepted Holder by the Charter or by the Board of Directors pursuant to Section 7.2.7. Subject to adjustment pursuant to Section 7.2.8(b), the Excepted Holder Limit for Stanley C. Middleman shall be thirteen percent (13%) in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of Capital Stock of the Corporation.

Initial Date. The term “Initial Date” means the the closing date of the issuance of Common Stock pursuant to the initial public offering of Common Stock by the Corporation.

Market Price. The term “Market Price” on any date shall mean, with respect to any class or series of outstanding shares of Capital Stock, the Closing Price for such Capital Stock on such date. The “Closing Price” on any date shall mean the last reported sale price for such Capital Stock, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, for such Capital Stock, in either case as reported in

the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the NYSE or, if such Capital Stock is not listed or admitted to trading on the NYSE, as reported on the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such Capital Stock is listed or admitted to trading or, if such Capital Stock is not listed or admitted to trading on any national securities exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the principal automated quotation system that may then be in use or, if such Capital Stock is not quoted by any such system, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such Capital Stock selected by the Board of Directors or, in the event that no trading price is available for such Capital Stock, the fair market value of the Capital Stock, as determined by the Board of Directors.

NYSE. The term “NYSE” shall mean the New York Stock Exchange.

One Hundred Stockholders Date. The term “One Hundred Stockholders Date” shall mean the first date on which shares of Capital Stock are beneficially owned by 100 or more Persons within the meaning of Section 856(a)(5) of the Code without regard to Section 856(h)(2) of the Code.

Person. The term “Person” shall mean an individual, corporation, partnership, limited liability company, estate, trust (including a trust qualified under Sections 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity.

**Prohibited Owner.** The term “Prohibited Owner” shall mean, with respect to any purported Transfer (or other event), any Person who, but for the provisions of Section 7.2.1, would Beneficially Own or Constructively Own shares of Capital Stock in violation of the provisions of Section 7.2.1(a), and if appropriate in the context, shall also mean any Person who would have been the record owner of the shares of Capital Stock that the Prohibited Owner would have so owned.

**Restriction Termination Date.** The term “Restriction Termination Date” shall mean the first day after the Initial Date on which the Board of Directors determines that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify as a REIT or that compliance with the restrictions and limitations on Beneficial Ownership, Constructive Ownership and Transfers of shares of Capital Stock set forth herein is no longer required in order for the Corporation to qualify as a REIT.

**Stock Ownership Limit.** The term “Stock Ownership Limit” shall mean nine percent (9%) in value or in number of shares, whichever is more restrictive, of the outstanding shares of any class or series of Capital Stock of the Corporation excluding any outstanding shares of Capital Stock not treated as outstanding for federal income tax purposes, or such other percentage determined by the Board of Directors in accordance with Section 7.2.8 of the Charter.

**Transfer.** The term “Transfer” shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event that causes any Person to acquire or change such Person’s percentage of Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Capital Stock or the right to vote or receive dividends on Capital Stock, including (a) the granting or exercise of any option (or any disposition of any option), (b) any disposition of any securities or rights convertible into

or exchangeable for Capital Stock or any interest in Capital Stock or any exercise of any such conversion or exchange right, and (c) Transfers of interests in other entities that result in changes in Beneficial or Constructive Ownership of Capital Stock; in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise. The terms “Transferring” and “Transferred” shall have the correlative meanings.

Trustee. The term “Trustee” shall mean the Person unaffiliated with the Corporation and a Prohibited Owner, that is appointed by the Corporation to serve as trustee of the Charitable Trust.

Section 7.2 Capital Stock.

Section 7.2.1 Ownership Limitations.

(a) Basic Restrictions.

(i) During the period commencing on the Initial Date and prior to the Restriction Termination Date, but subject to Section 7.4 and except as provided in Section 7.2.7 hereof, (1) no Person, other than an Excepted Holder, shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Stock Ownership Limit and (2) no Excepted Holder, including Stanley C. Middleman, shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Excepted Holder Limit for such Excepted Holder.

(ii) During the period commencing on the Initial Date and prior to the Restriction Termination Date, but subject to Section 7.4 and except as provided in Section 7.2.7 hereof, no Person shall Beneficially Own shares of Capital Stock to the extent that such Beneficial Ownership of Capital Stock would result in the Corporation being “closely held” within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year).

(iii) During the period commencing on the One Hundred Stockholders Date and prior to the Restriction Termination Date, but subject to Section 7.4 and except as provided in Section 7.2.7 hereof, any Transfer of shares of Capital Stock that, if effective, would result in the Capital Stock being beneficially owned by less than one hundred (100) Persons (determined under the principles of Section 856(a)(5) of the Code) shall be void ab initio, and the intended transferee shall acquire no rights in such Capital Stock.

(iv) During the period commencing on the Initial Date and prior to the Restriction Termination Date, but subject to Section 7.4, no Person shall Beneficially Own or Constructively Own shares of Capital Stock to the extent that such Beneficial Ownership or Constructive Ownership would otherwise cause the Corporation to fail to qualify as a REIT under the Code.

(b) Transfer in Trust/Transfer Void Ab Initio. If any Transfer of shares of Capital Stock (or other event) occurs which, if effective, would result in any Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a)(i), (ii), or (iv):

(i) then that number of shares of the Capital Stock the Beneficial or Constructive Ownership of which otherwise would cause such Person to violate Section 7.2.1(a)(i), (ii) or (iv) (rounded up to the nearest whole share) shall be automatically transferred to a Charitable Trust for the benefit of a Charitable Beneficiary, as described in Section 7.3, effective as of the close of business on the Business Day prior to the date of such Transfer (or other event), and such Person shall acquire no rights in such shares of Capital Stock; or

(ii) if the transfer to the Charitable Trust described in clause (i) of this Section 7.2.1(b) would not be effective for any reason to prevent the violation of Section 7.2.1(a)(i), (ii) or (iv), then the Transfer of that number of shares of Capital Stock that otherwise would cause any Person to violate Section 7.2.1(a)(i), (ii) or (iv) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock.

Section 7.2.2 Remedies for Breach. If the Board of Directors shall at any time determine that a Transfer or other event has taken place that results in a violation of Section 7.2.1 or that a Person intends to acquire or has attempted to acquire Beneficial or Constructive Ownership of any shares of Capital Stock in violation of Section 7.2.1 (whether or not such violation is intended), the Board of Directors shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or other event, including, without limitation, causing the Corporation to redeem shares of Capital Stock, refusing to give effect to such Transfer on the books of the Corporation or instituting proceedings to enjoin such Transfer or other event; provided, however, that any Transfer or attempted Transfer or other event in violation of Section 7.2.1 shall automatically result in the transfer to the Charitable Trust described above, or, where applicable, such Transfer (or other event) shall be void ab initio as provided above irrespective of any action (or non-action) by the Board of Directors.

Section 7.2.3 Notice of Restricted Transfer. Any Person who acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of shares of Capital Stock that will or may violate Section 7.2.1(a) or any Person who would have owned shares of Capital Stock that resulted in a transfer to the Charitable Trust pursuant to the provisions of Section 7.2.1(b) shall immediately give written notice to the Corporation of such event or, in the case of such a proposed or attempted transaction, give at least fifteen (15) days

prior written notice, and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer on the Corporation's status as a REIT.

Section 7.2.4 Owners Required To Provide Information. From the Initial Date and prior to the Restriction Termination Date:

(a) Every owner of five percent (5%) or more (or such lower percentage as required by the Code or the Treasury Regulations promulgated thereunder) in number or value of the outstanding shares of Capital Stock, within thirty (30) days after the end of each taxable year, shall give written notice to the Corporation stating (i) the name and address of such owner, (ii) the number of shares of Capital Stock Beneficially Owned and (iii) a description of the manner in which such shares are held. Each such owner shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation's status as a REIT and to ensure compliance with the Stock Ownership Limit; and

(b) Each Person who is a Beneficial or Constructive Owner of Capital Stock and each Person (including the stockholder of record) who is holding Capital Stock for a Beneficial or Constructive Owner shall provide to the Corporation such information as the Corporation may request in order to determine the Corporation's status as a REIT and to comply with requirements of any taxing authority or governmental authority or to determine such compliance and to ensure compliance with the Stock Ownership Limit.

Section 7.2.5 Remedies Not Limited. Nothing contained in this Section 7.2 shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable to, subject to Section 5.7 of the Charter, protect the Corporation and the interests of its stockholders in preserving the Corporation's status as a REIT.



Section 7.2.6 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Article VII, including any definition contained in Section 7.1 of this Article VII, the Board of Directors shall have the power to determine the application of the provisions of this Article VII with respect to any situation based on the facts known to it at such time. In the event Section 7.2 or 7.3 requires an action by the Board of Directors and the Charter fails to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Sections 7.1, 7.2 or 7.3. Absent a decision to the contrary by the Board of Directors (which the Board of Directors may make in its sole and absolute discretion), if a Person would have (but for the remedies set forth in Sections 7.2.1 and 7.2.2) acquired Beneficial or Constructive Ownership of Capital Stock in violation of Section 7.2.1, such remedies (as applicable) shall apply first to the shares of Capital Stock which, but for such remedies, would have been actually owned by such Person, and second to shares of Capital Stock which, but for such remedies, would have been Beneficially Owned or Constructively Owned (but not actually owned) by such Person, pro rata among the Persons who actually own such shares of Capital Stock based upon the relative number of the shares of Capital Stock held by each such Person.

Section 7.2.7 Exceptions.

(a) (i) The Board of Directors, in its sole and absolute discretion, may exempt (prospectively or retroactively) a Person from the restrictions contained in Section 7.2.1(a)(i), (ii), or (iii), as the case may be, and may establish or increase an Excepted Holder Limit for such

Person if the Board of Directors obtains such representations, covenants and undertakings as the Board of Directors may deem appropriate in order to conclude that granting the exemption and/or establishing or increasing the Excepted Holder Limit, as the case may be, will not cause the Corporation to fail to qualify as a REIT in the case of an exemption or Excepted Holder Limit relating to Section 7.2.1(a)(i), (ii), or (iii).

(b) Prior to granting any exception pursuant to Section 7.2.7(a), the Board of Directors may require a ruling from the Internal Revenue Service or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors in its sole and absolute discretion, as it may deem necessary or advisable in order to ensure the Corporation's status as a REIT. Notwithstanding the receipt of any ruling or opinion, the Board of Directors may impose such conditions or restrictions as it deems appropriate in connection with granting such exception.

(c) Subject to Section 7.2.1(a)(ii), an underwriter, placement agent or initial purchaser that participates in a public offering, a private placement or other private offering of Capital Stock (or securities convertible into or exchangeable for Capital Stock) may Beneficially Own or Constructively Own shares of Capital Stock (or securities convertible into or exchangeable for Capital Stock) in excess of the Stock Ownership Limit, but only to the extent necessary to facilitate such public offering, private placement or immediate resale of such Capital Stock and provided that the restrictions contained in Section 7.2.1(a) will not be violated following the distribution by such underwriter, placement agent or initial purchaser of such shares of Capital Stock.

Section 7.2.8 Change in Stock Ownership Limit and Excepted Holder Limits. (a) The Board of Directors may from time to time increase or decrease the Stock

Ownership Limit; provided, however, that a decreased Stock Ownership Limit will not be effective for any Person whose percentage ownership of Capital Stock is in excess of such decreased Stock Ownership Limit until such time as such Person's percentage of Capital Stock equals or falls below the decreased Stock Ownership Limit, but until such time as such Person's percentage of Capital Stock falls below such decreased Stock Ownership Limit, any further acquisition of Capital Stock will be in violation of the Stock Ownership Limit and, provided further, that the new Stock Ownership Limit would not allow five or fewer individuals (as defined in Section 542(a)(2) of the Code taking into account all Excepted Holders) to Beneficially Own more than 49.9% in value of the outstanding Capital Stock.

(b) The Board of Directors may only reduce the Excepted Holder Limit for an Excepted Holder: (1) with the written consent of such Excepted Holder at any time, or (2) pursuant to the terms and conditions of the agreements and undertakings entered into with such Excepted Holder in connection with the establishment of the Excepted Holder Limit for that Excepted Holder. No Excepted Holder Limit shall be reduced to a percentage that is less than the then Stock Ownership Limit.

Section 7.2.9 Legend. Each certificate, if any, for shares of Capital Stock shall bear a legend summarizing the restrictions on transfer and ownership contained herein. Instead of a legend, the certificate, if any, may state that the Corporation will furnish a full statement about certain restrictions on transferability to a stockholder on request and without charge.

### Section 7.3 Transfer of Capital Stock in Trust.

Section 7.3.1 Ownership in Trust. Upon any purported Transfer or other event described in Section 7.2.1(b) that would result in a transfer of shares of Capital Stock to a

Charitable Trust, such shares of Capital Stock shall be deemed to have been transferred to the Trustee as trustee for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the transfer to the Charitable Trust pursuant to Section 7.2.1(b). The Trustee shall be appointed by the Corporation and shall be a Person unaffiliated with the Corporation and any Prohibited Owner. Each Charitable Beneficiary shall be designated by the Corporation as provided in Section 7.3.6.

Section 7.3.2 Status of Shares Held by the Trustee. Shares of Capital Stock held by the Trustee shall continue to be issued and outstanding shares of Capital Stock of the Corporation. The Prohibited Owner shall have no rights in the Capital Stock held by the Trustee. The Prohibited Owner shall not benefit economically from ownership of any shares held in trust by the Trustee, shall have no rights to dividends or other distributions and shall not possess any rights to vote or other rights attributable to the shares held in the Charitable Trust. The Prohibited Owner shall have no claim, cause of action, or any other recourse whatsoever against the purported transferor of such Capital Stock.

Section 7.3.3 Dividend and Voting Rights. The Trustee shall have all voting rights and rights to dividends or other distributions with respect to shares of Capital Stock held in the Charitable Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or other distribution paid to a Prohibited Owner prior to the discovery by the Corporation that the shares of Capital Stock have been transferred to the Trustee shall be paid with respect to such shares of Capital Stock by the Prohibited Owner to the Trustee upon demand and any dividend or other distribution authorized but unpaid shall be paid when due to the Trustee. Any dividends or other distributions so paid to the Trustee shall be

held in trust for the Charitable Beneficiary. The Prohibited Owner shall have no voting rights with respect to shares held in the Charitable Trust and, subject to Maryland law, effective as of the date that the shares of Capital Stock have been transferred to the Charitable Trust, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by the Corporation that the shares of Capital Stock have been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; provided, however, that if the Corporation has already taken irreversible corporate action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article VII, until the Corporation has received notification that shares of Capital Stock have been transferred into a Charitable Trust, the Corporation shall be entitled to rely on its share transfer and other stockholder records for purposes of preparing lists of stockholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of stockholders.

Section 7.3.4 Sale of Shares by Trustee. Within twenty (20) days of receiving notice from the Corporation that shares of Capital Stock have been transferred to the Charitable Trust, the Trustee of the Charitable Trust shall sell the shares held in the Charitable Trust to a person, designated by the Trustee, whose ownership of the shares will not violate the ownership limitations set forth in Section 7.2.1(a). Upon such sale, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 7.3.4. The Prohibited Owner shall receive the lesser of (i) the price paid by the Prohibited Owner for the shares or, if the Prohibited Owner did not give value for the shares in connection with the event causing the shares to be held in the Charitable Trust (for example, in the case of a

gift, devise or other such transaction), the Market Price of the shares on the day of the event causing the shares to be held in the Charitable Trust and (ii) the price per share received by the Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the shares held in the Charitable Trust. The Trustee may reduce the amount payable to the Prohibited Owner by the amount of dividends and other distributions that have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Trustee pursuant to Section 7.3.3 of this Article VII. Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Corporation that shares of Capital Stock have been transferred to the Trustee, such shares are sold by a Prohibited Owner, then (i) such shares shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the Prohibited Owner received an amount for such shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 7.3.4, such excess shall be paid to the Trustee upon demand.

Section 7.3.5 Purchase Right in Stock Transferred to the Trustee. Shares of Capital Stock transferred to the Trustee shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the Charitable Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date the Corporation, or its designee, accepts such offer. The Corporation may reduce the amount payable to the Prohibited Owner by the amount of dividends and other distributions that have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Trustee pursuant to Section 7.3.3 of this Article VII. The Corporation may pay the amount of such reduction to the Trustee for the benefit of the Charitable Beneficiary. The Corporation shall have the right to

accept such offer until the Trustee has sold the shares held in the Charitable Trust pursuant to Section 7.3.4. Upon such a sale to the Corporation, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and any dividends or other distributions held by the Trustee shall be paid to the Charitable Beneficiary.

Section 7.3.6 Designation of Charitable Beneficiaries. By written notice to the Trustee, the Corporation shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Charitable Trust such that (i) the shares of Capital Stock held in the Charitable Trust would not violate the restrictions set forth in Section 7.2.1(a) in the hands of such Charitable Beneficiary and (ii) each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under one of Sections 170(b)(1)(A), 2055 and 2522 of the Code. Neither the failure of the Corporation to make such designation nor the failure of the Corporation to appoint the Trustee before the automatic transfer provided for in Section 7.2.1(b)(i) shall make such transfer ineffective, provided that the Corporation thereafter makes such designation and appointment.

Section 7.4 NYSE Transactions. Nothing in this Article VII shall preclude the settlement of any transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system. The fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Article VII and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article VII.

Section 7.5 Deemed ERISA Representations. From and after the date upon which a registration statement with respect to the Common Stock becomes effective, each

purchaser and subsequent transferee of Common Stock will be deemed to have represented, warranted, and agreed that its purchase and holding of Common Stock will not constitute or result in (i) a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or (ii) a violation of any applicable other federal, state, local, non-U.S. or other laws or regulations that contain one or more provisions similar to the provisions of Title I of ERISA of Section 4975 of the Code.

Section 7.6 Enforcement. The Corporation is authorized specifically to seek equitable relief, including injunctive relief, to enforce the provisions of this Article VII.

Section 7.7 Non-Waiver. No delay or failure on the part of the Corporation or the Board of Directors in exercising any right hereunder shall operate as a waiver of any right of the Corporation or the Board of Directors, as the case may be, except to the extent specifically waived in writing.

Section 7.8 Severability. If any provision of this Article VII or any application of any such provision is determined to be invalid by any federal or state court having jurisdiction over the issues, the validity of the remaining provisions shall not be affected and other applications of such provisions shall be affected only to the extent necessary to comply with the determination of such court.

## **ARTICLE VIII**

### **AMENDMENTS**

The Corporation reserves the right from time to time to make any amendment to the Charter, now or hereafter authorized by law, including any amendment altering the terms or contract rights, as expressly set forth in the Charter, of any shares of outstanding stock. All rights and powers conferred by the Charter on stockholders, directors and officers are granted subject to this reservation. Except as otherwise provided in the Charter and except for those



amendments permitted to be made without stockholder approval under Maryland law or by specific provision in the Charter, any amendment to the Charter shall be valid only if declared advisable by the Board of Directors and approved by the affirmative vote of holders of shares entitled to cast a majority of all the votes entitled to be cast on the matter. However, any amendment to Section 5.8 and Article VII or to this sentence of the Charter shall be valid only if declared advisable by the Board of Directors and approved by the affirmative vote of holders of shares entitled to cast at least two-thirds of all the votes entitled to be cast on the matter.

## **ARTICLE IX**

### **LIMITATION OF LIABILITY**

To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of directors and officers of a corporation, no present or former director or officer of the Corporation shall be liable to the Corporation or its stockholders for money damages. Neither the amendment nor repeal of this Article IX, nor the adoption or amendment of any other provision of the Charter or Bylaws inconsistent with this Article IX, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

THIRD: The amendment to and restatement of the Charter as hereinabove set forth have been duly advised by the Board of Directors and approved by the sole stockholder of the Corporation as required by law.

FOURTH: The current address of the principal office of the Corporation is as set forth in Article IV of the foregoing amendment and restatement of the Charter.

FIFTH: The name and address of the Corporation's current resident agent are as set forth in Article IV of the foregoing amendment and restatement of the Charter.

SIXTH: The number of directors of the Corporation and the names of those currently in office are as set forth in Article V of the foregoing amendment and restatement of the Charter.

SEVENTH: The total number of shares of stock which the Corporation had authority to issue immediately prior to this amendment and restatement was 1,000 consisting of 1,000 shares of Common Stock, \$0.01 par value per share. The aggregate par value of all shares of stock having par value was \$10.00.

EIGHTH: The total number of shares of stock which the Corporation has authority to issue pursuant to the foregoing amendment and restatement of the Charter is 600,000,000, consisting of 500,000,000 shares of Common Stock, \$0.01 par value per share, and 100,000,000 shares of Preferred Stock, \$0.01 par value per share. The aggregate par value of all authorized shares of stock having par value is \$6,000,000.

NINTH: The undersigned President acknowledges these Articles of Amendment and Restatement to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned President acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment and Restatement to be signed in its name and on its behalf by its President and attested to by its Secretary on this     day of     , 2013.

ATTEST:

CHERRY HILL MORTGAGE INVESTMENT CORPORATION

By: \_\_\_\_\_  
Martin J. Levine  
Secretary

By: \_\_\_\_\_ (SEAL)  
Jeffrey B. Lown II  
President

**AMENDED AND RESTATED BYLAWS**  
**OF**  
**CHERRY HILL MORTGAGE INVESTMENT CORPORATION**

**ARTICLE I**  
**OFFICES**

**Section 1. Principal Office.**

The principal office of Cherry Hill Mortgage Investment Corporation (the “**Corporation**”) in the State of Maryland shall be located at such place as the board of directors of the Corporation (the “**Board of Directors**”) may designate.

**Section 2. Additional Offices.**

The Corporation may have additional offices, including a principal executive office, at such places as the Board of Directors may from time to time determine or the business of the Corporation may require. The initial principal office of the Corporation shall be at:

301 Harper Drive, Suite 110  
Moorestown, NJ 08057

**ARTICLE II**  
**MEETINGS OF STOCKHOLDERS**

**Section 1. Place.**

All meetings of stockholders shall be held at the principal executive office of the Corporation or at such other place as shall be set in accordance with these Bylaws and stated in the notice of the meeting.

**Section 2. Annual Meeting.**

An annual meeting of stockholders for the election of directors and the transaction of any business within the powers of the Corporation shall be held on the date and at the time and place set by the Board of Directors.

**Section 3. Special Meetings.**

(a) *General.* Each of the Chairman of the Board of Directors, the Chief Executive Officer, the President and the Board of Directors may call a special meeting of stockholders. Except as provided in subsection (b)(4) of this Section 3, a special meeting of stockholders shall be held on the date and at the time and place set by whoever has called the meeting. Subject to

subsection (b) of this Section 3, a special meeting of stockholders shall also be called by the Secretary to act on any matter that may properly be considered at a special meeting of stockholders upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast on such matter at such meeting.

(b) *Stockholder-Requested Special Meetings.* (1) Any stockholder of record seeking to have stockholders request a special meeting shall, by sending written notice to the Secretary (the “**Record Date Request Notice**”) at the principal executive office of the Corporation by registered mail, return receipt requested, request the Board of Directors to fix a record date to determine the stockholders entitled to request a special meeting (the “**Request Record Date**”). The Record Date Request Notice shall set forth the purpose of the meeting and the matters proposed to be acted on at it, shall be signed by one or more stockholders of record as of the date of signature (or their agents duly authorized in a writing accompanying the Record Date Request Notice), shall bear the date of signature of each such stockholder (or such agent) and shall set forth all information relating to each such stockholder and each matter proposed to be acted on at the meeting that would be required to be disclosed in connection with the solicitation of proxies for the election of directors in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such a solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the “**Exchange Act**”). Upon receiving the Record Date Request Notice, the Board of Directors may fix a Request Record Date. The Request Record Date shall not precede and shall not be more than ten (10) days after the close of business on the date on which the resolution fixing the Request Record Date is adopted by the Board of Directors. If the Board of Directors, within ten (10) days after the date on which a valid Record Date Request Notice is received, fails to adopt a resolution fixing the Request Record Date, the Request Record Date shall be the close of business on the tenth (10<sup>th</sup>) day after the first date on which a Record Date Request Notice is received by the Secretary.

(2) In order for any stockholder to request a special meeting to act on any matter that may properly be considered at a special meeting of stockholders, one or more written requests for a special meeting (collectively, the “**Special Meeting Request**”) signed by stockholders of record (or their agents duly authorized in a writing accompanying the request) as of the Request Record Date entitled to cast not less than a majority of all of the votes entitled to be cast on such matter at such meeting (the “**Special Meeting Percentage**”) shall be delivered to the Secretary. In addition, the Special Meeting Request shall (a) set forth the purpose of the meeting and the matters proposed to be acted on at it (which shall be limited to those lawful matters set forth in the Record Date Request Notice received by the Secretary), (b) bear the date of signature of each such stockholder (or such agent) signing the Special Meeting Request, (c) set forth (i) the name and address, as they appear in the Corporation’s books, of each stockholder signing such request (or on whose behalf the Special Meeting Request is signed), (ii) the class, series and number of all shares of stock of the Corporation which are owned (beneficially or of record) by each such stockholder and (iii) the nominee holder for, and number of, shares of stock of the Corporation owned beneficially but not of record by such stockholder, (d) be sent to the Secretary by registered mail, return receipt requested, and (e) be received by the Secretary within sixty (60) days after the Request Record Date. Any requesting stockholder (or agent duly authorized in a writing accompanying the revocation of the Special Meeting Request) may revoke his, her or its request for a special meeting at any time by written revocation delivered to the Secretary.

(3) The Secretary shall inform the requesting stockholders of the reasonably estimated cost of preparing and mailing or delivering the notice of the meeting (including the Corporation's proxy materials). The Secretary shall not be required to call a special meeting upon stockholder request and such meeting shall not be held unless, in addition to the documents required by paragraph (2) of this Section 3(b), the Secretary receives payment of such reasonably estimated cost prior to the preparation and mailing or delivery of such notice of the meeting.

(4) In the case of any special meeting called by the Secretary upon the request of stockholders (a "**Stockholder-Requested Meeting**"), such meeting shall be held at such place, date and time as may be designated by the Board of Directors; *provided, however*, that the date of any Stockholder-Requested Meeting shall be not more than ninety (90) days after the record date for such meeting (the "**Meeting Record Date**"); and *provided further* that if the Board of Directors fails to designate, within ten (10) days after the date that a valid Special Meeting Request is actually received by the Secretary (the "**Delivery Date**"), a date and time for a Stockholder-Requested Meeting, then such meeting shall be held at 2:00 p.m. local time on the ninetieth (90<sup>th</sup>) day after the Meeting Record Date or, if such ninetieth (90<sup>th</sup>) day is not a Business Day (as defined below), on the first preceding Business Day; and *provided further* that in the event that the Board of Directors fails to designate a place for a Stockholder-Requested Meeting within ten (10) days after the Delivery Date, then such meeting shall be held at the principal executive office of the Corporation. In fixing a date for a Stockholder-Requested Meeting, the Board of Directors may consider such factors as it deems relevant, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for the meeting and any plan of the Board of Directors to call an annual meeting or a special meeting. In the case of any Stockholder-Requested Meeting, if the Board of Directors fails to fix a Meeting Record Date that is a date within thirty (30) days after the Delivery Date, then the close of business on the thirtieth (30<sup>th</sup>) day after the Delivery Date shall be the Meeting Record Date. The Board of Directors may revoke the notice for any Stockholder-Requested Meeting in the event that the requesting stockholders fail to comply with the provisions of paragraph (3) of this Section 3(b).

(5) If written revocations of the Special Meeting Request have been delivered to the Secretary and the result is that stockholders of record (or their agents duly authorized in writing), as of the Request Record Date, entitled to cast less than the Special Meeting Percentage have delivered, and not revoked, requests for a special meeting on the matter to the Secretary: (i) if the notice of meeting has not already been delivered, the Secretary shall refrain from delivering the notice of the meeting and send to all requesting stockholders who have not revoked such requests written notice of any revocation of a request for a special meeting on the matter, or (ii) if the notice of meeting has been delivered and if the Secretary first sends to all requesting stockholders who have not revoked requests for a special meeting on the matter written notice of any revocation of a request for the special meeting and written notice of the Corporation's intention to revoke the notice of the meeting or for the chairman of the meeting to adjourn the meeting without action on the matter, (A) the Secretary may revoke the notice of the meeting at any time before ten (10) days before the commencement of the meeting or (B) the chairman of the meeting may call the meeting to order and adjourn the meeting without acting on the matter. Any request for a special meeting received after a revocation by the Secretary of a notice of a meeting shall be considered a request for a new special meeting.

(6) The Chairman of the Board of Directors, the Chief Executive Officer, the President or the Board of Directors may appoint regionally or nationally recognized independent inspectors of elections to act as the agent of the Corporation for the purpose of promptly performing a ministerial review of the validity of any purported Special Meeting Request received by the Secretary. For the purpose of permitting the inspectors to perform such review, no such purported Special Meeting Request shall be deemed to have been delivered to the Secretary until the earlier of (i) five (5) Business Days after receipt by the Secretary of such purported request and (ii) such date as the independent inspectors certify to the Corporation that the valid requests received by the Secretary represent, as of the Request Record Date, stockholders of record entitled to cast not less than the Special Meeting Percentage. Nothing contained in this paragraph (6) shall in any way be construed to suggest or imply that the Corporation or any stockholder shall not be entitled to contest the validity of any request, whether during or after such five (5) Business Day period, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(7) For purposes of these Bylaws, “**Business Day**” shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

#### **Section 4. Notice.**

Not less than ten (10) nor more than ninety (90) days before each meeting of stockholders, the Secretary shall give to each stockholder entitled to vote at such meeting and to each stockholder not entitled to vote who is entitled to notice of the meeting notice in writing or by electronic transmission stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by any statute, the purpose for which the meeting is called, by mail, by presenting it to such stockholder personally, by leaving it at the stockholder’s residence or usual place of business, by electronic transmission or by any other means permitted by Maryland law. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the stockholder at the stockholder’s address as it appears on the records of the Corporation, with postage thereon prepaid. If transmitted electronically, such notice shall be deemed to be given when transmitted to the stockholder by an electronic transmission to any address or number of the stockholder at which the stockholder receives electronic transmissions. The Corporation may give a single notice to all stockholders who share an address, which single notice shall be effective as to any stockholder at such address, unless a stockholder at such address objects to receiving such single notice or revokes a prior consent to receiving such single notice. Failure to give notice of any meeting to one or more stockholders, or any irregularity in such notice, shall not affect the validity of any meeting fixed in accordance with this Article II or the validity of any proceedings at any such meeting.

Subject to Section 11(a) of this Article II, any business of the Corporation may be transacted at an annual meeting of stockholders without being specifically designated in the notice, except such business as is required by any statute to be stated in such notice. No business

shall be transacted at a special meeting of stockholders except as specifically designated in the notice. The Corporation may postpone or cancel a meeting of stockholders by making a public announcement (as defined in Section 11(c)(3) of this Article II) of such postponement or cancellation prior to the meeting. Notice of the date, time and place to which the meeting is postponed shall be given not less than ten days prior to such date and otherwise in the manner set forth in this section.

#### **Section 5. Organization and Conduct.**

Every meeting of stockholders shall be conducted by an individual appointed by the Board of Directors to be chairman of the meeting or, in the absence of such appointment or appointed individual, by the Chairman of the Board of Directors or, in the case of a vacancy in the office or absence of the Chairman of the Board of Directors, by one of the following officers present at the meeting in the following order: the Vice Chairman of the Board of Directors, if there is one, the Chief Executive Officer, the President, the Vice Presidents in their order of rank and seniority, the Secretary, or, in the absence of such officers, a chairman chosen by the stockholders by the vote of a majority of the votes cast by stockholders present in person or by proxy. The Secretary, or, in the Secretary's absence, an Assistant Secretary, or, in the absence of both the Secretary and Assistant Secretaries, an individual appointed by the Board of Directors or, in the absence of such appointment, an individual appointed by the chairman of the meeting shall act as secretary. In the event that the Secretary presides at a meeting of stockholders, an Assistant Secretary, or, in the absence of all Assistant Secretaries, an individual appointed by the Board of Directors or the chairman of the meeting, shall record the minutes of the meeting.

The order of business and all other matters of procedure at any meeting of stockholders shall be determined by the chairman of the meeting. The chairman of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of the chairman and without any action by the stockholders, are appropriate for the proper conduct of the meeting, including, without limitation: (a) restricting admission to the time set for the commencement of the meeting; (b) limiting attendance at the meeting to stockholders of record of the Corporation, their duly authorized proxies and such other individuals as the chairman of the meeting may determine; (c) limiting participation at the meeting on any matter to stockholders of record of the Corporation entitled to vote on such matter, their duly authorized proxies and other such individuals as the chairman of the meeting may determine; (d) limiting the time allotted to questions or comments by participants; (e) determining when and for how long the polls should be opened and when the polls should be closed; (f) maintaining order and security at the meeting; (g) removing any stockholder or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the chairman of the meeting; (h) concluding a meeting or recessing or adjourning the meeting to a later date and time and at a place announced at the meeting; and (i) complying with any state and local laws and regulations concerning safety and security. Unless otherwise determined by the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.



**Section 6. Quorum.**

At any meeting of stockholders, the presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at such meeting on any matter shall constitute a quorum; but this section shall not affect any requirement under any statute or the charter of the Corporation (the “**Charter**”) for the vote necessary for the approval of any matter. If, however, such quorum is not established at any meeting of the stockholders, the chairman of the meeting may adjourn the meeting *sine die* or from time to time to a date not more than one hundred twenty (120) days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified. The stockholders present either in person or by proxy, at a meeting which has been duly called and at which a quorum has been established, may continue to transact business until adjournment, notwithstanding the withdrawal from the meeting of enough stockholders to leave fewer than would be required to establish a quorum.

**Section 7. Voting.**

A plurality of all the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to elect a director. Each share entitles the holder thereof to vote for as many individuals as there are directors to be elected and for whose election the share is entitled to be voted. A majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or by the Charter. Unless otherwise provided by statute or by the Charter, each outstanding share, regardless of class, entitles the holder thereof to cast one vote on each matter submitted to a vote at a meeting of stockholders.

**Section 8. Proxies.**

A holder of record of shares of stock of the Corporation may cast votes in person or by proxy executed by the stockholder or by the stockholder’s duly authorized agent in any manner permitted by law. Such proxy or evidence of authorization of such proxy shall be filed with the Secretary before or at the meeting. No proxy shall be valid more than eleven months after its date, unless otherwise provided in the proxy.

**Section 9. Voting of Stock By Certain Holders.**

Stock of the Corporation registered in the name of a corporation, partnership, trust, limited liability company or other entity, if entitled to be voted, may be voted by the president or a vice president, general partner, trustee or managing member thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such stock pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such stock. Any director or fiduciary may vote stock registered in the name of such person in the capacity of such director or fiduciary, either in person or by proxy.

Shares of stock of the Corporation directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time.

The Board of Directors may adopt by resolution a procedure by which a stockholder may certify in writing to the Corporation that any shares of stock registered in the name of the stockholder are held for the account of a specified person other than the stockholder. The resolution shall set forth the class of stockholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it; if the certification is with respect to a record date, the time after the record date within which the certification must be received by the Corporation; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt by the Corporation of such certification, the person specified in the certification shall be regarded as, for the purposes set forth in the certification, the holder of record of the specified stock in place of the stockholder who makes the certification.

#### **Section 10. Inspectors.**

The Board of Directors or the chairman of the meeting may appoint, before or at the meeting, one or more inspectors for the meeting and any successor to the inspector. Except as otherwise provided by the chairman of the meeting, the inspectors, if any, shall (i) determine the number of shares of stock represented at the meeting, in person or by proxy, and the validity and effect of proxies, (ii) receive and tabulate all votes, ballots or consents, (iii) report such tabulation to the chairman of the meeting, (iv) hear and determine all challenges and questions arising in connection with the right to vote, and (v) do such acts as are proper to fairly conduct the election or vote. Each such report shall be in writing and signed by the inspector or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be prima facie evidence thereof.

#### **Section 11. Advance Notice of Nominees for Director and Other Stockholder Proposals.**

##### *(a) Annual Meetings of Stockholders.*

(1) Nominations of individuals for election to the Board of Directors and the proposal of other business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who was a stockholder of record both at the time of giving of notice by the stockholder as provided for in this Section 11(a) and at the time of the annual meeting, who is entitled to vote at the meeting in the election of each individual so nominated or on any such other business and who has complied with this Section 11(a).

(2) For any nomination or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a) (1) of this Section 11,

the stockholder must have given timely notice thereof in writing to the Secretary and any such other business must otherwise be a proper matter for action by the stockholders. To be timely, a stockholder's notice shall set forth all information required under this Section 11 and shall be delivered to the Secretary at the principal executive office of the Corporation not earlier than the one hundred fiftieth (150<sup>th</sup>) day nor later than 5:00 p.m., Eastern Time, on the one hundred twentieth (120<sup>th</sup>) day prior to the first (1<sup>st</sup>) anniversary of the date of the proxy statement (as defined in Section 11(c)(3) of this Article II) for the preceding year's annual meeting; provided, however, that in connection with the Corporation's first (1<sup>st</sup>) annual meeting occurring after the initial underwritten public offering of the common stock of the Corporation or in the event that the date of the annual meeting is advanced or delayed by more than thirty (30) days from the first anniversary of the date of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the one hundred fiftieth (150<sup>th</sup>) day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the later of the one hundred twentieth (120<sup>th</sup>) day prior to the date of such annual meeting, as originally convened, or the tenth day following the day on which public announcement of the date of such meeting is first made. The public announcement of a postponement or adjournment of an annual meeting shall not commence a new time period for the giving of a stockholder's notice as described above.

(3) A stockholder's notice described in paragraph (a)(2) of this Section 11 shall set forth:

(i) As to each individual whom the stockholder proposes to nominate for election or reelection as a director (each, a "**Proposed Nominee**"), all information relating to the Proposed Nominee that would be required to be disclosed in connection with the solicitation of proxies for the election of the Proposed Nominee as a director in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act.

(ii) As to any other business that the stockholder proposes to bring before the meeting, a description of such business, the stockholder's reasons for proposing such business at the meeting and any material interest in such business of such stockholder or any Stockholder Associated Person (as defined below), individually or in the aggregate, including any anticipated benefit to the stockholder or the Stockholder Associated Person therefrom.

(iii) As to the stockholder giving the notice, any Proposed Nominee and any Stockholder Associated Person: (A) the class, series and number of all shares of stock or other securities of the Corporation or any affiliate thereof (collectively, the "**Company Securities**"), if any, which are owned (beneficially or of record) by such stockholder, Proposed Nominee or Stockholder Associated Person, the date on which each such Company Security was acquired and the investment intent of such acquisition, and any short interest (including any opportunity to profit or share in any benefit from any decrease in the price of such stock or other security) in any Company Securities of any such person; (B) the nominee holder for, and number of, any Company Securities owned beneficially but not of record by such stockholder, Proposed Nominee or Stockholder Associated Person; (C) whether and the extent to which such stockholder, Proposed Nominee or Stockholder Associated Person, directly or indirectly (through

brokers, nominees or otherwise), is subject to or during the last six months has engaged in any hedging, derivative or other transaction or series of transactions or entered into any other agreement, arrangement or understanding (including any short interest, any borrowing or lending of securities or any proxy or voting agreement), the effect or intent of which is to (I) manage risk or benefit of changes in the price of Company Securities for such stockholder, Proposed Nominee or Stockholder Associated Person or (II) increase or decrease the voting power of such stockholder, Proposed Nominee or Stockholder Associated Person in the Corporation or any affiliate thereof disproportionately to such person's economic interest in the Company Securities; and (D) any substantial interest, direct or indirect (including, without limitation, any existing or prospective commercial, business or contractual relationship with the Corporation), by security holdings or otherwise, of such stockholder, Proposed Nominee or Stockholder Associated Person, in the Corporation or any affiliate thereof, other than an interest arising from the ownership of Company Securities where such stockholder, Proposed Nominee or Stockholder Associated Person receives no extra or special benefit not shared on a *pro rata* basis by all other holders of the same class or series.

(iv) As to the stockholder giving the notice, any Stockholder Associated Person with an interest or ownership referred to in clauses (ii) or (iii) of this paragraph (3) of this Section 11(a) and any Proposed Nominee: (A) the name and address of such stockholder, as they appear on the Corporation's stock ledger, and the current name and business address, if different, of each such Stockholder Associated Person and any Proposed Nominee; and (B) the investment strategy or objective, if any, of such stockholder and each such Stockholder Associated Person who is not an individual and a copy of the prospectus, offering memorandum or similar document, if any, provided to investors or potential investors in such stockholder and each such Stockholder Associated Person.

(v) The name and address of any person who contacted or was contacted by the stockholder giving the notice or any Stockholder Associated Person about the Proposed Nominee or other business proposal prior to the date of such stockholder's notice.

(vi) To the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the nominee for election or reelection as a director or the proposal of other business on the date of such stockholder's notice.

(4) Such stockholder's notice shall, with respect to any Proposed Nominee, be accompanied by a certificate executed by the Proposed Nominee (i) certifying that such Proposed Nominee (a) is not, and will not become a party to, any agreement, arrangement or understanding with any person or entity other than the Corporation in connection with service or action as a director that has not been disclosed to the Corporation and (b) will serve as a director of the Corporation if elected; and (ii) attaching a completed Proposed Nominee questionnaire (which questionnaire shall be provided by the Corporation, upon request, to the stockholder providing the notice and shall include all information relating to the Proposed Nominee that would be required to be disclosed in connection with the solicitation of proxies for the election of the Proposed Nominee as a director in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act and the rules

thereunder, or would be required pursuant to the rules of any national securities exchange on which any securities of the Corporation are listed or over-the-counter market on which any securities of the Corporation are traded).

(5) Notwithstanding anything in this subsection (a) of this Section 11 to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased, and there is no public announcement of such action at least one hundred thirty (130) days prior to the first (1<sup>st</sup>) anniversary of the date of the proxy statement (as defined in Section 11(c)(3) of this Article II) for the preceding year's annual meeting, a stockholder's notice required by this Section 11(a) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the Corporation not later than 5:00 p.m., Eastern Time, on the tenth (10<sup>th</sup>) day following the day on which such public announcement is first made by the Corporation.

(6) For purposes of this Section 11, "**Stockholder Associated Person**" of any stockholder shall mean (i) any person acting in concert with such stockholder, (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such stockholder (other than a stockholder that is a depositary) and (iii) any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such stockholder or such Stockholder Associated Person.

(b) *Special Meetings of Stockholders.* Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of individuals for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected only (i) by or at the direction of the Board of Directors or (ii) provided that the special meeting has been called in accordance with Section 3(a) of this Article II for the purpose of electing directors, by any stockholder of the Corporation who is a stockholder of record both at the time of giving of notice provided for in this Section 11 and at the time of the special meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the notice procedures set forth in this Section 11. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more individuals to the Board of Directors, any stockholder may nominate an individual or individuals (as the case may be) for election as a director as specified in the Corporation's notice of meeting, if the stockholder's notice, containing the information required by paragraph (a)(3) of this Section 11, is delivered to the Secretary at the principal executive office of the Corporation not earlier than the one hundred twentieth (120<sup>th</sup>) day prior to such special meeting and not later than 5:00 p.m., Eastern Time on the later of the ninetieth (90<sup>th</sup>) day prior to such special meeting or the tenth (10<sup>th</sup>) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. The public announcement of a postponement or adjournment of a special meeting shall not commence a new time period for the giving of a stockholder's notice as described above.

(c) *General.* (1) If information submitted pursuant to this Section 11 by any stockholder proposing a nominee for election as a director or any proposal for other business at a meeting of stockholders shall be inaccurate in any material respect, such information may be

deemed not to have been provided in accordance with this Section 11. Any such stockholder shall notify the Corporation of any inaccuracy or change (within two Business Days of becoming aware of such inaccuracy or change) in any such information. Upon written request by the secretary or the Board of Directors, any such stockholder shall provide, within five (5) Business Days of delivery of such request (or such other period as may be specified in such request), (A) written verification, satisfactory, in the discretion of the Board of Directors or any authorized officer of the Corporation, to demonstrate the accuracy of any information submitted by the stockholder pursuant to this Section 11, and (B) a written update of any information (including, if requested by the Corporation, written confirmation by such stockholder that it continues to intend to bring such nomination or other business proposal before the meeting) submitted by the stockholder pursuant to this Section 11 as of an earlier date. If a stockholder fails to provide such written verification or written update within such period, the information as to which written verification or a written update was requested may be deemed not to have been provided in accordance with this Section 11.

(2) Only such individuals who are nominated in accordance with this Section 11 shall be eligible for election by stockholders as directors, and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with this Section 11. The chairman of the meeting shall have the power to determine whether a nomination or any other business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with this Section 11.

(3) For purposes of this Section 11, “**the date of the proxy statement**” shall have the same meaning as “the date of the company’s proxy statement released to shareholders” as used in Rule 14a-8(e) promulgated under the Exchange Act, as interpreted by the Securities and Exchange Commission (the “**SEC**”) from time to time. “**Public announcement**” shall mean disclosure (A) in a press release reported by the Dow Jones News Service, Associated Press, Business Wire, PR Newswire or other widely circulated news or wire service or (B) in a document publicly filed by the Corporation with the SEC pursuant to the Exchange Act.

(4) Notwithstanding the foregoing provisions of this Section 11, a stockholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 11. Nothing in this Section 11 shall be deemed to affect any right of a stockholder to request inclusion of a proposal in, or the right of the Corporation to omit a proposal from, any proxy statement filed by the Corporation with the SEC pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act. Nothing in this Section 11 shall require disclosure of revocable proxies received by the stockholder or Stockholder Associated Person pursuant to a solicitation of proxies after the filing of an effective Schedule 14A by such stockholder or Stockholder Associated Person under Section 14(a) of the Exchange Act.

## **Section 12. Voting by Ballot.**

Voting on any question or in any election may be *viva voce* unless the chairman of the meeting shall order that voting be by ballot.

**Section 13. Control Share Acquisition Act.**

Notwithstanding any other provision of the Charter or these Bylaws, Title 3, Subtitle 7 of the Maryland General Corporation Law (or any successor statute) (the "MGCL") shall not apply to any acquisition by any person of shares of stock of the Corporation. This section may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares and, upon such repeal, may, to the extent provided by any successor bylaw, apply to any prior or subsequent control share acquisition.

**Section 14. Stockholders' Consent in Lieu of Meeting.**

Any action required or permitted to be taken at any meeting of stockholders may be taken without a meeting (a) if a unanimous consent setting forth the action is given in writing or by electronic transmission by each stockholder entitled to vote on the matter and filed with the minutes of proceedings of the stockholders or (b) if the action is advised, and submitted to the stockholders for approval, by the Board of Directors and a consent in writing or by electronic transmission of stockholders entitled to cast not less than the minimum number of votes that would be necessary to authorize or take the action at a meeting of stockholders is delivered to the Corporation in accordance with the MGCL. The Corporation shall give notice of any action taken by less than unanimous consent to each stockholder not later than ten days after the effective time of such action.

**ARTICLE III  
DIRECTORS**

**Section 1. General Powers.**

The business and affairs of the Corporation shall be managed under the direction of its Board of Directors.

**Section 2. Number, Tenure and Resignation.**

At any regular meeting or at any special meeting called for that purpose, a majority of the entire Board of Directors may establish, increase or decrease the number of directors, *provided* that the number thereof shall never be less than the minimum number required by the MGCL nor more than fifteen (15), and *further provided* that the tenure of office of a director shall not be affected by any decrease in the number of directors. Any director of the Corporation may resign at any time by delivering his or her resignation to the Board of Directors, the Chairman of the Board of Directors or the Secretary. Any resignation shall take effect immediately upon its receipt or at such later time specified in the resignation. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation.

**Section 3. Annual and Regular Meetings.**

An annual meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of stockholders, no notice other than this Bylaw being necessary. In the event such meeting is not so held, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the

Board of Directors. The Board of Directors may provide, by resolution, the time and place for the holding of regular meetings of the Board of Directors without other notice than such resolution.

**Section 4. Special Meetings.**

Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board of Directors, the Chief Executive Officer, the President or a majority of the directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix any place as the place for holding any special meeting of the Board of Directors called by them. The Board of Directors may provide, by resolution, the time and place for the holding of special meetings of the Board of Directors without other notice than such resolution.

**Section 5. Notice.**

Notice of any special meeting of the Board of Directors shall be delivered personally or by telephone, electronic mail, facsimile transmission, courier or United States mail to each director at his or her business or residence address. Notice by personal delivery, telephone, electronic mail or facsimile transmission shall be given at least twenty four (24) hours prior to the meeting. Notice by United States mail shall be given at least three (3) days prior to the meeting. Notice by courier shall be given at least two (2) days prior to the meeting. Telephone notice shall be deemed to be given when the director or his or her agent is personally given such notice in a telephone call to which the director or his or her agent is a party. Electronic mail notice shall be deemed to be given upon transmission of the message to the electronic mail address given to the Corporation by the director. Facsimile transmission notice shall be deemed to be given upon completion of the transmission of the message to the number given to the Corporation by the director and receipt of a completed answer-back indicating receipt. Notice by United States mail shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. Notice by courier shall be deemed to be given when deposited with or delivered to a courier properly addressed. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Board of Directors need be stated in the notice, unless specifically required by statute or these Bylaws.

**Section 6. Quorum.**

A majority of the directors shall constitute a quorum for transaction of business at any meeting of the Board of Directors, *provided* that, if less than a majority of such directors is present at such meeting, a majority of the directors present may adjourn the meeting from time to time without further notice, and *provided further* that if, pursuant to applicable law, the Charter or these Bylaws, the vote of a majority or other percentage of a particular group of directors is required for action, a quorum must also include a majority or such other percentage of such group.

The directors present at a meeting which has been duly called and at which a quorum has been established may continue to transact business until adjournment, notwithstanding the withdrawal from the meeting of enough directors to leave fewer than required to establish a quorum.



**Section 7. Voting.**

The action of a majority of the directors present at a meeting at which a quorum is present shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable law, the Charter or these Bylaws. If enough directors have withdrawn from a meeting to leave fewer than required to establish a quorum, but the meeting is not adjourned, the action of the majority of that number of directors necessary to constitute a quorum at such meeting shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable law, the Charter or these Bylaws.

**Section 8. Organization.**

At each meeting of the Board of Directors, the Chairman of the Board of Directors or, in the absence of the chairman, the Vice Chairman of the Board of Directors, if any, shall act as chairman of the meeting. In the absence of both the Chairman and Vice Chairman of the Board of Directors, the Chief Executive Officer or, in the absence of the Chief Executive Officer, the President or, in the absence of the President, a director chosen by a majority of the directors present, shall act as chairman of the meeting. The Secretary or, in his or her absence, an Assistant Secretary, or, in the absence of the Secretary and all Assistant Secretaries, an individual appointed by the Chairman, shall act as secretary of the meeting.

**Section 9. Telephone Meetings.**

Directors may participate in a meeting by means of a conference telephone or other communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

**Section 10. Consent by Directors Without a Meeting.**

Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each director and is filed with the minutes of proceedings of the Board of Directors.

**Section 11. Vacancies.**

If for any reason any or all the directors cease to be directors, such event shall not terminate the Corporation or affect these Bylaws or the powers of the remaining directors hereunder. Except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock any vacancy on the Board of Directors may be filled only by a majority of the remaining directors, even if the remaining directors do not constitute a quorum. Any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies.

**Section 12. Compensation.**

Directors shall not receive any stated salary for their services as directors but, by resolution of the Board of Directors, may receive compensation per year and/or per meeting and/or per visit to real property or other facilities owned or leased by the Corporation and for any service or activity they performed or engaged in as directors. Directors may be reimbursed for expenses of attendance, if any, at each annual, regular or special meeting of the Board of Directors or of any committee thereof and for their expenses, if any, in connection with each property visit and any other service or activity they perform or engage in as directors; but nothing herein contained shall be construed to preclude any directors from serving the Corporation in any other capacity and receiving compensation therefor.

**Section 13. Reliance.**

Each director and officer of the Corporation shall, in the performance of his or her duties with respect to the Corporation, be entitled to rely on any information, opinion, report or statement, including any financial statement or other financial data, prepared or presented by an officer or employee of the Corporation whom the director or officer reasonably believes to be reliable and competent in the matters presented, by a lawyer, certified public accountant or other person, as to a matter which the director or officer reasonably believes to be within the person's professional or expert competence, or, with respect to a director, by a committee of the Board of Directors on which the director does not serve, as to a matter within its designated authority, if the director reasonably believes the committee to merit confidence.

**Section 14. Certain Rights of Directors and Officers.**

A director who is not also an officer of the Corporation shall have no responsibility to devote his or her full time to the affairs of the Corporation. Any director or officer, in his or her personal capacity or in a capacity as an affiliate, employee, or agent of any other person, or otherwise, may have business interests and engage in business activities similar to, in addition to or in competition with those of or relating to the Corporation.

**Section 15. Ratification.**

The Board of Directors or the stockholders may ratify and make binding on the Corporation any action or inaction by the Corporation or its officers to the extent that the Board of Directors or the stockholders could have originally authorized the matter. Moreover, any action or inaction questioned in any stockholders' derivative proceeding or any other proceeding on the ground of lack of authority, defective or irregular execution, adverse interest of a director, officer or stockholder, non-disclosure, miscomputation, the application of improper principles or practices of accounting or otherwise, may be ratified, before or after judgment, by the Board of Directors or by the stockholders, and if so ratified, shall have the same force and effect as if the questioned action or inaction had been originally duly authorized, and such ratification shall be binding upon the Corporation and its stockholders and shall constitute a bar to any claim or execution of any judgment in respect of such questioned action or inaction.

**Section 16. Emergency Provisions.**

Notwithstanding any other provision in the Charter or these Bylaws, this Section 16 shall apply during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the Board of Directors under Article III of these Bylaws cannot readily be obtained (an “**Emergency**”). During any Emergency, unless otherwise provided by the Board of Directors, (i) a meeting of the Board of Directors or a committee thereof may be called by any director or officer by any means feasible under the circumstances; (ii) notice of any meeting of the Board of Directors during such an Emergency may be given less than twenty-four (24) hours prior to the meeting to as many directors and by such means as may be feasible at the time, including publication, television or radio and (iii) the number of directors necessary to constitute a quorum shall be one-third of the entire Board of Directors.

**ARTICLE IV  
COMMITTEES**

**Section 1. Number, Tenure and Qualifications.**

The Board of Directors may appoint from among its members an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee and other committees, composed of one or more directors, to serve at the pleasure of the Board of Directors. The exact composition of each committee, including the total number of directors and the number of independent directors on each such committee, shall at all times comply with the listing requirements and rules and regulations of the New York Stock Exchange or any other national securities exchange on which the Corporation's common stock is then listed, as such rules and regulations may be modified or amended from time to time, and the rules and regulations of the SEC, as such rules and regulations may be modified or amended from time to time.

**Section 2. Powers.**

The Board of Directors may delegate to committees appointed under Section 1 of this Article IV any of the powers of the Board of Directors, except as prohibited by law.

**Section 3. Meetings.**

Notice of committee meetings shall be given in the same manner as notice for special meetings of the Board of Directors. A majority of the members of the committee shall constitute a quorum for the transaction of business at any meeting of the committee. The act of a majority of the committee members present at a meeting shall be the act of such committee. The Board of Directors may designate a chairman of any committee, and such chairman or, in the absence of a chairman, any two members of any committee (if there are at least two members of the committee) may fix the time and place of its meeting unless the Board of Directors shall otherwise provide. In the absence of any member of any such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint another director to act in the place of such absent member.

**Section 4. Telephone Meetings.**

Members of a committee of the Board of Directors may participate in a meeting by means of a conference telephone or other communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

**Section 5. Consent by Committees Without a Meeting.**

Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each member of the committee and is filed with the minutes of proceedings of such committee.

**Section 6. Vacancies.**

Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to fill any vacancy, to designate an alternate member to replace any absent or disqualified member or to dissolve any such committee.

**ARTICLE V  
OFFICERS**

**Section 1. General Provisions.**

The officers of the Corporation shall include a President, a Secretary and a Treasurer and may include a Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, a Chief Executive Officer, one or more Vice Presidents, a Chief Operating Officer, a Chief Financial Officer, a Chief Investment Officer, a Controller, one or more Assistant Secretaries and one or more Assistant Treasurers. In addition, the Board of Directors may from time to time elect such other officers with such powers and duties as it shall deem necessary or desirable. The officers of the Corporation shall be elected annually by the Board of Directors, except that the Chief Executive Officer or President may from time to time appoint one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers or other officers. Each officer shall serve until his or her successor is elected and qualifies or until his or her death, or his or her resignation or removal in the manner hereinafter provided. Any two or more offices except President and Vice President may be held by the same person. Election of an officer or agent shall not of itself create contract rights between the Corporation and such officer or agent.

**Section 2. Removal and Resignation.**

Any officer or agent of the Corporation may be removed, with or without cause, by the Board of Directors if in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Corporation may resign at any time by delivering his or her resignation to the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer, the President or the Secretary. Any resignation shall take effect immediately upon its receipt or at such later time specified in the resignation. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the Corporation.

**Section 3. Vacancies.**

A vacancy in any office may be filled by the Board of Directors for the balance of the term.

**Section 4. Chief Executive Officer.**

The Board of Directors may designate a Chief Executive Officer. In the absence of such designation, the President shall be the Chief Executive Officer of the Corporation. The Chief Executive Officer shall have general responsibility for implementation of the policies of the Corporation, as determined by the Board of Directors, and for the management of the business

and affairs of the Corporation. He or she may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of Chief Executive Officer and such other duties as may be prescribed by the Board of Directors from time to time.

**Section 5. Chief Operating Officer.**

The Board of Directors may designate a Chief Operating Officer. The Chief Operating Officer shall have the responsibilities and duties as set forth by the Board of Directors or the Chief Executive Officer.

**Section 6. Chief Financial Officer.**

The Board of Directors may designate a Chief Financial Officer. The Chief Financial Officer shall have the responsibilities and duties as set forth by the Board of Directors or the Chief Executive Officer.

**Section 7. Chief Investment Officer.**

The Board of Directors may designate a Chief Investment Officer. The Chief Investment Officer shall have the responsibilities and duties as set forth by the Board of Directors or the Chief Executive Officer.

**Section 8. Chairman of the Board of Directors.**

The Board of Directors shall designate a Chairman of the Board of Directors, who shall not, solely by reason of these Bylaws, be an officer of the Corporation. The Board of Directors may designate the Chairman of the Board of Directors as an executive or non-executive chairman. The Chairman of the Board of Directors shall preside over the meetings of the Board of Directors. The Chairman of the Board of Directors shall perform such other duties as may be assigned to him or her by these Bylaws or the Board of Directors.

**Section 9. President.**

In the absence of a Chief Executive Officer, the President shall in general supervise and control all of the business and affairs of the Corporation. In the absence of a designation of a Chief Operating Officer by the Board of Directors, the President shall be the Chief Operating Officer. He or she may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

**Section 10. Vice Presidents.**

In the absence of the President or in the event of a vacancy in such office, the Vice President (or in the event there be more than one Vice President, Vice Presidents in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall perform the duties of the President and when so acting shall have all the powers of and be subject to all the restrictions upon the President; and shall perform such other duties as from time to time may be assigned to such Vice President by the Chief Executive Officer, the President or the Board of Directors. The Board of Directors may designate one or more Vice Presidents as Executive Vice President, Senior Vice President or as Vice President for particular areas of responsibility.

**Section 11. Secretary.**

The Secretary shall (a) keep the minutes of the proceedings of the stockholders, the Board of Directors and committees of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation; (d) keep a register of the post office address of each stockholder which shall be furnished to the Secretary by such stockholder; (e) have general charge of the stock transfer books of the Corporation; and (f) in general perform such other duties as from time to time may be assigned to him by the Chief Executive Officer, the President or the Board of Directors.

**Section 12. Treasurer.**

The Treasurer shall have the custody of the funds and securities of the Corporation, shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation, shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors and in general perform such other duties as from time to time may be assigned to him or her by the Chief Executive Officer, the President or the Board of Directors. In the absence of a designation of a Chief Financial Officer by the Board of Directors, the Treasurer shall be the Chief Financial Officer of the Corporation.

The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and Board of Directors, at the regular meetings of the Board of Directors or whenever it may so require, an account of all his or her transactions as Treasurer and of the financial condition of the Corporation.

**Section 13. Controller.**

The Controller shall keep and maintain the books of account of the Corporation for internal and external reporting purposes. He or she shall also perform all other duties customarily incident to the office of the Controller and such other duties and has such other powers as the Board of Directors or the Chief Executive Officer or the President may from time to time prescribe. In the absence of the Controller or in the event of his or her inability or refusal to act, the Board of Directors, the Chief Executive Officer or the President may designate the

Treasurer, any Assistant Treasurer or any other officer of the Corporation to perform the duties of the Controller and, when so acting, such officer of the Corporation shall have all the powers of and be subject to all of the restrictions upon the Controller. The Controller shall perform such other duties and have such other powers as the Board of Directors, the Chief Executive Officer or the President may from time to time prescribe.

**Section 14. Assistant Secretaries; Assistant Treasurers.**

The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or Treasurer, respectively, or by the Chief Executive Officer, the President or the Board of Directors.

**Section 15. Compensation.**

The compensation of the officers shall be fixed from time to time by or under the authority of the Board of Directors and no officer shall be prevented from receiving such compensation by reason of the fact that he or she is also a director.

**ARTICLE VI  
CONTRACTS, CHECKS AND DEPOSITS**

**Section 1. Contracts.**

The Board of Directors may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document shall be valid and binding upon the Corporation when duly authorized or ratified by action of the Board of Directors and executed by an authorized person.

**Section 2. Checks and Drafts.**

All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or agent of the Corporation in such manner as shall from time to time be determined by the Board of Directors.

**Section 3. Deposits.**

All funds of the Corporation not otherwise employed shall be deposited or invested from time to time to the credit of the Corporation as the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer or any other officer designated by the Board of Directors may determine.



**ARTICLE VII  
STOCK**

**Section 1. Certificates.**

Except as may be otherwise provided by the Board of Directors, stockholders of the Corporation are not entitled to certificates representing the shares of stock held by them. In the event that the Corporation issues shares of stock represented by certificates, such certificates shall be in such form as prescribed by the Board of Directors or a duly authorized officer, shall contain the statements and information required by the MGCL and shall be signed by the officers of the Corporation in any manner permitted by the MGCL. In the event that the Corporation issues shares of stock without certificates, to the extent then required by the MGCL the Corporation shall provide to the record holders of such shares a written statement of the information required by the MGCL to be included on stock certificates. There shall be no differences in the rights and obligations of stockholders based on whether or not their shares are represented by certificates.

**Section 2. Transfers.**

All transfers of shares of stock shall be made on the books of the Corporation or the books of the transfer agent of the Corporation, by the holder of the shares, in person or by his or her attorney, in such manner as the Board of Directors or any officer of the Corporation may prescribe and, if such shares are certificated, upon surrender to the Corporation or the transfer agent of the Corporation of certificates duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Corporation, or the transfer agent of the Corporation, shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction on its books. The issuance of a new certificate upon the transfer of certificated shares is subject to the determination of the Board of Directors that such shares shall no longer be represented by certificates. Upon the transfer of any uncertificated shares, to the extent then required by the MGCL, the Corporation shall provide to the record holders of such shares a written statement of the information required by the MGCL to be included on stock certificates.

The Corporation shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by the laws of the State of Maryland. Notwithstanding the foregoing, transfers of shares of any class or series of stock will be subject in all respects to the Charter and all of the terms and conditions contained therein.

**Section 3. Replacement Certificate.**

Any officer of the Corporation may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, destroyed, stolen or mutilated upon the making of an affidavit of that fact by the person claiming the certificate to be lost, destroyed, stolen or mutilated; provided, however, if such shares have ceased to be certificated, no new certificate shall be issued unless requested in

writing by such stockholder and the Board of Directors has determined that such certificates may be issued. Unless otherwise determined by an officer of the Corporation, the owner of such lost, destroyed, stolen or mutilated certificate or certificates, or his or her legal representative, shall be required, as a condition precedent to the issuance of a new certificate or certificates, to give the Corporation a bond in such sums as it may direct as indemnity against any claim that may be made against the Corporation.

**Section 4. Fixing of Record Date.**

The Board of Directors may set, in advance, a record date for the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or determining stockholders entitled to receive payment of any dividend or the allotment of any other rights, or in order to make a determination of stockholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than ninety (90) days and, in the case of a meeting of stockholders, not less than ten (10) days, before the date on which the meeting or particular action requiring such determination of stockholders of record is to be held or taken.

When a record date for the determination of stockholders entitled to notice of and to vote at any meeting of stockholders has been set as provided in this section, such record date shall continue to apply to the meeting if adjourned or postponed, except if the meeting is adjourned or postponed to a date more than 120 days after the record date originally fixed for the meeting, in which case a new record date for such meeting may be determined as set forth herein.

**Section 5. Stock Ledger.**

The Corporation shall maintain at its principal office or at the office of its counsel, accountants or transfer agent, an original or duplicate stock ledger containing the name and address of each stockholder and the number of shares of each class held by such stockholder.

**Section 6. Fractional Stock; Issuance Of Units.**

The Board of Directors may authorize the Corporation to issue fractional stock or authorize the issuance of scrip, all on such terms and under such conditions as it may determine. Notwithstanding any other provision of the Charter or these Bylaws, the Board of Directors may issue units consisting of different securities of the Corporation. Any security issued in a unit shall have the same characteristics as any identical securities issued by the Corporation, except that the Board of Directors may provide that for a specified period securities of the Corporation issued in such unit may be transferred on the books of the Corporation only in such unit.

**ARTICLE VIII  
ACCOUNTING YEAR**

The Board of Directors shall have the power, from time to time, to fix the fiscal year of the Corporation by a duly adopted resolution.

**ARTICLE IX  
DISTRIBUTIONS**

**Section 1. Authorization.**

Dividends and other distributions upon the stock of the Corporation may be authorized by the Board of Directors, subject to the provisions of law and the Charter. Dividends and other distributions may be paid in cash, property or stock of the Corporation, subject to the provisions of law and the Charter.

**Section 2. Contingencies.**

Before payment of any dividends or other distributions, there may be set aside out of any assets of the Corporation available for dividends or other distributions such sum or sums as the Board of Directors may from time to time, in its absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends, for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors shall determine, and the Board of Directors may modify or abolish any such reserve.

**ARTICLE X  
INVESTMENT POLICIES**

Subject to the provisions of the Charter, the Board of Directors may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the Corporation as it shall deem appropriate in its sole discretion.

**ARTICLE XI  
SEAL**

**Section 1. Seal.**

The Board of Directors may authorize the adoption of a seal by the Corporation. The seal shall contain the name of the Corporation and the year of its incorporation, and the words "Incorporated Maryland." The Board of Directors may authorize one or more duplicate seals and provide for the custody thereof.

**Section 2. Affixing Seal.**

Whenever the Corporation is permitted or required to affix its seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a seal to place the word "(SEAL)" adjacent to the signature of the person authorized to execute the document on behalf of the Corporation.

**ARTICLE XII  
INDEMNIFICATION AND ADVANCE OF EXPENSES**

To the maximum extent permitted by Maryland law in effect from time to time, the Corporation shall indemnify and, without requiring a preliminary determination of the ultimate

entitlement to indemnification, shall pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (a) any individual who is a present or former director or officer of the Corporation and who is made or threatened to be made a party to, or witnessing, the proceeding by reason of his or her service in that capacity or (b) any individual who, while a director or officer of the Corporation and at the request of the Corporation, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made or threatened to be made a party to, or witnessing, the proceeding by reason of his or her service in that capacity. The rights to indemnification and advance of expenses provided by the Charter and these Bylaws shall vest immediately upon election of a director or officer. The Corporation may, with the approval of its Board of Directors, provide such indemnification and advance for expenses to an individual who served a predecessor of the Corporation in any of the capacities described in (a) or (b) above and to any employee or agent of the Corporation or a predecessor of the Corporation. The indemnification and payment or reimbursement of expenses provided in these Bylaws shall not be deemed exclusive of or limit in any way other rights to which any person seeking indemnification or payment or reimbursement of expenses may be or may become entitled under any bylaw, resolution, insurance, agreement or otherwise.

Neither the amendment nor repeal of this Article, nor the adoption or amendment of any other provision of the Charter or these Bylaws inconsistent with this Article, shall apply to or affect in any respect the applicability of the preceding paragraph with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

### **ARTICLE XIII WAIVER OF NOTICE**

Whenever any notice of a meeting is required to be given pursuant to the Charter or these Bylaws or pursuant to applicable law, a waiver thereof in writing or by electronic transmission, given by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice of such meeting, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened.

### **ARTICLE XIV AMENDMENT OF BYLAWS**

The Board of Directors shall have the exclusive power to adopt, alter or repeal any provision of these Bylaws and to make new Bylaws.

Number \*0\*

Shares \*0\*

**SEE REVERSE FOR IMPORTANT NOTICE  
ON TRANSFER RESTRICTIONS AND OTHER INFORMATION**

THIS CERTIFICATE IS TRANSFERABLE  
IN THE CITIES OF \_\_\_\_\_

CUSIP 164651 101

**CHERRY HILL MORTGAGE INVESTMENT CORPORATION**  
a Corporation Formed Under the Laws of the State of Maryland

THIS CERTIFIES THAT **\*\*Specimen\*\*** is the owner of **\*\*Zero (0)\*\*** fully paid and nonassessable shares of Common Stock, \$0.01 par value per share, of

**Cherry Hill Mortgage Investment Corporation**

(the "Corporation") transferable on the books of the Corporation by the holder hereof in person or by its duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are issued and shall be held subject to all of the provisions of the charter of the Corporation (the "Charter") and the Bylaws of the Corporation and any amendments or supplements thereto. This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be executed on its behalf by its duly authorized officers.

DATED: \_\_\_\_\_

Countersigned and Registered:  
Transfer Agent  
and Registrar

\_\_\_\_\_  
President (SEAL)

By: \_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Secretary

**IMPORTANT NOTICE**

The Corporation will furnish to any stockholder, on request and without charge, a full statement of the information required by Section 2-211(b) of the Corporations and Associations Article of the Annotated Code of Maryland with respect to the designations and any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption of the stock of each class which the Corporation has authority to issue and, if the Corporation is authorized to issue any preferred or special class in series, (i) the differences in the relative rights and preferences between the shares of each series to the extent set, and (ii) the authority of the Board of Directors to set such rights and preferences of subsequent series. The foregoing summary does not purport to be complete and is subject to and qualified in its entirety by reference to the Charter, a copy of which will be sent without charge to each stockholder who so requests. Such request must be made to the Secretary of the Corporation at its principal office.

The shares represented by this certificate are subject to restrictions on Beneficial Ownership, Constructive Ownership and Transfer for the purpose, among others, of the Corporation's maintenance of its status as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). Subject to certain further restrictions and except as expressly provided in the Charter, (i) no Person shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Stock Ownership Limit, unless such person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (ii) no Person shall Beneficially Own or Constructively Own shares of Capital Stock to the extent that such Beneficial Ownership or Constructive Ownership of Capital Stock would result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of the taxable year); (iii) no Person may Transfer shares of Capital Stock if such Transfer would result in the Capital Stock being Beneficially Owned by less than 100 Persons (as determined under the principles of Section 856(a)(5) of the Code); and (iv) no Person shall Beneficially Own or Constructively Own shares of Capital Stock to the extent that such Beneficial Ownership or Constructive Ownership of Capital Stock would otherwise cause the Corporation to fail to qualify as a REIT. Any Person who acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of shares of Capital Stock which causes or may cause a Person to Beneficially Own or Constructively Own shares of Capital Stock in excess or in violation of the above limitations must immediately notify the Corporation in writing or, in the case of a proposed or attempted transaction, must give at least 15 days prior written notice to the Corporation. If any of the restrictions on Transfer, Beneficial Ownership or Constructive Ownership set forth in (i), (ii) or (iv) above are violated, the shares of Capital Stock in excess or in violation of such limitations will be automatically transferred to a Charitable Trust for the benefit of a Charitable Beneficiary and the Person shall acquire no rights in such shares of Capital Stock. In addition, the Corporation may take other actions, including redeeming shares upon the terms and conditions specified by the Board, in its sole and absolute discretion, if the Board determines that Beneficial Ownership, Constructive Ownership or a Transfer or other event may violate the restrictions described above. Furthermore, upon the occurrence of certain events, attempted Transfers in violation of the restrictions described above may be void ab initio. All capitalized terms in this legend have the meanings defined in the Charter, a copy of which, including the restrictions on Transfer and Beneficial Ownership or Constructive Ownership, will be furnished to each holder of Capital Stock on request and without charge. Requests for such a copy may be directed to the Secretary of the Corporation at its principal office.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN OR DESTROYED, THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	-	as tenants in common	UNIF GIFT MIN ACT _____	Custodian _____
TEN ENT	-	as tenants by the entireties		(Custodian) _____ (Minor)
JT TEN	-	as joint tenants with right of survivorship and not as tenants in common	Under the Uniform Gifts to Minors Act of _____	(State)

FOR VALUE RECEIVED, \_\_\_\_\_ HEREBY SELLS, ASSIGNS AND TRANSFERS UNTO

\_\_\_\_\_ (NAME & ADDRESS, INCLUDING ZIP CODE & SS# OR OTHER IDENTIFYING # OF ASSIGNEE)

\_\_\_\_\_ (\_\_\_\_\_) shares of stock of the Corporation represented by this Certificate and does hereby irrevocably constitute and appoint

\_\_\_\_\_ attorney to transfer the said shares on the books of the Corporation, with full power of substitution in the premises.

Dated: \_\_\_\_\_

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY OTHER CHANGE.

**FORM OF  
REGISTRATION RIGHTS AGREEMENT**

This REGISTRATION RIGHTS AGREEMENT, dated as of [                    ], 2013, is entered into by and between Cherry Hill Mortgage Investment Corporation, a Maryland corporation (the “*Company*”), and Stanley C. Middleman (“*Investor*”).

WHEREAS, the Company will issue and sell to Investor [                    ] shares of the Company’s common stock, par value \$0.01 per share (the “*Common Stock*”) pursuant to that certain Stock Purchase Agreement, dated as of [                    ], 2013 (the “*Purchase Agreement*”) in a transaction not registered under the Securities Act of 1933, as amended (the “*Securities Act*”).

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement hereby agree as follows:

**Section 1. Certain Definitions.**

In addition to the terms defined elsewhere in this Agreement, the following terms, as used herein, shall have the following meanings:

“*Affiliate*” of any Person means any other Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person. The term “control” (including the terms “controlled by” and “under common control with”) as used with respect to any Person means the possession, directly or indirectly through one or more intermediaries, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“*Agreement*” means this Registration Rights Agreement, including all amendments, modifications and supplements and any exhibits or schedules to any of the foregoing, and shall refer to this Registration Rights Agreement as the same may be in effect at the time such reference becomes operative.

“*Business Day*” means any day other than Saturday, Sunday or a day on which commercial banks in New York, New York are directed or permitted to be closed.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Holder*” means Investor, as holder of record of Registrable Common Stock (as defined below) and (ii) any Affiliate of Investor that is a partnership, limited liability company, corporation, trust or similar entity and (iii) a direct or indirect transferee of such Registrable Common Stock from Investor. For purposes of this Agreement, the Company may deem and treat a registered holder of Registrable Common Stock as the Holder and absolute owner thereof, and the Company shall not be affected by any notice to the contrary.

“*IPO*” means the initial public offering of the Company’s Common Stock.

“*Person*” means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, incorporated organization, association, corporation, institution, public benefit corporation, government (whether federal, state, county, city, municipal or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof) or any other entity.

“*Prospectus*” means the prospectus or prospectuses included in any Registration Statement (including without limitation, any prospectus subject to completion and a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A or Rule 430B promulgated under the Securities Act and any term sheet filed pursuant to Rule 433 under the Securities Act), as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Common Stock covered by such Registration Statement and by all other amendments and supplements to the prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such prospectus or prospectuses.

“*Registrable Common Stock*” means each of the [ ] shares of Common Stock issued and sold to Investor in connection with the Purchase Agreement upon original issuance thereof and at all times subsequent thereto, including upon the transfer thereof by the original Holder or any subsequent Holder and any securities issued in respect of such securities by reason of or in connection with any exchange for or replacement of such securities or any stock dividend, stock distribution, stock split, purchase in any rights offering or in connection with any combination of shares, recapitalization, merger or consolidation, or any other equity securities issued pursuant to any other pro rata distribution with respect to the Common Stock, until, in the case of any such securities, the earliest to occur of (i) the date on which it has been registered effectively pursuant to the Securities Act and disposed of in accordance with the Registration Statement relating to it or (ii) the date on which either it is distributed to the public or is saleable without restrictions (including but not limited to the volume limitations set forth in Rule 144), in each case pursuant to Rule 144.

“*Registration Statement*” means any registration statement of the Company filed with the SEC under the Securities Act which covers any of the Registrable Common Stock pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such Registration Statement, including post-effective amendments, all exhibits and all materials incorporated by reference or deemed to be incorporated by reference in such Registration Statement.

“*Rule 144*” means Rule 144 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar Rule or regulation hereafter adopted by the SEC as a replacement thereto having substantially the same effect as such rule.

“*Rule 415*” means Rule 415 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar Rule or regulation hereafter adopted by the SEC as a replacement thereto having substantially the same effect as such rule.

“*SEC*” means the Securities and Exchange Commission.



“Securities Act” means the Securities Act of 1933, as amended.

“Shelf Registration Statement” means a registration statement on Form S-3 under the Securities Act (or any successor form thereto) providing for the resale by the Holders from time to time pursuant to Rule 415 of any and all shares of Registrable Common Stock

“Underwritten Offering” means an offering pursuant to an effective registration statement under the Securities Act in which securities of the Company are sold to underwriters for reoffering to the public.

“Underwriting Agreement” means the Underwriting Agreement, dated [ ], 2013, by and among the Company, Cherry Hill Mortgage Management, LLC, a Delaware limited liability company and the manager of the Company, and Barclays Capital Inc. and Morgan Stanley & Co. LLC, as representatives for the underwriters named on Schedule I of such Underwriting Agreement.

## Section 2. Shelf Registrations.

(a) Mandatory Shelf Registration. After the IPO, the Company shall use its reasonable best efforts to qualify and remain qualified to register securities under the Securities Act pursuant to Form S-3 or any successor form thereto. As soon as practicable after the date on which the Company first becomes eligible to register the resale of securities of the Company pursuant to Form S-3 under the Securities Act, but no later than thirty (30) days after such date unless required to be postponed pursuant to Section 2(b) hereof, the Company shall file with the SEC a Shelf Registration Statement (the “Mandatory Shelf Registration”) with respect to all then Registrable Common Stock; *provided, however*, the Company shall not be required to file the Shelf Registration Statement on or prior to [ ], 2014. The Company shall use its reasonable best efforts to (i) cause such Mandatory Shelf Registration to be declared effective by the SEC as soon as practicable after the initial filing of such Mandatory Shelf Registration and (ii) maintain the effectiveness of such Mandatory Shelf Registration Statement, and a current prospectus relating thereto, until the earliest to occur of (x) the date on which all Registrable Common Stock included in such Mandatory Shelf Registration has been disposed of in accordance with such Mandatory Shelf Registration Statement, or (y) the date on which it is distributed to the public by a Holder pursuant to Rule 144 promulgated by the SEC pursuant to the Securities Act.

(b) Certain Timing Restrictions for Mandatory Shelf Registration. The Company may, no more than one time in any twelve-month period, postpone or withdraw for up to sixty (60) days the filing or the effectiveness of the Mandatory Shelf Registration if, based on the good faith judgment of the Company’s board of directors, such postponement or withdrawal is necessary in order to avoid premature disclosure of a matter the Company’s board of directors has determined would not be in the best interest of the Company to be disclosed at such time; *provided, however*, that in no event shall the Company withdraw a Registration Statement after such Registration Statement has been declared effective.

(c) Underwritten Offerings. If any of the Registrable Common Stock covered by the Mandatory Shelf Registration is to be sold in an Underwritten Offering, the Holders of a

majority of the Registrable Common Stock to be sold in such Underwritten Offering shall have the right to select the managing underwriter(s) to administer the offering subject to the approval of the Company, which approval shall not be unreasonably withheld. Notwithstanding the foregoing, in no event shall the Company be obligated to effect more than one (1) Underwritten Offering hereunder in any single six (6) month period, with the first such period measured from the date of the first such offering and ending on the same date during the six (6) months following such offering, whether or not a Business Day.

### **Section 3. Limitations on Subsequent Registration Rights.**

From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of at least 66 <sup>2</sup>/<sub>3</sub>% of the Registrable Common Stock held by the Investor and the Investor's direct and indirect transferees, enter into any agreement with any holder or prospective holder of any securities of the Company that would allow such holder or prospective holder to (i) include such securities in any registration unless, under the terms of such agreement, such holder or prospective holder may include such securities in any such registration statement filed by the Company only to the extent that the inclusion of such securities will not reduce the number of shares of Registrable Common Stock of the Holders that are included or (ii) initiate a demand for registration of any securities held by such holder or prospective holder during any period in which the Registration Statement relating to the Mandatory Shelf Registration is not effective.

### **Section 4. Registration Procedures.**

Pursuant to this Agreement, the Company shall use its reasonable best efforts to effect and maintain the registration and the sale of the Registrable Common Stock in accordance with the Holders' intended methods of disposition thereof, and pursuant thereto the Company shall as expeditiously as possible:

(a) prepare and file with the SEC a Registration Statement with respect to such Registrable Common Stock and use its reasonable best efforts to cause such Registration Statement to become effective as soon as practicable thereafter; and before filing a Registration Statement or Prospectus or any amendments or supplements thereto, furnish to the Holders of Registrable Common Stock covered by such Registration Statement and the underwriter or underwriters, if any, copies of all such documents proposed to be filed, including, if requested by such Holders, documents incorporated by reference in the Prospectus and, if requested by such Holders, the exhibits incorporated or deemed incorporated by reference, and such Holders shall have the opportunity to object to any information pertaining to such Holders that is contained therein and the Company will make the corrections reasonably requested by such Holders with respect to such information prior to filing any Registration Statement or amendment thereto or any Prospectus or any supplement thereto;

(b) prepare and file with the SEC such amendments, post-effective amendments and supplements to such Registration Statement and the Prospectus used in connection therewith as may be necessary to keep such Registration Statement effective and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Common Stock covered by such Registration Statement for a period ending on the date on which all the shares of Common Stock subject thereto ceases to be Registrable Common Stock;

(c) furnish to each Holder of Registrable Common Stock (without charge) such number of copies of such Registration Statement, each amendment and supplement thereto, the Prospectus included in such Registration Statement (including each preliminary Prospectus) and such other documents as such Holder may reasonably request in order to facilitate the disposition of the Registrable Common Stock owned by such Holder, and the Company consents to the use of such Prospectus, including each preliminary Prospectus, by Holders of Registrable Common Stock, in connection with the offering and sale of Registrable Common Stock covered by any such Prospectus;

(d) use its reasonable best efforts to register or qualify such Registrable Common Stock under such other securities or blue sky laws of such jurisdictions as any Holder of Registrable Common Stock reasonably requests and do any and all other acts and things which may be reasonably necessary or advisable to enable such Holder to consummate the disposition in such jurisdictions of the Registrable Common Stock owned by such Holder (provided, that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subparagraph (d), (ii) subject itself to taxation in any such jurisdiction or (iii) consent to general service of process in any such jurisdiction unless the Company is already subject to such service);

(e) notify each Holder of such Registrable Common Stock, at any time when a Prospectus relating thereto is required to be delivered under the Securities Act, of the occurrence of any event described in Section 4(o) of this Agreement or the occurrence of any event as a result of which the Registration Statement, including the Prospectus contained therein, contains an untrue statement of a material fact or omits any fact required to be stated therein or necessary to make the statements therein not misleading, and, at the request of any such Holder, the Company shall prepare a supplement or amendment to such Registration Statement to correct such misstatement or omission so that the event described in Section 4(o) no longer exists or the Prospectus as thereafter delivered to the purchasers of such Registrable Common Stock, shall not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading;

(f) in the case of an Underwritten Offering, (i) enter into such customary agreements (including underwriting agreements in customary form), (ii) take all such other actions as the Holders of at least a majority of number of shares of the Registrable Common Stock being sold or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Registrable Common Stock (including making executive officers of the Company available to participate in, and cause them to cooperate with the underwriters in connection with, "road-show" and other customary marketing activities (including one-on-one meetings with prospective purchasers of the Registrable Common Stock), (iii) cause to be delivered to the underwriters opinions of counsel to the Company in customary form, covering such matters as are customarily covered by opinions for an underwritten public offering as the underwriters may request and addressed to the underwriters; and (iv) to the extent requested by the managing underwriters of any such Underwritten Offering, cause to be delivered to such managing underwriters, customary lock-up agreements of the Company and its officers and directors, in each case for a period not to exceed 90 days plus any extensions necessary to comply with the rules and regulations of the Financial Industry Regulatory Authority, Inc.;

(g) subject to receipt of reasonably acceptable confidentiality agreements, make available, for inspection by a representative of a Holder of Registrable Common Stock, any underwriter participating in any disposition pursuant to such Registration Statement, and any attorney, accountant or other agent retained by any such Holder or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and independent accountants to supply all information reasonably requested by any such Holder, underwriter, attorney, accountant or agent in connection with such Registration Statement;

(h) to use its reasonable best efforts to cause all such Registrable Common Stock to be listed on each securities exchange on which securities of the same class issued by the Company are then listed or, if no such similar securities are then listed, on a national securities exchange selected by the Company;

(i) provide a transfer agent and registrar for all such Registrable Common Stock and provide a CUSIP number for all such Registrable Common Stock not later than the effective date of such Registration Statement;

(j) in the case of an Underwritten Offering, at or prior to the time of delivery of any Registrable Common Stock sold pursuant thereto), letters from the Company's independent certified public accountants addressed to each underwriter, stating that such accountants are independent public accountants within the meaning of the Securities Act and the applicable rules and regulations adopted by the SEC thereunder, and otherwise in customary form and covering such financial and accounting matters as are customarily covered by letters of the independent certified public accountants delivered in connection with primary or secondary underwritten public offerings, as the case may be;

(k) make generally available to stockholders of the Company a consolidated earnings statement (which need not be audited) for the 12 months (or, if applicable, such shorter period that the Company has been in existence) beginning after the effective date of a Registration Statement as soon as reasonably practicable after the end of such period, which earnings statement shall satisfy the requirements of an earnings statement under Section 11(a) of the Securities Act and Rule 158 thereunder;

(l) cooperate with each selling Holder of Registrable Common Stock and each underwriter participating in the disposition of such Registrable Common Stock and their respective counsel in connection with any filings required to be made with the Financial Industry Regulatory Authority, Inc. and make reasonably available its employees and personnel and otherwise provide reasonable assistance to the underwriters (taking into account the needs of the Company's businesses and the requirements of the marketing process) in the marketing of Registrable Common Stock in any Underwritten Offering;

(m) use its reasonable best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, or the suspension of the qualification of

any of the Registrable Common Stock for sale in any jurisdiction and, if such an order or suspension is issued, to use reasonable best efforts to obtain the withdrawal of such order or suspension at the earliest possible moment and to notify each Holder of Registrable Common Stock being sold of the issuance of such order and the resolution thereof or its receipt of actual notice of the initiation or threat of any proceeding for such purpose;

(n) promptly notify each Holder of Registrable Common Stock and the underwriter or underwriters, if any:

(i) when the Registration Statement, pre-effective amendment, the Prospectus or any prospectus supplement or post-effective amendment to the Registration Statement has been filed and, with respect to the Registration Statement or any post-effective amendment, when the same has become effective;

(ii) of any written request by the SEC for amendments or supplements to the Registration Statement or Prospectus;

(iii) of the notification to the Company by the SEC of its initiation of any proceeding with respect to the issuance by the SEC of any stop order suspending the effectiveness of the Registration Statement; and

(iv) of the receipt by the Company of any notification with respect to the suspension of the qualification of any Registrable Common Stock for sale under the applicable securities or blue sky laws of any jurisdiction; and

(o) at all times after the Company has filed a registration statement with the SEC pursuant to the requirements of either the Securities Act or the Exchange Act, the Company shall file all reports and other documents required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder, and take such further action as any Holders may reasonably request, all to the extent required to enable such Holders to be eligible to sell Registrable Common Stock pursuant to Rule 144 under the Securities Act (or any similar rule then in effect).

As a condition to being included in any Registration Statement, the Company may require each Holder of Registrable Common Stock as to which any registration is being effected to furnish to the Company any other information regarding such Holder and the distribution of such securities as the Company may from time to time reasonably request in writing.

Each Holder of Registrable Common Stock agrees by having its stock treated as Registrable Common Stock hereunder that, upon notice of the happening of any event as a result of which the Prospectus included in such Registration Statement contains an untrue statement of a material fact or omits any material fact necessary to make the statements therein not misleading (a "*Suspension Notice*"), such Holder will forthwith discontinue disposition of Registrable Common Stock until such Holder is advised in writing by the Company that the use of the Prospectus may be resumed and is furnished with a supplemented or amended Prospectus as contemplated by Section 4(e) hereof, and, if so directed by the Company, such Holder, at its option, either will destroy or deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holder's possession, of the Prospectus covering

such Registrable Common Stock current at the time of receipt of such notice; *provided, however*, that such postponement of sales of Registrable Common Stock by the Holders shall not exceed thirty (30) days in the aggregate in any three-month period or ninety (90) days in the aggregate in any one year except as a result of a refusal by the SEC to declare any post-effective amendment to the Registration Statement effective after the Company has used all commercially reasonable efforts to cause such post-effective amendment to be declared effective, in which case the Company shall terminate the suspension of the use of the Registration Statement immediately following the effective date of the post-effective amendment. In any event, the Company shall not be entitled to deliver more than three (3) Suspension Notices in any one year.

#### **Section 5. Registration Expenses.**

(a) All fees and expenses incident to the Company's performance of or compliance with this Agreement, including, without limitation, all registration and filing fees, fees and expenses of compliance with securities or blue sky laws, listing application fees, printing, word processing, telephone, messenger and delivery expenses, transfer agent's and registrar's fees, cost of distributing Prospectuses in preliminary and final form as well as any supplements thereto, and fees and disbursements of counsel for the Company, reasonable fees and disbursements of one counsel retained by the Holders of Registrable Common Stock (in accordance with Section 5(b)) and all independent certified public accountants and other Persons retained by the Company (all such expenses being herein called "*Registration Expenses*") (but not including any underwriting discounts or commissions attributable to the sale of Registrable Common Stock or fees and expenses of more than one counsel representing the Holders of Registrable Common Stock, which shall be borne by the Holders), shall be borne by the Company (whether or not any Registration Statement is declared effective or any of the transactions described herein is consummated). In addition, the Company shall pay its internal expenses, the expense of any annual audit or quarterly review, the expense of any liability insurance and the expenses and fees for listing the securities to be registered on each securities exchange on which they are to be listed.

(b) In connection with the Mandatory Shelf Registration initiated hereunder, the Company shall reimburse the Holders covered by such registration for the reasonable fees and disbursements of one law firm chosen by the Holders of a majority of the number of shares of Registrable Common Stock included in such registration.

(c) The obligation of the Company to bear the expenses described in Section 5(a) and to reimburse the Holders for the expenses described in Section 5(b) shall apply irrespective of whether the Shelf Registration Statement, becomes effective, is withdrawn or suspended, is converted to another form of registration and irrespective of when any of the foregoing shall occur; provided, that Registration Expenses for any supplements or amendments to a Registration Statement or Prospectus resulting from a misstatement furnished to the Company by a Holder shall be borne by such Holder.

#### **Section 6. Indemnification.**

(a) The Company shall indemnify and hold harmless, to the fullest extent permitted by law, each Holder, its officers, directors and Affiliates, employees and agents of such Holder and

each Person, if any, who controls such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) from and against all losses, claims, damages, liabilities, judgments and expenses (including without limitation, the reasonable fees and other expenses incurred in connection with any suit, action, investigation or proceeding or any claim asserted) caused by, arising out of, in connection with or based upon, any untrue or alleged untrue statement of material fact contained in any Registration Statement, Prospectus (including any preliminary Prospectus) or any amendment thereof or supplement thereto or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein, in the case of the Prospectus in the light of the circumstances under which they were made, not misleading or any violation or alleged violation by the Company of the Securities Act or the Exchange Act or any rule or regulation promulgated under the Securities Act or the Exchange Act, except insofar as the same are made in reliance and in conformity with information relating to such Holder furnished in writing to the Company by such Holder expressly for use therein or caused by such Holder's failure to deliver to such Holder's immediate purchaser a copy of the Prospectus or any amendments or supplements thereto (if the same was required by applicable law to be so delivered) after the Company has furnished such Holder with a sufficient number of copies of the same.

(b) In connection with any Registration Statement in which a Holder of Registrable Common Stock is participating, each such Holder shall furnish to the Company in writing such information and affidavits as the Company reasonably requests for use in connection with any such Registration Statement or Prospectus and, shall indemnify, to the fullest extent permitted by law, the Company, its officers, directors, Affiliates, and each Person who "controls" the Company within the meaning of the Securities Act (excluding Investor to the extent that Investor is the Holder of the Registrable Common Stock), against all losses, claims, damages, liabilities and expenses arising out of or based upon any untrue or alleged untrue statement of material fact contained in the Registration Statement, Prospectus or preliminary Prospectus or any amendment thereof or supplement thereto or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein, in the case of the Prospectus in the light of the circumstances under which they were made, not misleading, but only to the extent that the same are made in reliance and in conformity with information relating to such Holder furnished in writing to the Company by such Holder expressly for use therein or caused by such Holder's failure to deliver to such Holder's immediate purchaser a copy of the Prospectus or any amendments or supplements thereto (if the same was required by applicable law to be so delivered) after the Company has furnished such Holder with a sufficient number of copies of the same; *provided, however*, that the obligation to indemnify shall be several, not joint and several, among such Holders and the liability of each such Holder shall be in proportion to and limited to the net amount received by such Holder from the sale of Registrable Common Stock pursuant to such Registration Statement.

(c) Any Person entitled to indemnification hereunder shall (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist with respect to such claim, such indemnifying party shall assume the defense of such claim with counsel reasonably satisfactory to the indemnified party. If such defense is assumed, the indemnifying party shall not be subject to any liability for any settlement made by the indemnified party without its consent (but such consent

will not be unreasonably withheld, conditioned or delayed). An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim shall not be obligated to pay the fees and expenses of more than one counsel (in addition to one local counsel per applicable jurisdiction) total for all indemnified parties by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party there may be one or more legal or equitable defenses available to such indemnified party which are in addition to or may conflict with those available to another indemnified party with respect to such claim. Failure to give prompt written notice shall not release the indemnifying party from its obligations hereunder. No indemnifying party shall, without the prior written consent of the indemnified party, consent to entry of any judgment or enter into any settlement or other compromise (i) which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of an unconditional release from all liability in respect to such claim (and all similar claims arising out of the same general allegations) or litigation or (ii) which includes any statement of admission of fault, culpability or failure to act by or on behalf of such indemnified party.

(d) The indemnification provided for under this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of the indemnified party or any officer, director or controlling Person of such indemnified party and shall survive the transfer of Registrable Common Stock or the termination of this Agreement.

(e) If the indemnification provided for in or pursuant to this Section 6 is unavailable, unenforceable or insufficient to hold harmless any indemnified party in respect of any losses, claims, damages, liabilities or expenses referred to herein, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions which result in such losses, claims, damages, liabilities or expenses as well as any other relevant equitable considerations. The relative fault of the indemnifying party on the one hand and of the indemnified party on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party, and by each party's respective intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. Notwithstanding anything herein to the contrary, in no event shall the liability of any Holder be greater in amount than the amount of net proceeds received by such Holder upon such sale or the amount for which such indemnifying party would have been obligated to pay by way of indemnification if the indemnification provided for under Section 6(a) or 6(b) hereof had been available under the circumstances. The indemnity and contribution agreements contained in this Section 7 are in addition to any liability which the indemnifying Persons may otherwise have to the indemnified parties hereunder, under applicable law or at equity.

#### **Section 7. Participation in Underwritten Offerings.**

No Person may participate in any registration hereunder that is an Underwritten Offering unless such Person (a) agrees to sell such Person's securities on the basis provided in any



underwriting arrangements approved by the Person or Persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements, opinions and other documents required under the terms of such underwriting arrangements.

#### **Section 8. Rule 144.**

The Company covenants that it will timely file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder in accordance with the requirements of the Securities Act and the Exchange Act, and after consummation of the IPO it will take such further action as any Holder may reasonably request to make available adequate current public information with respect to the Company meeting the current public information requirements of Rule 144(c) under the Securities Act, to the extent required to enable such Holder to sell Registrable Common Stock without registration under the Securities Act within the limitation of the exemptions provided by (i) Rule 144 under the Securities Act, as such Rule may be amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the SEC. Upon the request of any Holder, the Company will deliver to such Holder a written statement as to whether it has complied with such information and requirements.

#### **Section 9. Miscellaneous.**

(a) Notices. All notices, requests and other communications to any party hereunder shall be in writing (including facsimile or similar writing) and shall be given as follows: (i) if to the Company to Cherry Hill Mortgage Investment Corporation, 301 Harper Drive, Suite 110, Moorestown, New Jersey 08057, Attention: Chief Financial Officer, Facsimile No.: (856) 626-2663, and (ii) if to Investor to Stanley C. Middleman, 907 Pleasant Valley Ave, Suite 3, Mt Laurel, NJ 08054, Facsimile No.: (877) 239-2533, and (iii) if to a transferee Holder, to the address of such Holder set forth in the transfer documentation provided to the Company; or such other address or facsimile number as such party (or transferee) may hereafter specify for the purpose by notice to the other parties. Each such notice, request or other communication shall be effective (A) if given by facsimile, when such facsimile is transmitted to the facsimile number specified in this Section 10(a) and the appropriate facsimile confirmation is received or (B) if given by any other means, when delivered at the address specified in this Section.

(b) No Waivers. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

(c) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, it being understood that subsequent Holders of the Registrable Common Stock are intended third party beneficiaries hereof.

(d) Governing Law. This Agreement and the rights and obligations of the parties under this Agreement shall be governed by, and construed and interpreted in accordance with, the law of the State of New York, without regard to principles of conflicts of law (other than Section 5-1401 of the General Obligations Law). Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York and the United States District Court for any district within such state for the purpose of any action or judgment relating to or arising out of this Agreement or any of the transactions contemplated hereby and to the laying of venue in such court.

(e) Jurisdiction. Any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby may be brought in any federal or state court located in the County and State of New York, and each party hereto consents to the jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding which is brought in any such court has been brought in an inconvenient forum. Process in any such suit, action or proceeding may be served on any party anywhere in the world, whether within or without the jurisdiction of any such court. Without limiting the foregoing, each party hereto agrees that service of process on such party as provided in Section 9(a) shall be deemed effective service of process on such party.

(f) Waiver of Jury Trial. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

(g) Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

(h) Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all prior agreements and understandings, both oral and written, between the parties with respect to the transactions contemplated herein. Other than as expressly provided in this Agreement, no provision of this Agreement or any other agreement contemplated hereby is intended to confer on any Person other than the parties hereto any rights or remedies.

(i) Captions. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

(j) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such a determination, the parties shall negotiate in

good faith to modify this Agreement so as to effect the original intent of the parties hereto as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

(k) Amendments. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given without the prior written consent of the Holders of a majority of the then-outstanding shares of Registrable Common Stock; provided, further, that the consent or agreement of the Company shall be required with regard to any termination, amendment, modification or supplement of, or waivers or consents to departures from, the terms hereof, which affect the Company's obligations hereunder.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

IN WITNESS WHEREOF, this Registration Rights Agreement has been duly executed by each of the parties hereto as of the date first written above.

COMPANY:

CHERRY HILL MORTGAGE INVESTMENT  
CORPORATION

By: \_\_\_\_\_

Name:

Title:

INVESTOR:

\_\_\_\_\_  
Stanley C. Middleman

**MANAGEMENT AGREEMENT**

This MANAGEMENT AGREEMENT is entered into as of April 22, 2013 (this "Agreement") by and among Cherry Hill Mortgage Investment Corporation, a Maryland corporation (the "Company"), each of the Company's current Subsidiaries (as defined below), and Cherry Hill Mortgage Management, LLC, a Delaware limited liability company (the "Manager").

WHEREAS, the Company is a Maryland corporation organized to qualify as a real estate investment trust under the Code and to acquire, invest in and manage a portfolio of Excess MSRs, Agency RMBS, prime jumbo mortgage loans and other residential mortgage assets; and

WHEREAS, the Company holds its assets and conducts its operations through the Subsidiaries; and

WHEREAS, the Company wishes to engage the Manager to manage the assets, operations and affairs of the Company and the Subsidiaries, and the Manager desires to accept such engagement on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth and of other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

**1. Definitions.**

(a) "Affiliate" means, with respect to any Person, any Person controlling, controlled by, or under common Control with, such Person. For the avoidance of doubt, for the purpose of this Agreement, Freedom Mortgage is an Affiliate of the Manager and each of the Manager and Freedom Mortgage is an Affiliate of Stanley C. Middleman.

(b) "Agency RMBS" means residential mortgage-backed securities the payment of principal and interest on which has been guaranteed by a U.S. Government agency or a U.S. Government-sponsored enterprise.

(c) "Agreement" has the meaning assigned in the first paragraph.

(d) "Board of Directors" means the Board of Directors of the Company.

(e) "Business Day" means any day except a Saturday, Sunday or day on which banking institutions in New Jersey or New York are not required to be open.

(f) "Business Opportunity" has the meaning assigned in Section 3(c).

(g) "Change of Control" means the occurrence of any of the following:

(i) the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of the assets of the Manager, taken as a whole, to any Person other than Freedom Mortgage or any of its Affiliates; or

(ii) the direct or indirect acquisition by any Person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d-5(b)(1) under the Exchange Act), other than Freedom Mortgage and any of its Affiliates in a single transaction or in a series of related transactions, by way of merger, consolidation or other business combination or purchase of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act, or any successor provision) of 50% or more of the total voting power of the voting capital interests of or pecuniary interests in the Manager.

(h) "Charter" means the charter of the Company, as amended, restated or supplemented from time to time.

(i) "Claim" has the meaning assigned in Section 11(d).

(j) "Code" means the Internal Revenue Code of 1986, as amended.

(k) "Code of Conduct" has the meaning assigned in Section 7(g).

(l) "Common Stock" means the shares of common stock, par value \$0.01 per share, of the Company.

(m) "Company" has the meaning assigned in the first paragraph; *provided* that all references herein to the Company shall, except as otherwise expressly provided herein, be deemed to include the Subsidiaries.

(n) "Company Account" means any bank account in the name of the Company or any Subsidiary established and maintained by the Manager at the direction of the Board of Directors.

(o) "Company Indemnified Party." has the meaning assigned in Section 11(c).

(p) "Confidential Information" means all non-public information, written or oral, obtained by the Manager in connection with the services rendered hereunder.

(q) "Compliance Policies" means the compliance policies and procedures of the Manager, as in effect from time to time.

(r) "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of another Person, whether by contract, voting equity, legal right or otherwise.

(s) "Dedicated Officers" has the meaning assigned in Section 3(b).

(t) "Excess MSRs" means excess mortgage servicing rights.

(u) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(v) “Freedom Mortgage” means Freedom Mortgage Corporation, a New Jersey corporation.

(w) “GAAP” means generally accepted accounting principles in effect in the U.S. from time to time applied on a consistent basis.

(x) “Governing Instruments” means, with respect to any Person, the charter and bylaws in the case of a corporation, the declaration of trust and bylaws in the case of Maryland real estate investment trust or other business trust, the certificate of limited partnership (if applicable) and partnership agreement in the case of a general or limited partnership or the articles of organization or certificate of formation, as the case may be, and operating agreement in the case of a limited liability company, in each case, as amended, restated or supplemented from time to time.

(y) “Identified Person” means any of Freedom Mortgage or its employees, officers, directors or Affiliates.

(z) “Identified Persons” means collectively, each Identified Person.

(aa) “Indemnification Obligations” has the meaning assigned in Section 11(b).

(bb) “Indemnified Party” has the meaning assigned in Section 11(c).

(cc) “Independent Directors” means the members of the Board of Directors who are not officers or employees of the Company, the Manager or Freedom Mortgage and who are otherwise determined by the Board of Directors to be “independent” in accordance with the rules of the New York Stock Exchange or such other National Securities Exchange, as applicable, in either case, as may be in effect from time to time.

(dd) “Initial Public Offering” means the registered initial public offering of the Common Stock and the listing of the Common Stock on the New York Stock Exchange.

(ee) “Internalization Event” means a transaction or series of transactions the result of which is that (i) this Agreement is terminated, (ii) the management of the Company is no longer subject to or reliant upon an external manager or advisor and (iii) the Company employs a senior management team.

(ff) “Investment and Risk Management Committee” has the meaning set forth in Section 7(d).

(gg) “Investments” means the investments of the Company, including, but not limited to, investments in Excess MSRs, Agency RMBS and prime jumbo mortgage loans.

(hh) “Investment Company Act” means the Investment Company Act of 1940, as amended.

(ii) “Investment Guidelines” means the general criteria, parameters and policies relating to Investments as established by the Board of Directors, as the same may be modified from time-to-time by the Board of Directors. The Company’s initial Investment Guidelines are attached hereto as Exhibit A.

- (jj) “Judicially Determined” has the meaning assigned in Section 11(a).
- (kk) “Management Fee Annual Rate” means 1.50%.
- (ll) “Manager” has the meaning assigned in the first paragraph.
- (mm) “Manager Indemnified Party” has the meaning assigned in Section 11(a).
- (nn) “National Securities Exchange” means a national securities exchange or national quotation system upon which the Company’s Common Stock is listed or quoted.
- (oo) “Operating Partnership” means Cherry Hill Operating Partnership, LP, a Delaware limited partnership.
- (pp) “Person” means any individual, corporation, partnership, joint venture, limited liability company, estate, trust, unincorporated association, any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.
- (qq) “Post-Termination Transition Assistance” has the meaning assigned in Section 14(b).
- (rr) “Principal Transaction” has the meaning assigned in Section 3(d).
- (ss) “Quarterly Management Fee Amount” means, with respect to any fiscal quarter, the product of: (i) the Stockholders’ Equity as of the end of such fiscal quarter, and (ii) one-fourth of the Management Fee Annual Rate. The Quarterly Management Fee Amount shall be pro rated for partial quarterly periods based on the number of days in such partial period compared to a 90 day quarter.
- (tt) “Records” has the meaning assigned in Section 6(a).
- (uu) “REIT” means a “real estate investment trust” as defined under the Code.
- (vv) “Representatives” means collectively the members, officers, employees, agents, representatives and Affiliates of the Manager.
- (ww) “Sarbanes Oxley Act of 2002” means the federal statute known as the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated thereunder.
- (xx) “SEC” means the United States Securities and Exchange Commission.
- (yy) “Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.
- (zz) “Services Agreement” has the meaning assigned in Section 2(c).



(aaa) “Stockholders’ Equity” means, as of the end of any fiscal quarter, (a) the sum of (1) the net proceeds from any issuances of the Company’s Common Stock or other equity securities and the Operating Partnership’s Units or other equity securities (without double counting) since inception, plus (2) the Company’s and the Operating Partnership’s (without double counting) retained earnings calculated in accordance with GAAP at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) any amount that the Company or the Operating Partnership has paid to repurchase Common Stock, Units or other equity securities since inception. Stockholders’ Equity excludes (1) any unrealized gains, losses or other non-cash items that have impacted stockholders’ equity as reported in the Company’s financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and (2) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above in each case, after discussions between the Manager and the Independent Directors and approval by a majority of the Independent Directors.

(bbb) “Split Price Executions” has the meaning assigned in Section 3(d).

(ccc) “Subsidiaries” means (i) Cherry Hill Operating Partnership, LP, a Delaware limited partnership, (ii) Cherry Hill QRS I, LLC, a Delaware limited liability company, (iii) Cherry Hill QRS II, LLC, a Delaware limited liability company, (iv) Cherry Hill TRS, LLC, a Delaware limited liability company, (v) any partnership, the general partner of which is the Company or any Subsidiary of the Company, (vi) any limited liability company, the managing member of which is the Company or any subsidiary of the Company, and (vii) any other entity, including any direct or indirect subsidiary of the Company, on the date hereof or in the future, of which the Company or any Subsidiary has the power to elect, directly or indirectly, a majority of the board of directors or Directors or equivalent managing body.

(ddd) “Successor Manager” has the meaning assigned in Section 14(b).

(eee) “Tax Preparer” means the firm designated by the Company to prepare tax returns on behalf of the Company and its Subsidiaries.

(fff) “Termination Fee” means, with respect to any termination or non-renewal of this Agreement with respect to which payment of the Termination Fee is required under Section 13 of this Agreement, a termination fee equal to three times the average annual Management Fee 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 effective date of the termination or, in the case of non-renewal, the expiration of the term, as applicable.

(ggg) “Treasury Regulations” means the Procedures and Administration Regulations promulgated by the U.S. Department of Treasury under the Code, as amended.

(hhh) “Units” shall mean units of limited partnership interest in the Operating Partnership.

## **2. Appointment and Duties of the Manager.**

(a) Appointment. The Company hereby appoints the Manager to manage, operate and administer the assets, operations and affairs of the Company and the Subsidiaries, subject to the further terms and conditions set forth in this Agreement and to the supervision of, and such further limitations or parameters as may be imposed from time to time by, the Board of Directors, and the Manager hereby agrees to use its commercially reasonable efforts to perform each of the duties set forth herein in accordance with the provisions of this Agreement.

(b) Duties. The Manager shall manage, operate and administer day-to-day operations, business and affairs of the Company and the Subsidiaries, subject at all times to the supervision and direction of the Board of Directors, and shall have only such functions and authority as the Board of Directors may delegate to it, including, without limitation, the authority identified and delegated to the Manager herein. Without limiting the foregoing, the Manager shall oversee and use commercially reasonable efforts to conduct the Company's investment activities in accordance with the Investment Guidelines, any risk parameters adopted by the Board of Directors and other policies adopted and implemented by the Board of Directors. Subject to the foregoing, the Manager will perform (or cause to be performed) such services and activities relating to the management, operation and administration of the assets, liabilities and business of the Company and the Subsidiaries as is appropriate, including without limitation:

(i) serving as the Company's consultant with respect to the periodic review of the Investment Guidelines and other policies and criteria for the other borrowings and the operations of the Company for the approval by the Board of Directors;

(ii) investigating, analyzing and selecting possible Investment opportunities and originating, acquiring, structuring, financing, retaining, selling, negotiating for prepayment, restructuring or disposing of Investments consistent with the Investment Guidelines;

(iii) with respect to any prospective Investment by the Company and any sale, exchange or other disposition of any Investment by the Company conducting negotiations on the Company's behalf with sellers and purchasers and their respective agents, representatives and investment bankers, and owners of privately and publicly held real estate companies;

(iv) with respect to any prospective investment in Excess MSR, negotiating agreements, including, and not limited to, acknowledgement agreements, flow acquisition agreements and bulk acquisition agreements;

(v) engaging and supervising, on the Company's behalf and at the Company's sole cost and expense, third-party service providers who provide legal, accounting, due diligence, transfer agent, registrar, leasing services, master servicing, special servicing, banking, investment banking, mortgage brokerage, real estate brokerage, securities brokerage and other financial services and such other services as may be required relating to the Investments or potential Investments and to the Company's other business and operations;

(vi) coordinating and supervising, on behalf of the Company and at the Company's sole cost and expense, other third-party service providers to the Company;

- (vii) serving as the Company's consultant with respect to arranging for any issuance of mortgage-backed securities from pools of mortgage loans or mortgage-backed securities owned by the Company;
- (viii) coordinating and managing operations of any joint venture or co-investment interests held by the Company and conducting all matters with any joint venture or co-investment partners;
- (ix) providing executive and administrative personnel, office space and office services required in rendering services to the Company;
- (x) administering the Company's day-to-day operations and performing and supervising the performance of such other administrative functions necessary to the Company's management as may be agreed upon by the Manager and the Board of Directors, including, without limitation, the collection of revenues and the payment of the Company's debts and obligations and maintenance of appropriate computer services to perform such administrative functions;
- (xi) engaging and supervising, on the Company's behalf and at the Company's sole cost and expense, third-party consultants and other service providers to assist the Company in complying with the requirements of the Sarbanes Oxley Act of 2002, the Exchange Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act and other applicable law;
- (xii) communicating on the Company's behalf with the holders of any of the Company's equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;
- (xiii) counseling the Company in connection with policy decisions to be made by the Board of Directors;
- (xiv) counseling the Company, and when appropriate, evaluating and making recommendations to the Board of Directors regarding hedging, financing and securitization strategies and engaging in hedging, financing, borrowing and securitization activities on the Company's behalf, consistent with the Investment Guidelines;
- (xv) counseling the Company regarding the qualification and maintenance of its status as a REIT and monitoring compliance with the various REIT qualification tests and other rules set out in the Code and the Treasury Regulations;
- (xvi) counseling the Company regarding the maintenance of the Company's exclusion from status as an investment company under the Investment Company Act and monitoring compliance with the requirements for maintaining such exclusion and using commercially reasonable efforts to cause the Company to maintain such exclusion from status as an investment company under the Investment Company Act;
- (xvii) assisting the Company in developing criteria for asset purchase commitments that are specifically tailored to the Company's investment objectives and making available to the Company its knowledge and experience with respect to Excess MSRs, Agency RMBS, prime jumbo mortgage loans and other target asset classes;

(xviii) furnishing reports to the Company or the Board of Directors regarding the Company's activities and services performed for the Company or any of its Subsidiaries by the Manager as reasonably requested by the Board of Directors from time to time to carry out its duty of oversight;

(xix) monitoring the operating performance of the Investments and providing such periodic reports with respect thereto as the Board of Directors shall reasonably determine from time to time to be necessary or appropriate for the Board of Directors to carry out its duty of oversight, including comparative information with respect to such operating performance and budgeted or projected operating results;

(xx) investing or reinvesting any money or securities of the Company (including investing in short-term investments pending investment in other Investments, payment of fees, costs and expenses, or distributions to the Company's shareholders), and advising the Company as to the Company's capital structure and capital raising;

(xxi) causing the Company to retain, at the sole cost and expense of the Company, qualified independent accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations and compliance with the provisions of the Code and the Treasury Regulations applicable to REITs, and to conduct quarterly compliance reviews with respect thereto;

(xxii) causing the Company and each Subsidiary to qualify to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;

(xxiii) assisting the Company in complying with all regulatory requirements applicable to the Company in respect of the Company's business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act, the Securities Act or by a National Securities Exchange;

(xxiv) taking all necessary actions to enable the Company to make required tax filings and reports and compliance with the provisions of the Code, and Treasury Regulations applicable to the Company, including, without limitation, the provisions applicable to the Company's qualification as a REIT for U.S. federal income tax purposes;

(xxv) handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which the Company may be involved or to which the Company may be subject arising out of the Company's day-to-day operations (other than with the Manager or its Affiliates), subject to such limitations, parameters or directions as may be imposed from time to time by the Board of Directors;

(xxvi) using commercially reasonable efforts to cause expenses incurred by or on behalf of the Company to be commercially reasonable or commercially customary and within any budgeted parameters or expense guidelines set by the Board of Directors from time to time;

(xxvii) advising on, and obtaining on behalf of the Company, credit facilities or other financings for the Investments consistent with the Investment Guidelines;

(xxviii) advising the Company with respect to and structuring long-term financing vehicles for the Company's portfolio of assets, and offering and selling securities publicly or privately in connection with any such structured financing;

(xxix) performing such other services as may be required from time to time for management and other activities relating to the Company's assets as the Board of Directors shall reasonably request;

(xxx) using commercially reasonable efforts to cause the Company to comply with all applicable laws;

(xxxi) negotiating and entering into and executing, on the Company's behalf, repurchase agreements, interest rate agreements, swap agreements, brokerage agreements, resecuritizations, securitization warehouse facilities and other agreements and instruments required for the Company to conduct the Company's business;

(xxxii) serving as the Company's consultant with respect to decisions regarding any of the Company's financings, hedging activities or borrowings undertaken by the Company, including (1) assisting the Company in developing criteria for debt and equity financing that is specifically tailored to the Company's investment objectives, and (2) advising the Company with respect to obtaining appropriate financing for the Company's and any Subsidiaries' investments;

(xxxiii) providing the Company with portfolio management;

(xxxiv) arranging marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote the Company's business; and

(xxxv) maintaining the Company's website.

(c) Services Agreement. The Manager will maintain the services agreement, dated of even date herewith by and between the Manager and Freedom Mortgage (the "Services Agreement") pursuant to which Freedom Mortgage will continue to provide the Manager the personnel, services and resources as needed by the Manager to enable the Manager to carry out its obligations and responsibilities under this Agreement. The Company shall be a named third-party beneficiary of the Services Agreement.

(d) Service Providers. The Manager may engage Persons who are non-Affiliates, for and on behalf, and at the sole cost and expense, of the Company to provide to the Company acquisition, disposition, valuation and financing of Investments and/or similar services customarily provided in connection with the management, operation and administration of a

business similar to the business of the Company, pursuant to agreement(s) that provide for market rates and contain standard market terms; *provided*, that the terms of any such agreement that requires the payment by the Company of fees or expenses that would cause the Company to materially exceed the Company's most recent annual budget approved by the Board of Directors shall require the prior approval of a majority of the Independent Directors and, *provided further*, that without the prior approval of the Board of Directors, the Manager shall not be permitted to outsource to a non-Affiliate its responsibility for the ultimate investment acquisition and disposition decisions of the Company and compliance with the Investment Guidelines, any risk parameters and the other policies applicable to the provision of services to the Company by the Manager adopted by the Board of Directors from time to time. For the avoidance of doubt, nothing contained in this Section 2(d) shall prohibit or restrict the Manager's ability to enter into, amend or terminate trading arrangements (including, without limitation, financing arrangements), and agreements and documents ancillary thereto, on behalf of the Company on such terms and conditions as the Manager shall determine in its sole discretion.

(e) Reporting Requirements.

(i) As frequently as the Manager may deem necessary or advisable, or at the reasonable request of the Board of Directors, the Manager shall prepare, or cause to be prepared, with respect to any Investment (A) reports and other information on the Company's operations, asset performance and proposed or consummated investments and (B) other information reasonably requested by the Company or the Board of Directors.

(ii) The Manager shall prepare, or cause to be prepared, at the sole cost and expense of the Company, all reports, financial or otherwise, with respect to the Company reasonably required by the Board of Directors in order for the Company to comply with its Governing Instruments or any other materials required to be filed with any governmental entity or agency, and shall prepare, or cause to be prepared, at the sole cost and expense of the Company, all materials and data necessary to complete such reports and other materials including, without limitation, an annual audit of the Company's books of account by a nationally recognized independent accounting firm.

(iii) The Manager shall prepare regular reports for the Board of Directors to enable the Board of Directors to review the Company's acquisitions, portfolio composition and characteristics, credit quality, performance and compliance with the Investment Guidelines and policies approved by the Board of Directors.

(f) Reliance by Manager. In performing its duties under this Section 2, the Manager shall be entitled to rely on experts and professionals (including, without limitation, accountants, legal counsel and other professional service providers) selected, engaged or retained by the Manager with commercially reasonable care, at the Company's sole cost and expense.

(g) Use of the Manager's Funds. The Manager shall not be required to expend money in connection with any expenses that are required to be paid for or reimbursed by the Company pursuant to Section 9 of this Agreement in excess of that contained in any applicable Company Account or otherwise made available by the Company to be expended by the Manager hereunder.

(h) Payment and Reimbursement of Expenses. The Company shall pay all expenses, and reimburse the Manager for the Manager's expenses incurred on its behalf, in connection with any such services to the extent such expenses are payable or reimbursable by the Company to the Manager pursuant to Section 9.

### **3. Dedication; Other Activities.**

(a) Devotion of Time. The Manager, through Freedom Mortgage and its Affiliates, will provide a management team (which, at the time of the Initial Public Offering shall include, without limitation, a president, a chief investment officer and a chief financial officer, a controller and a secretary) along with appropriate support personnel, to deliver the management services to the Company hereunder. The members of such management team may serve more than one role for the Company (i.e. the chief financial officer may also serve as the secretary) and may have other duties and responsibilities for the Manager and its Affiliates, including, but not limited to, with respect to other clients, but such management team members shall devote such of their working time and efforts to the management of the Company as shall be necessary and appropriate for the proper performance of all of the Manager's duties hereunder, commensurate with the level of activity of the Company from time to time. The Company shall have the benefit of the Manager's reasonable judgment and effort in rendering services and, in furtherance of the foregoing, the Manager shall not undertake activities which, in its reasonable judgment, will materially adversely affect the performance of its obligations under this Agreement.

(b) The Manager shall have the right, but not the obligation, to provide a dedicated or partially dedicated chief financial officer (or comparable professional), controller (or comparable professional), internal legal counsel and/or investor relations professional to the Company (such personnel are referred to herein as "Dedicated Officers"). Each Dedicated Officer shall be an employee of the Manager or one of its Affiliates.

(c) Other Activities. To the fullest extent permitted by law and subject to any other agreements entered into by Freedom Mortgage, and subject to subsection (g) of this Section 3, none of the Identified Persons shall have any duty to refrain from directly or indirectly (i) engaging in or possessing any interest in other investments or business opportunities, including but not limited to business opportunities in dissimilar or the same or similar investments, business activities or lines of business of the Company and its Affiliates or in which the Company or any of its Affiliates may, from time to time, be engaged or propose to engage, including by means of providing advice or other assistance to any such investment, business activity or Person (a "Business Opportunity"), (ii) competing with the Company or its Affiliates, (iii) pursuing any such Business Opportunity, even if competitive with the investments or business activities of the Company or (iv) buying, selling or trading any securities or commodities for their own accounts (including, without limitation taking positions contrary to those of the Company), and, to the fullest extent permitted by law, no Identified Person shall be liable to the Company or its securityholders for a conflict of interest or a breach of any fiduciary or other duty in respect of the Company or its securityholders by reason of the fact that such Identified Person engages in any such activities. To the fullest extent permitted by law, other than as may be provided in any other agreement between the Company and any Identified Person, the Company hereby renounces any interest or expectancy in, or in being offered an

opportunity to participate in, any Business Opportunity presented to an Identified Person. Subject to any other agreements entered into by the Company, the Manager and any Identified Person, in the event that any Identified Person acquires knowledge of a Business Opportunity, such Identified Person shall have no duty to communicate or offer such Business Opportunity to the Company and, to the fullest extent permitted by law, shall not be liable to the Company or its stockholders for breach of any duty as an investment adviser, stockholder, director or officer of the Company by reason of the fact that such Identified Person pursues or acquires such Business Opportunity. A Business Opportunity shall not be deemed to be a potential Business Opportunity for the Company if it is a Business Opportunity that the Company is not financially able or contractually permitted or legally able to undertake, or that is, from its nature, not in the line of the Company's business or is of no practical advantage to it or that is one in which the Company has no reasonable expectancy. Notwithstanding the foregoing, the Company shall have the benefit of the Manager's obligations to it as a client of the Manager pursuant to the Investment Advisers Act of 1940, as amended.

(d) Principal Transactions. Principal transactions are transactions between the Company or one of its Subsidiaries, on the one hand, and the Manager, Freedom Mortgage or any of their Affiliates (or any of the related parties of the foregoing, which includes employees of Freedom Mortgage and the Manager and their families), on the other hand (each a "Principal Transaction"). The Manager is only authorized to execute Principal Transactions with the prior approval of a majority of the Company's Independent Directors and in accordance with applicable law. Such prior approval shall include approval of the pricing methodology to be used, including with respect to assets for which there are no readily available market prices.

(e) Split Price Executions. The Manager is authorized to combine purchase or sale orders on the Company's behalf together with orders for Freedom Mortgage or any of its Affiliates and allocate the securities or other assets so purchased or sold, on an average price basis or other fair and consistent basis, among such accounts (collectively, "Split Price Executions"). The Company acknowledges that the Manager, as a consequence of its affiliation with Freedom Mortgage, has a potentially conflicting division of loyalties and responsibilities regarding each party to a Split Price Execution.

(f) Officers, Employees, Etc. Freedom Mortgage's or the Manager's members, stockholders, partners, officers, employees and agents may serve as directors, officers, employees, agents, nominees or signatories for the Company or any Subsidiary, to the extent permitted by their Governing Instruments, as may be amended from time to time, or by any resolutions duly adopted by the Board of Directors pursuant to the Company's Governing Instruments. When executing documents or otherwise acting in such capacities for the Company or such other Subsidiary, such Persons shall use their respective titles with respect to the Company or such Subsidiary.

(g) The Manager agrees to offer the Company the right to participate in all investment opportunities that the Manager becomes aware of and determines, in its reasonable and good faith judgment based on the Company's investment objectives, policies and strategies, and other relevant factors, are appropriate for the Company, subject to the Company's Investment Guidelines.



(h) The Manager is authorized, for and on behalf, and at the sole cost and expense of the Company, to employ such securities dealers for the purchase and sale of investment assets of the Company as may, in the good faith judgment of the Manager, be reasonably necessary for the best execution of such transactions taking into account all relevant factors, including but not limited to such factors as the policies of the Company, price, dealer spread, the size, type and difficulty of the transaction involved, the firm's general execution and operational facilities and the firm's risk in positioning the securities involved. Consistent with this policy, the Manager is authorized to direct the execution of the Company's portfolio transactions to dealers and brokers furnishing statistical information, research and other services deemed by the Manager to be useful or valuable to the performance of its investment advisory functions. Such services may be used by the Manager in connection with its advisory services for clients other than the Company, and such arrangements may be outside the parameters of the "safe harbor" provided by Section 28(e) of the Exchange Act.

(i) The Manager has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular purchase, sale or other transaction, or to select any broker-dealer on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of charges of eligible broker-dealers and to minimize the expense incurred for effecting purchases, sales and other transactions to the extent consistent with the interests and policies of the Company. Although the Manager will generally seek competitive commission rates, it is not required to pay the lowest commission or commission equivalent, *provided* that such decision is made in good faith to promote the best interests of the Company.

(j) The Company agrees to take all actions reasonably required to permit and enable the Manager to carry out its duties under this Agreement, including, without limitation, all steps reasonably necessary to allow the Manager to file in a timely manner any registration statement required to be filed by the Company or to deliver any financial statements or other reports required to be delivered by the Company. The Company further agrees to use commercially reasonable efforts to make available to the Manager all resources, information and materials reasonably requested by the Manager to enable the Manager to satisfy its obligations hereunder, including its obligations to deliver financial statements and any other information or reports with respect to the Company. If the Manager is not able to provide a service, or in the reasonable judgment of the Manager it is not prudent to provide a service, without the approval of the Board of Directors or the Independent Directors, as applicable, then the Manager shall be excused from providing such service (and shall not be in breach of this Agreement) until the applicable approval has been obtained; *provided* that the Manager shall use commercially reasonable efforts to promptly advise the Board of Directors in writing a reasonable period of time before any requisite approval of the Board of Directors is required that the Manager is awaiting such approval.

#### **4. Agency; Authority.**

(a) Directors, officers, employees and agents of the Manager and its Affiliates may serve as directors, officers, agents, nominees or signatories for the Company or any of its Subsidiaries, to the extent permitted by their Governing Instruments and by this Agreement or any resolutions duly adopted by the Board of Directors.

(b) In performing the services set forth in this Agreement, and subject to any limitations set forth herein and the supervision and direction of the Board of Directors generally, the Manager may act as the agent of the Company in originating, acquiring, structuring, financing and disposing of Investments, disbursing and collecting the Company's funds, paying the debts and fulfilling the obligations of the Company, supervising the performance of professionals engaged by or on behalf of the Company and handling, prosecuting and settling any claims of or against the Company, the Board of Directors, holders of the Company's securities or the Company's representatives or assets.

(c) In performing the services set forth in this Agreement, as an agent of the Company, the Manager shall have the right to exercise all powers and authority which are reasonably necessary and customary to perform its obligations under this Agreement, including the following powers, subject in each case to any limitations set forth herein including, without limitation, the Investment Guidelines, and the supervision of the Board of Directors generally: to purchase, exchange or otherwise acquire and to sell, exchange or otherwise dispose of, any Investment in a public or private sale; to cause the Company and the Subsidiaries to open trading, clearing and brokerage accounts and other accounts and enter into agreements as shall be necessary or advisable in connection with the Company's business, operations and investment and trading activities; to execute Principal Transactions; to execute Split Price Executions; to borrow and, for the purpose of securing the repayment thereof, to pledge, mortgage or otherwise encumber Investments; to purchase, take and hold Investments subject to mortgages, liens or other encumbrances; to extend the time of payment of any liens or encumbrances which may at any time be encumbrances upon any Investment, irrespective of by whom the same were made; to foreclose, to reduce the rate of interest on, and to consent to the modification and extension of the maturity of any Investments, or to accept a deed in lieu of foreclosure; to join in a voluntary partition of any Investment; to cause to be demolished any structures on any real estate Investment; to cause renovations and capital improvements to be made to any real estate Investment; to abandon any Investment deemed to be worthless; to enter into joint ventures or otherwise participate in investment vehicles investing in Investments; to cause any real estate Investment to be leased, operated, developed, constructed or exploited; to cause the Company to indemnify third parties in connection with contractual arrangements between the Company and such third parties; to obtain and maintain insurance in such amounts and against such risks as are prudent in accordance with customary and sound business practices in the appropriate geographic area; to cause any property to be maintained in good state of repair and upkeep; and to pay the taxes, upkeep, repairs, carrying charges, maintenance and premiums for insurance; to use the personnel and resources of its Affiliates in performing the services specified in this Agreement; to hire third-party service providers subject to and in accordance with Section 2(d); to designate and engage all third-party professionals and consultants to perform services (directly or indirectly) on behalf of the Company or its Subsidiaries, including, without limitation, accountants, legal counsel and engineers; and to take any and all other actions as are necessary or appropriate in connection with the Company's Investments.

(d) The Manager shall be authorized to represent to third parties that it has the power to perform the actions which it is authorized to perform under this Agreement.

## **5. Bank Accounts.**

The Manager may establish and maintain one or more Company Accounts, collect and deposit funds into any such Company Account and disburse funds from any such Company Account, under such terms and conditions as the Board of Directors may approve. The Manager shall from time-to-time render appropriate accountings of such collections and payments to the Board of Directors and, upon request, to the auditors of Company or any Subsidiary.

## **6. Books and Records; Confidentiality.**

(a) **Books and Records.** The Manager shall maintain appropriate books of account, records data and files (including without limitation, computerized material) (collectively, "**Records**") relating to the Company and the Investments generated or obtained by the Manager in performing its obligations under this Agreement, and such Records shall be accessible for inspection by representatives of the Company or any Subsidiary at any time during normal business hours upon one Business Day's advance written notice. The Manager shall have full responsibility for the maintenance, care and safekeeping of all Records. The Manager agrees that the Records are the property of the Company and the Manager agrees to deliver the Records to the Company upon the written request of the Company.

(b) **Confidentiality.** The Manager shall keep confidential any and all non-public information, written or oral, obtained by it in connection with the services rendered hereunder and shall not disclose Confidential Information, in whole or in part, to any Person other than to its Representatives who need to know such Confidential Information for the purpose of rendering services hereunder, except that the Manager may disclose Confidential Information: (i) to Freedom Mortgage and its Affiliates; (ii) in accordance with the Services Agreement or any advisory agreement contemplated by **Section 2** hereunder; (iii) with the prior written consent of the Board of Directors; (iv) to legal counsel, accountants and other professional advisors; (v) to appraisers, creditors, financing sources, trading counterparties, other counterparties, third-party service providers to the Company, and others (in each case, both those actually doing business with the Company and those with whom the Company seeks to do business) in the ordinary course of the Company's business; (vi) to governmental officials having jurisdiction over the Company; (vii) in connection with any governmental or regulatory filings of the Company or disclosure or presentations to Company investors; or (viii) as required by law or legal process to which the Manager or any Person to whom disclosure is permitted hereunder is a party. If, failing the entry of a protective order or the receipt of a waiver hereunder, the Manager is, in the opinion of counsel, required to disclose Confidential Information, the Manager may disclose without liability hereunder only that portion of such information that its counsel advises is legally required; *provided*, that the Manager agrees to exercise its commercially reasonable efforts to obtain reliable assurance that confidential treatment will be accorded such information. Notwithstanding anything herein to the contrary, each of the following shall be deemed to be excluded from provisions hereof any Confidential Information that (A) is available to the public from a source other than the Manager not resulting from the Manager's violation of this **Section 6(b)**, (B) is released in writing by the Company to the public or to persons who are not under similar obligation of confidentiality to the Company or (C) is obtained by the Manager from a third-party without breach by such third-party of an obligation of confidence with respect to the Confidential Information disclosed. The Manager agrees to inform each of its

Representatives of the non-public nature of the Confidential Information and to direct such Persons to treat such Confidential Information in accordance with the terms hereof. The provisions of this Section 6(b), shall survive the expiration or earlier termination of this Agreement for a period of one year.

#### **7. Obligations of Manager; Restrictions.**

(a) Internal Control. The Manager shall (i) establish and maintain a system of internal accounting and financial controls designed to provide reasonable assurance of the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws, (ii) maintain records for each Company Investment on a GAAP basis, (iii) develop accounting entries and reports required by the Company to meet its reporting requirements under applicable laws, (iv) consult with the Company with respect to proposed or new accounting/reporting rules identified by the Manager or the Company and (v) upon the Company becoming subject to annual and quarterly financial reporting obligations under the Exchange Act or in order to comply with the information requirements under Rule 144A under the Securities Act, as applicable, prepare quarterly and annual financial statements as soon as practicable after the end of each such period as may be reasonably requested and general ledger journal entries and other information necessary for the Company's compliance with applicable laws and in accordance with GAAP and cooperate with the Company's independent accounting firm in connection with the auditing or review of such financial statements, the cost of any such audit or review to be paid by the Company.

#### **(b) Restrictions.**

(i) The Manager acknowledges that the Company intends to conduct its operations so as not to become regulated as an investment company under the Investment Company Act, and agrees to use commercially reasonable efforts to cooperate with the Company's efforts to conduct its operations so as not to become regulated as an investment company under the Investment Company Act. The Manager shall refrain from any action that, in its reasonable judgment made in good faith, (a) is not in compliance with the Investment Guidelines, (b) would cause the Company to fail to maintain its exclusion from status as an investment company under the Investment Company Act, (c) would cause the Company to fail to qualify as a REIT or (d) would violate any law, rule or regulation of any governmental body or agency having jurisdiction over the Company or that would otherwise not be permitted by the Company's Governing Instruments. If the Manager is ordered to take any such action by the Board of Directors, the Manager shall promptly notify the Board of Directors of the Manager's judgment that such action would adversely affect such status or violate any such law, rule or regulation or the Governing Instruments.

(ii) The Manager shall require each seller or transferor of investment assets to the Company to make such representations and warranties regarding such assets as may, in the reasonable judgment of the Manager, be necessary and appropriate or as may be advised by the Board of Directors and consistent with standard industry practice. In addition, the Manager shall take such other action as it deems necessary or appropriate or as may be advised by the Board of Directors and consistent with standard industry practice with regard to the protection of the Investments.

(iii) The Company shall not invest in joint ventures with the Manager or any Affiliate thereof, unless (a) such investment is made in accordance with the Investment Guidelines and (b) such investment is approved in advance by a majority of the Independent Directors. For the avoidance of doubt, allocating or splitting of Investments among the Company and other funds, accounts or entities managed by Affiliates of the Manager will not be deemed to be joint ventures.

(c) Board of Directors Review and Approval. The Board of Directors will periodically review the Investment Guidelines and the Company's portfolio of Investments but will not be required to review each proposed Investment; *provided* that the Company may not, and the Manager may not cause the Company to, acquire any Investment, sell any Investment, or engage in any co-investment that, pursuant to the terms of this Agreement, the Compliance Policies or the Company's conflicts of interest policy, requires the approval of a majority of the Board of Directors or Independent Directors unless such transaction has been so approved. If a majority of the Board of Directors determine that a particular transaction does not comply with the Investment Guidelines, then a majority of the Board of Directors will consider what corrective action, if any, is appropriate. The Manager shall have the authority to take, or cause the Company to take, any such corrective action specified by a majority of the Board of Directors. The Manager shall be permitted to rely upon the direction of the Secretary of the Company to evidence approval of the Board of Directors with respect to a proposed Investment.

(d) Investment and Risk Management Committee. The Manager shall maintain an investment and risk management committee (the "Investment and Risk Management Committee"). The Investment and Risk Management Committee shall advise and consult with the Manager with respect to the Company's investment policies, investment portfolio holdings, financing and leveraging strategies and the Investment Guidelines. Members of the Investment and Risk Management Committee may meet from time to time with the Board of Directors to review and discuss the Company's investment policies, investment portfolio holdings, hedging positions and strategies, financing and leveraging strategies and any risk parameters.

(e) Insurance. The Manager shall obtain, as soon as reasonably practicable, and shall thereafter maintain "errors and omissions" insurance coverage and such other insurance coverage which is customarily carried by managers performing functions similar to those of the Manager under this Agreement with respect to assets similar to the assets of the Company, in an amount which is comparable to that customarily maintained by other managers or servicers of similar assets.

(f) Tax Filings. The Manager shall (i) assemble, maintain and provide to the Tax Preparer information and data required for the preparation of federal, state, local and foreign tax returns, any audits, examinations or administrative or legal proceedings related thereto or obligations of the Company and its Subsidiaries, (ii) supervise the preparation and filing of such tax returns, the conduct of such audits, examinations or proceedings and the prosecution or defense of such rights, (iii) provide factual data reasonably requested by the Tax Preparer or the Company with respect to tax matters, (iv) assemble, record, organize and report to the Company data and information with respect to the Investments relative to taxes and tax returns in such form as may be reasonably requested by the Company, (v) supervise the Tax Preparer in connection with the preparation, filing or delivery to appropriate persons, of applicable tax

information reporting forms with respect to the Investments and the Common Stock (including, without limitation, information reporting forms, whether on Form 1099 or otherwise with respect to sales, interest received, interest paid, dividends paid and other relevant transactions); it being understood that, in the context of the foregoing, the Company shall rely on its own tax advisers in the preparation of its tax returns and the conduct of any audits, examinations or administrative or legal proceedings related thereto and that, without limiting the Manager's obligation to provide the information, data, reports and other supervision and assistance provided herein, the Manager will not be responsible for the preparation of such returns or the conduct of such audits, examinations or other proceedings.

(g) The Manager agrees to be bound by the Company's business code of conduct and ethics, insider trading policy and other compliance and governance policies and procedures applicable to the Manager and its officers, directors, members and employees that are adopted from time-to-time by the Board of Directors (if any), including those required under the Exchange Act, the Securities Act or by a National Securities Exchange (collectively, the "Code of Conduct"). The Manager shall use commercially reasonable efforts to cause any Persons who provide services to the Company (including employees of Freedom Mortgage) or are involved in the business and affairs of the Company, to comply with the provisions of such Code of Conduct to the extent that the Manager reasonably deems it to be applicable to such person's activities.

#### **8. Compensation.**

(a) Management Fee. With respect to each fiscal quarter commencing with the quarter in which this Agreement is executed, the Manager shall receive a management fee equal to the Quarterly Management Fee Amount. Within 45 days following the last day of each fiscal quarter, the Manager shall make available the quarterly calculation of the management fee to the Company with respect to such quarter, and the Company shall pay the Manager the management fee for such quarter in cash within ten Business Days thereafter; *provided, however*, that such management fee may be offset by the Company against amounts due to the Company by the Manager.

(b) Notwithstanding the provisions of Section 8(a), in the event that the Company acquires or invests in an equity interest in a securitization trust or a participating interest at issuance in the debt securities of an issuer of debt for which the Manager or any of its Affiliates has received a management fee, an origination fee or a structuring fee, then in each such case the Quarterly Management Fee Amount payable by the Company to the Manager will in the aggregate be reduced by (or the Manager will otherwise rebate to the Company) an amount equal to the portion of any management fees, origination fees or structuring fees payable to the Manager or its Affiliates that is allocable to the Company's equity investment or participating interest, as the case may be, in such securitization trust or debt securities for the same periods.

(c) For the avoidance of doubt, the fee paid by the Manager under the Services Agreement or any other sub-advisory agreement (if any) shall not constitute an expense reimbursable by the Company under this Agreement or otherwise.

## 9. Expenses.

(a) The Company shall bear all of its operating expenses and shall reimburse the Manager for expenses of the Manager incurred on behalf of the Company, except those specifically required to be borne by the Manager under this Agreement; *provided, however*, that any such costs and expenses borne by the Manager in respect of compensation payable to Affiliates of the Manager to be reimbursed by the Company are no greater than those that would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arms-length basis. The Manager may only be reimbursed by the Company for expenses incurred by Freedom Mortgage pursuant to the Services Agreement to the extent that such expenses would be reimbursable expenses in accordance with this Section 9 if incurred by the Manager. The expenses required to be borne by the Company include, but are not limited to:

(i) issuance and transaction costs incident to the acquisition, ownership, disposition and financing of Investments including but not limited to brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees, interest expense, withholding and transfer fees, taxes, research related expenses, third-party valuation and pricing services, professional and consulting fees (including, without limitation, expenses of consultants and experts) relating to Investments and other expenses related to the purchase or sale of the Investments);

(ii) legal, regulatory, compliance, tax, accounting, consulting, auditing, administrative fees and expenses and fees and expenses for other similar services rendered to the Company by third-party service providers retained by the Manager;

(iii) the compensation and expenses of the Company's directors and the cost of liability insurance to indemnify the Company's directors and officers;

(iv) the costs associated with the establishment and maintenance of any credit facilities and other indebtedness of the Company (including commitment fees, accounting fees, legal fees, closing costs, etc.);

(v) expenses associated with securities offerings of the Company, including an Initial Public Offering;

(vi) expenses relating to the payment of distributions;

(vii) expenses connected with communications to holders of the Company's securities in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of the Exchange Act, the SEC and other governmental bodies;

(viii) transfer agent, registrar and exchange listing fees;

(ix) the costs of printing and mailing proxies, reports and other materials to the Company's stockholders;

(x) costs associated with any research, data, data services, computer software or hardware, electronic equipment, or purchased information technology services from third-party vendors;

(xi) reasonable costs and out of pocket expenses incurred on the Company's behalf by directors, managers, trustees, officers, employees or other agents of the Manager for travel in connection with the services provided hereunder;

(xii) the Company's allocable share of any costs and expenses incurred by the Manager or its Affiliates with respect to market information systems and publications, research publications and materials;

(xiii) settlement, clearing, trade confirmation and reconciliation, and custodial fees and expenses;

(xiv) all taxes and license fees;

(xv) all insurance costs incurred with respect to insurance policies obtained in connection with the operation of the Company's business, including but not limited to insurance covering activities of the Manager and its employees relating to the performance of the Manager's duties and obligations under this Agreement;

(xvi) costs and expenses incurred in contracting with third parties for the servicing and special servicing of assets of the Company;

(xvii) all other actual out of pocket costs and expenses relating to the Company's business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing and disposing of Investments, including appraisal, reporting, audit and legal fees;

(xviii) any judgment or settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against the Company or any Subsidiary, or against any director or officer of the Company or of any Subsidiary in his capacity as such for which the Company or any Subsidiary is required to indemnify such director or officer by any court or governmental agency, or settlement of pending or threatened proceedings;

(xix) the costs of maintaining compliance with all federal, state and local rules and regulations, including securities regulations, or any other regulatory agency, all taxes and license fees and all insurance costs incurred on the Company's behalf relating to the Company's activities;

(xx) expenses relating to any office or office facilities, including disaster backup recovery sites and facilities, maintained expressly for the Company and separate from offices of the Manager and reasonably required for the Company's operation;

(xxi) the costs of the wages, salaries and benefits incurred by the Manager with respect to any Dedicated Officers that the Manager elects to provide to the Company pursuant to Section 3(b) above; *provided* that (A) if the Manager elects to provide a partially Dedicated



Officer rather than a fully Dedicated Officer, the Company shall be required to bear only a *pro rata* portion of the costs of the wages, salaries and benefits incurred by the Manager with respect to such personnel based on the percentage of their working time and efforts spent on matters related to the Company and (B) the amount of such wages, salaries and benefits paid or reimbursed with respect to the Dedicated Officers or the partially Dedicated Officers shall be subject to the approval of the Compensation Committee of the Board of Directors;

(xxii) costs associated with the Company's marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote the Company's business;

(xxiii) costs of maintaining the Company's website; and

(xxiv) all other costs and expenses approved by the Board of Directors.

(b) Other than as expressly provided above, the Company will not be required to pay any portion of the rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Manager and its Affiliates. In particular, the Manager is not entitled to be reimbursed for wages, salaries and benefits of its officers and employees, other than as described in Section 9(a)(xxi) above.

(c) To the extent the Manager (or Freedom Mortgage pursuant to the Services Agreement) incurs any expense in connection with the performance of its duties hereunder (or under the Services Agreement) which (x) benefits the Company and any other funds, entities or accounts that are managed by an Affiliate of the Manager or Freedom Mortgage and (y) is reimbursable by the Company under this Agreement, such expense shall be allocated among the Company and such other funds, entities or accounts in a manner determined in good faith by the Manager to reflect the relative benefits to the Company and such funds, entities or accounts resulting from such expense, including, for example, in the case of an expense related to a particular asset, in proportion to the amount of each entity's investment in such asset and, in the case of most other expenses, in proportion to the relative net asset values of the entities that are benefited.

(d) Subject to any required Board of Directors approval, the Manager may retain, for and on behalf, and at the sole cost and expense, of the Company, such services of non-Affiliate third-party accountants, legal counsel, appraisers, insurers, brokers, transfer agents, registrars, developers, investment banks, financial advisors, banks and other lenders and others as the Manager deems necessary or advisable in connection with the management and operations of the Company in accordance with the authorities granted to the Manager pursuant to this Agreement. The provisions of this Section 9 shall survive the expiration or earlier termination of this Agreement to the extent such expenses have previously been incurred or are incurred in connection with such expiration or termination.

#### **10. Expense Reports and Reimbursements.**

(a) The Manager shall prepare a written statement in reasonable detail documenting the costs and expenses of the Company incurred during each fiscal quarter, including the costs and expenses to be reimbursed by the Company, and deliver the same to the Company within 30 days following the end of the applicable fiscal quarter. Such expenses incurred by the Manager on behalf of the Company shall be reimbursed by the Company within 60 days following delivery of the expense statement by the Manager.

(b) Any costs and expense reimbursements by the Company in accordance with Section 10(a) shall be subject to adjustment at the end of each calendar year in connection with the annual audit of the Company. In connection therewith, the Manager shall prepare and deliver to the Company within 30 days after the conclusion of each such annual audit, a list of adjustments made as a result of, or in preparation for, the audit. The Board of Directors shall determine, within 30 days after receipt of such list, whether funds should be refunded by the Manager to the Company or paid by the Company to the Manager, or if any accruals for the next fiscal year should be adjusted, *provided*, however, that if the Manager owes a refund to the Company, such amount may be offset by the Company against the next installment of the Quarterly Management Fee Amount due hereunder.

(c) The provisions of this Section 10 shall survive the expiration or earlier termination of this Agreement to the extent such expenses have previously been incurred or are incurred in connection with such expiration or termination.

**11. Limits of Manager Responsibility; Indemnification.**

(a) Pursuant to this Agreement, the Manager will not assume any responsibility other than to render the services called for hereunder in good faith and will not be responsible for any action of the Board of Directors in following or declining to follow the Manager's advice or recommendations. The Manager, Freedom Mortgage, each of their respective Affiliates and the officers, directors, managers, members, shareholders, partners, Investment and Risk Management Committee members, employees, agents, successors and assigns of any of them (each, a "Manager Indemnified Party") shall not be liable to the Company for any acts or omissions by any such Manager Indemnified Party arising out of or in connection with the Company or pursuant to the performance of the Manager's duties and obligations under this Agreement, except by reason of acts or omissions found by a court of competent jurisdiction ("Judicially Determined") to be due to the bad faith, gross negligence, willful misconduct, fraud or reckless disregard of duties by the Manager Indemnified Party. Notwithstanding any of the foregoing to the contrary, the provisions of this Section 11(a) shall not be construed so as to provide for the exculpation of any Manager Indemnified Party for any liability (including liability under Federal securities laws which, under certain circumstances, impose liability even on Persons that act in good faith), to the extent (but only to the extent) that such liability may not be waived, modified or limited under applicable law, but shall be construed so as to effectuate the provisions of this Section 11(a) to the fullest extent permitted by law. For the avoidance of doubt, none of the Manager Indemnified Parties will be liable to the Company for: (i) trade errors that may result from ordinary negligence that are otherwise taken in good faith and in accordance with or pursuant to this Agreement, including, but not limited to, errors in the investment-decision process (*e.g.*, a transaction was effected in violation of the Company's Investment Guidelines) or in the trade process (*e.g.*, a buy order was entered instead of a sell order or the wrong security was purchased or sold or the security was purchased or sold at the wrong price); or (ii) acts or omissions of any Manager Indemnified Party made or taken in good faith, in accordance with or pursuant to this Agreement and in reliance on written advice

provided to such Manager Indemnified Party by professional consultants selected, engaged or retained by the Manager with commercially reasonable care, including, without limitation, counsel, accountants, investment bankers, financial advisers and appraisers, *provided* that such written advice relates to matters which are not customarily the expertise of an investment manager providing services substantially similar to those to be provided by the Manager to the Company pursuant to this Agreement, or such written advice relates to matters about which an investment manager would customarily seek such advice in the ordinary course of business. Notwithstanding the foregoing, no provision of this Agreement will constitute a waiver or limitation of the Company's rights under federal or state securities laws.

(b) To the fullest extent permitted by law, the Company shall indemnify, defend and hold harmless each Manager Indemnified Party from and against any and all costs, losses, claims, damages, liabilities, expenses (including reasonable legal and other professional fees and disbursements), judgments, fines and settlements (collectively, "Indemnification Obligations") suffered or sustained by such Manager Indemnified Party by reason of (i) any acts or omissions or alleged acts or omissions arising out of or in connection with the Company or performed by a Manager Indemnified Party in good faith and in accordance with or pursuant to the Manager's duties under this Agreement (including, for the avoidance of doubt, the Post-Termination Transition Assistance) and (ii) any and all claims, demands, actions, suits or proceedings (civil, criminal, administrative or investigative), actual or threatened, in which such Manager Indemnified Party may be involved, as a party or otherwise, arising out of or in connection with such Manager Indemnified Party's acts or omissions performed in good faith and in accordance with or pursuant to this Agreement (including, for the avoidance of doubt, the Post-Termination Transition Assistance), except to the extent such Indemnification Obligations constitute such Manager Indemnified Party's bad faith, gross negligence, willful misconduct, fraud or reckless disregard of the Manager's duties under this Agreement. The termination of a proceeding by settlement or upon a plea of *nolo contendere*, or its equivalent, shall not, of itself, create a presumption that such Manager Indemnified Party's conduct constituted bad faith, gross negligence, willful misconduct, fraud or reckless disregard of the Manager's duties hereunder.

(c) To the fullest extent permitted by law, the Manager hereby agrees to indemnify, defend and hold harmless the Company and its Subsidiaries and each of their respective directors, officers, employees, managers and agents (each a "Company Indemnified Party"; a Manager Indemnified Party and a Company Indemnified Party are each sometimes hereinafter referred to as an "Indemnified Party") with respect to all Indemnification Obligations suffered or sustained by such Company Indemnified Party by reason of (i) acts or omissions or alleged acts or omissions of the Manager constituting bad faith, willful misconduct or gross negligence of the Manager, Freedom Mortgage or their respective officers, employees, managers or agents or the reckless disregard of the Manager's duties under this Agreement or (ii) claims by Freedom Mortgage's or the Manager's employees relating to the terms and conditions of their employment with Freedom Mortgage or the Manager.

(d) In case any claim, suit, action or proceeding is brought against any Indemnified Party in respect of which indemnification may be sought by such Indemnified Party pursuant hereto (such claim, suit, action or proceeding, a "Claim"), the Indemnified Party shall give prompt written notice thereof to the indemnifying party, which notice shall specifically state that indemnification for such Claim is being sought under this Section; *provided, however*, that the

failure of the Indemnified Party to so notify the indemnifying party will not relieve the indemnifying party from any liability which the indemnifying party may have hereunder, except to the extent such failure actually and materially prejudices the indemnifying party. Upon receipt of such notice of Claim, the indemnifying party shall, at its sole cost and expense, in good faith defend any such Claim with counsel reasonably satisfactory to such Indemnified Party, which counsel may, without limiting the rights of such Indemnified Party pursuant to the next succeeding sentence of this Section, also represent the indemnifying party in such investigation, action or proceeding. In the alternative, such Indemnified Party may elect to conduct the defense of the Claim, if (i) such Indemnified Party reasonably determines that the conduct of its defense by the indemnifying party could be materially prejudicial to the Indemnified Party's interests, (ii) the indemnifying party refuses to assume the defense (or fails to give written notice to the Indemnified Party within ten days of receipt of a notice of Claim that the indemnifying party assumes such defense), or (iii) the indemnifying party shall have failed, in such Indemnified Party's reasonable judgment, to defend the Claim in good faith; *provided* that the Indemnified Party notifies the indemnifying party of its election to conduct the defense of the Claim. The indemnifying party may settle any Claim against such Indemnified Party without such Indemnified Party's consent, *provided* (i) such settlement is without any expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever to the Indemnified Party, (ii) the settlement does not include or require any admission of liability or culpability by such Indemnified Party and (iii) the indemnifying party obtains an effective written release of liability for such Indemnified Party from the party to the Claim with whom such settlement is being made, which release must be reasonably acceptable to such Indemnified Party, and a dismissal with prejudice with respect to all claims made by the party against such Indemnified Party in connection with such Claim. The Indemnified Party shall reasonably cooperate with the indemnifying party, at the indemnifying party's sole cost and expense, in connection with the defense or settlement of any Claim in accordance with the terms hereof. If such Indemnified Party is entitled pursuant to this Section to elect to defend such Claim by counsel of its own choosing and so elects, then the indemnifying party shall be responsible for any good faith settlement of such Claim entered into by such Indemnified Party. Except as provided in the immediately preceding sentence, no Indemnified Party may pay or settle any Claim and seek reimbursement therefor under this Section without the indemnifying party's prior written consent.

(e) Reasonable expenses (including attorney's fees) incurred by an Indemnified Party in defense or settlement of a Claim shall be advanced by the indemnifying party as such expenses are incurred prior to the final disposition of such Claim; *provided* that, such Indemnified Party undertakes to repay such amounts if it shall be Judicially Determined that the Indemnified Party was not entitled to be indemnified hereunder.

(f) The Indemnified Party shall use commercially reasonable efforts to seek recovery under any insurance policies by which such Indemnified Party is covered and if such Indemnified Party recovers any amounts under any insurance policies, it shall be offset against the amount owed by the indemnifying party; *provided* such efforts to seek such recovery shall not be deemed a condition precedent to indemnification hereunder. If the Indemnified Party fails to seek such recovery, the indemnifying party shall be subrogated to the rights of the Indemnified Party under any applicable insurance policy of the Indemnified Party, and shall be entitled to recover under such policy up to the amount owed or paid by the indemnifying party to the Indemnified Party.

(g) The provisions of this Section 11 shall survive the expiration or earlier termination of this Agreement.

**12. No Joint Venture.**

The Company and the Manager are not partners or joint venturers with each other and nothing in this Agreement shall be construed to make the Company and the Manager partners or joint venturers or impose any liability as such on either of them.

**13. Term; Termination.**

(a) Term. This Agreement shall remain in full force until the third anniversary of the closing of the Initial Public Offering, unless terminated by the Company or Manager as set forth below, and shall be renewed automatically for successive one year periods thereafter, until this Agreement is terminated in accordance with the terms hereof.

(b) Non-Renewal. Either party may elect not to renew this Agreement at the expiration of the initial term or any renewal term for any or no reason by notice to the other party at least 180 days, but not more than 270 days, prior to the end of the term. Upon a non-renewal of this Agreement by the Company pursuant to this section, the Company will pay the Manager the Termination Fee.

(c) Termination by the Company for Cause. At the option of the Company and at any time during the term of this Agreement, this Agreement shall be and become terminated upon 30 days' written notice of termination from the Company to the Manager, without payment of the Termination Fee, if any of the following events shall occur:

(i) the Manager, its Affiliates or Freedom Mortgage shall commit a material breach of any provision of this Agreement (including the failure of the Manager to use commercially reasonable efforts to comply with the Company's Investment Guidelines), which such material breach continues uncured for a period of 30 days after written notice of such breach;

(ii) the Manager engages in any act of fraud, misappropriation of funds, or embezzlement against the Company or any Subsidiary or acts, or fails to act, in a manner constituting willful misconduct, gross negligence or reckless disregard in the performance of its duties under this Agreement; *provided*, however, that if any such act or omission is committed by one or more employees of the Manager taken without the complicity of the Manager, Freedom Mortgage, any of their Affiliates or their respective directors or principals, the Company shall not have the right to terminate this Agreement if (A) such employees have been terminated within 30 days after the Manager's actual knowledge of such act or omission, and (B) such employees or Freedom Mortgage has, within 30 days after the Manager's actual knowledge of such act or omission, made the Company whole for any loss arising from such act or omission and has otherwise cured the damage caused by such act or omission;

(iii) the Manager, Freedom Mortgage or any Affiliate of Freedom Mortgage involved in providing services to the Company is convicted of, or pleads *nolo contendere* to, a felony violation of any U.S. securities laws;

(iv) (A) the Manager or Freedom Mortgage shall commence any case, proceeding or other action (1) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (2) seeking appointment of a receiver, director, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Manager or Freedom Mortgage shall make a general assignment for the benefit of its creditors; or (B) there shall be commenced against the Manager or Freedom Mortgage any case, proceeding or other action of a nature referred to in clause (A) above which (1) results in the entry of an order for relief or any such adjudication or appointment or (2) remains undismissed, undischarged or unbonded for a period of 90 days; or (C) the Manager or Freedom Mortgage shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (A) or (B) above; or (D) the Manager or Freedom Mortgage shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due;

(v) upon a Change of Control of the Manager; or

(vi) the Manager shall fail to provide or procure adequate or appropriate personnel necessary for the Manager to source investment opportunities for the Company and to manage and develop the Company's portfolio; *provided*, that such default has continued uncured for a period of 60 days after written notice thereof, which notice shall contain a request that the same be remedied; and *provided further*, that if the Manager, Freedom Mortgage and their Affiliates collectively employ at least 50 employees, then the Manager will be deemed to have adequate and appropriate personnel.

(d) Termination by the Company Based on Performance. The Board of Directors will review the Manager's performance annually at the Board's regularly scheduled meeting during the Company's third fiscal quarter, and, within 30 days after such Board meeting, this Agreement may be terminated, pursuant to the delivery of notice as specified in this Section 13(d) below, upon either the affirmative vote of at least two-thirds of the members of the Board of Directors or the affirmative vote of the holders of at least a majority of the outstanding Common Stock, based upon unsatisfactory performance by the Manager that is materially detrimental to the Company or a determination by the Independent Directors that the management fees payable to the Manager hereunder are not fair, subject to the Manager's right to prevent such a termination by accepting a mutually acceptable reduction of such management fees. The Company must provide at least 60 days', but not more than 120 days', prior notice to the Manager of any termination under this Section 13(d). Upon a termination of this Agreement pursuant to this Section 13(d), the Company will pay the Manager the Termination Fee.

(e) Termination by Manager.

(i) The Manager may terminate this Agreement effective upon 60 days prior written notice of termination to the Company in the event that the Company shall default in the performance or observance of any material term, condition or covenant in this Agreement and such default shall continue for a period of 30 days after written notice thereof specifying such default and requesting that the same be remedied in such 30 day period. The Company is required to pay to the Manager the Termination Fee if the termination of this Agreement is made pursuant to this Section 13(e)(i).

(ii) The Manager may terminate this Agreement in the event that the Company becomes regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately prior to such event. The Company is not required to pay to the Manager the Termination Fee if the termination of this Agreement is made pursuant to this Section 13(e)(ii).

(f) Termination Related to Internalization Event. The Company and the Manager shall terminate this Agreement without payment of any Termination Fee pursuant to the consummation of an Internalization Event.

**14. Action Upon Termination or Expiration of Term.**

(a) From and after the effective date of termination or assignment of this Agreement pursuant to Sections 13 and 15 herein, the Manager shall not, subject to Section 14(b) below, be entitled to compensation for further services under this Agreement but shall be paid all compensation and reimbursable expenses accruing to the date of termination, and the Termination Fee, if applicable. For the avoidance of doubt, if the date of termination occurs other than at the end of a fiscal quarter, compensation to the Manager accruing to the date of termination shall also include: management fees equal to the Quarterly Management Fee Amount for such final fiscal quarter, taking into account only the portion of such final fiscal quarter that this Agreement was in effect, and with appropriate adjustments to all relevant definitions. Upon such termination or expiration, the Manager shall promptly:

(i) after deducting any accrued compensation and reimbursement for expenses to which the Manager is then entitled, pay over to the Company all money collected and held for the account of the Company or any Subsidiary pursuant to this Agreement;

(ii) deliver to the Board of Directors a full accounting, including a statement showing all payments collected and all money held by the Manager, covering the period following the date of the last accounting furnished to the Board of Directors with respect to the Company and through the termination date; and

(iii) deliver to the Board of Directors all property and documents of the Company and any Subsidiary then in the Manager's possession or custody or under its control; *provided, however*, that the Manager shall have the right to retain copies of any documents and records solely to the extent necessary to comply with the Manager's bona fide record retention policy or any regulations applicable to the Manager.

(b) In connection with any termination of this Agreement pursuant to Section 13, the Manager shall use reasonable efforts to cooperate with the Company or any persons or entity designated by the Board of Directors to succeed the Manager as the manager of the Company (a “Successor Manager”) to accomplish an orderly transfer of the operation and management of the Company and its investment activities to such Successor Manager. For a period of thirty (30) days after the effective date of any termination of this Agreement pursuant to Section 13, the Manager shall be available, through its officers, during normal business hours and not to exceed a total of 15 hours during any week within such 30 day period, to answer questions from and consult with the Company or designated representatives of any Successor Manager with respect to the Company’s business, operations and investment activities during the period prior to the termination (“Post-Termination Transition Assistance”). The Manager shall receive payment of a cash fee for any time spent providing Post-Termination Transition Assistance in an amount equal to \$500 per hour. Notwithstanding anything in this Section 14(b) to the contrary, the definition of Post-Termination Transition Assistance shall not include any of the Manager’s responsibilities pursuant to Section 14(a), and the Manager shall not be compensated for any time spent by the Manager’s officers to comply with Section 14(a).

**15. Assignment.**

The Manager may not assign its duties under this Agreement unless such assignment is consented to in writing by a majority of the Company’s Independent Directors. However, the Manager may assign to one or more of its Affiliates performance of any of its responsibilities hereunder without the approval of the Company’s Independent Directors so long as the Manager remains liable for any such Affiliate’s performance hereunder and such assignment does not require the Company’s approval under the Investment Advisers Act of 1940. Any permitted assignment shall bind the assignee under this Agreement in the same manner as the Manager is bound. In addition, the assignee shall execute and deliver to the Company a counterpart of this Agreement naming such assignee as the manager.

**16. Release of Money or other Property Upon Written Request.**

The Manager agrees that any money or other property of the Company or any Subsidiary held by the Manager under this Agreement shall be held by the Manager as custodian for the Company or any Subsidiary, and the Manager’s records shall be clearly and appropriately marked to reflect the ownership of such money or other property by the Company. Upon the receipt by the Manager of a written request signed by a duly authorized officer of the Company requesting the Manager to release to the Company any money or other property then held by the Manager for the account of the Company under this Agreement, the Manager shall release such money or other property to the Company within a reasonable period of time, but in no event later than 30 days following such request. Upon delivery of such money or other property to the Company, the Manager, Freedom Mortgage, and their Affiliates, directors, officers, managers, members and employees will not be liable to the Company or its stockholders for any acts or omissions by the Company in connection with the money or other property released to the Company in accordance with the terms hereof. The Company shall indemnify the Manager, Freedom Mortgage, and their Affiliates, officers, directors, Investment and Risk Management Committee members, partners, members, employees, agents and successors and assigns against any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature



whatsoever which arise in connection with the Manager's release of such money or other property to the Company in accordance with the terms of this Section 16. Indemnification pursuant to this Section 16 shall be in addition to any right of the Manager to indemnification under Section 11 and shall survive the termination of this Agreement.

**17. Notices.**

(a) Unless expressly provided otherwise in this Agreement, all notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered against receipt or upon actual receipt of personal delivery, delivery by a reputable overnight courier, delivery by facsimile transmission but only if such transmission is confirmed, or delivery by registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

- (i) if to the Company and any of the Subsidiaries, to:

Cherry Hill Mortgage Investment Corporation  
301 Harper Drive, Suite 110  
Moorestown, New Jersey 08057  
Attn: Chief Financial Officer  
Facsimile: (877) 870-7005

with a copy to:

Daniel M. LeBey Hunton & Williams LLP  
Riverfront Plaza, East Tower  
951 East Byrd Street  
Richmond, Virginia 23219-4074  
Facsimile: (804) 343-4543;

and

- (ii) if to the Manager, to:

Cherry Hill Mortgage Management, LLC  
301 Harper Drive, Suite 110  
Moorestown, New Jersey 08057  
Attn: Stanley C. Middleman  
Facsimile: (877) 870-7005.

(b) Any party may change the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 17 for the giving of notice.

**18. Binding Nature of Agreement; Successors and Assigns.**

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns as provided in this Agreement.

**19. Entire Agreement; Amendments.**

This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter of this Agreement. The express terms of this Agreement control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms of this Agreement. This Agreement may not be modified, supplemented or amended other than by an agreement in writing signed by the parties hereto.

**20. Governing Law; Jurisdiction.**

This Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State of New York without giving effect to such state's laws and principles regarding the conflict of interest laws (other than Section 5-1401 of the general obligations Law of the State of New York). Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the borough of Manhattan or the United States District Court located in the Southern District of New York, and the appellate courts to which orders and judgments thereof may be appealed, for the purpose of any action or judgment relating to or arising out of this Agreement or any of the transactions contemplated hereby and to the laying of venue in such court.

**21. Waiver of Jury Trial.**

EACH PARTY HERETO ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND, THEREFORE, EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY ACTION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

**22. Indulgences, Not Waivers.**

Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any waiver of

any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

**23. Titles Not to Affect Interpretation.**

The titles of sections, paragraphs and subparagraphs contained in this Agreement are for convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation of this Agreement.

**24. Execution in Counterparts.**

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts of this Agreement, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

**25. Severability.**

The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

**26. Principles of Construction.**

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires. All references to recitals, sections, paragraphs and schedules are to the recitals, sections, paragraphs and schedules in or to this Agreement unless otherwise specified.

**[SIGNATURE PAGE FOLLOWS]**

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

**THE COMPANY:**

CHERRY HILL MORTGAGE INVESTMENT  
CORPORATION

By: /s/ Martine J. Levine  
Name: Martine J. Levine  
Title: Chief Financial Officer

**THE SUBSIDIARIES:**

CHERRY HILL OPERATING PARTNERSHIP, LP

By: Cherry Hill Mortgage Investment Corporation, its general  
partner

By: /s/ Martine J. Levine  
Name: Martine J. Levine  
Title: Chief Financial Officer

CHERRY HILL QRS I, LLC  
CHERRY HILL TRS, LLC

By: Cherry Hill Operating Partnership, LP, its member

By: Cherry Hill Mortgage Investment Corporation, its general  
partner

By: /s/ Martine J. Levine  
Name: Martine J. Levine  
Title: Chief Financial Officer

[Signature Page to Management Agreement]

CHERRY HILL QRS II, LLC

By: Cherry Hill QRS I, LLC, its member

By: Cherry Hill Operating Partnership, LP, its member

By: Cherry Hill Mortgage Investment Corporation, its general partner

By: /s/ Martine J. Levine

Name: Martine J. Levine

Title: Chief Financial Officer

**THE MANAGER:**

CHERRY HILL MORTGAGE MANAGEMENT LLC

By: /s/ Stanley C. Middleman

Name: Stanley C. Middleman

Title: Chief Executive Officer

[Signature Page to Management Agreement]

**Exhibit A**

**INVESTMENT GUIDELINES OF  
CHERRY HILL MORTGAGE INVESTMENT CORPORATION**

Capitalized terms used but not defined herein shall have the meanings ascribed thereto in that Management Agreement, dated as of April 22, 2013, as may be amended from time to time (the "Management Agreement"), by and among Cherry Hill Mortgage Investment Corporation (the "Company"), the Company's Subsidiaries and Cherry Hill Mortgage Management, LLC (the "Manager").

- (a) No investment shall be made that would cause the Company to fail to qualify as a REIT under the Internal Revenue Code of 1986, as amended;
- (b) No investment shall be made that would cause the Company or any of the Subsidiaries to be regulated as an investment company under the Investment Company Act;
- (c) The Company shall not enter into Principal Transactions or Split Price Executions with Freedom Mortgage or any of its Affiliates unless (i) such transaction is otherwise in accordance with these guidelines and the Management Agreement and (ii) the terms of such transaction are at least as favorable to the Company as to Freedom Mortgage or such Affiliate (as applicable);
- (d) Any proposed material investment that is outside those targeted or other asset classes or targeted platforms or opportunities mentioned or otherwise described in or contemplated by any prospectus used in an Initial Public Offering or other disclosure package used in connection with any securities offering by the Company must be approved by at least a majority of the Independent Directors.

These investment guidelines may be changed by the Company's Board of Directors without the approval of its stockholders.

**SERVICES AGREEMENT**

SERVICES AGREEMENT, dated as of May 1, 2013, by and between Cherry Hill Mortgage Management LLC, a Delaware limited liability company (the “*Manager*”), and Freedom Mortgage Corporation, a New Jersey corporation ( “*FMC*”).

WHEREAS, the Manager has entered into a management agreement, dated as of April 22, 2013 (as such agreement may be amended from the to time, the “*Management Agreement*”), by and between Cherry Hill Mortgage Investment Corporation (the “*Company*”) and the Manager; and

WHEREAS, FMC desires to provide such services, including personnel, services and resources, to the Manager as shall be necessary to enable the Manager to perform its duties under the Management Agreement.

NOW THEREFORE, in consideration of the foregoing premises, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

1. Agreement to Provide Services. FMC agrees to provide the Manager with such personnel, services and resources, and to take all other commercially reasonable actions, as shall be necessary or advisable to enable the Manager to perform all of its duties, obligations and agreements under the Management Agreement.

2. Third Party Beneficiary. FMC and the Manager each understands and agrees that the provisions of Section 1 of this Agreement are for the direct benefit of the Company, and each of them hereby designates the Company as a named third party beneficiary of this Agreement. FMC acknowledges and agrees that the Company shall have, as a non-exclusive remedy, a direct right of action against FMC 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 FMC of its obligations hereunder.

3. Term. The term of this Agreement is one year from the closing date for the initial public offering of the common stock of the Company subject to renewal for successive annual periods by agreement of the Manager and FMC. In addition, this Agreement will terminate upon the termination of the Management Agreement.

4. Fees. As consideration for the performance by FMC of its duties and obligations under this Agreement, the Manager shall pay FMC a fee of \$500,000 per year. Such fee shall begin to accrue on the closing date for the initial public offering of the common stock of the Company and shall be payable by the Manager to FMC in cash quarterly in arrears within ten (10) days after receipt by the Manager of the Quarterly Management Fee Amount, as defined in the Management Agreement. The amount payable quarterly shall be pro rated for any period during which this Agreement is in effect of less than a full quarter.

5. Assignments. This Agreement may not be assigned by any party hereto, in whole or in part, and shall terminate automatically in the event of any such assignment, unless such assignment is consented to in writing by the other party; *provided, however, that* FMC may delegate to one or more of its affiliates other than the Manager performance of any of FMC’s responsibilities hereunder so long as FMC remains liable for any such affiliate’s performance,

6. Governing Law. This Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State of New York without giving effect to such state's laws and principles regarding the conflict of interest laws (other than Section 5-1401 of the General Obligations Law of the State of New York).

7. Counterparts. This Agreement may be executed and delivered by the parties to this Agreement on any number of separate counterparts (including telecopy or email transmission of scanned image), and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

8. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof; and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9. Binding Nature of Agreement; Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns as provided in this Agreement.

10. Amendments. This Agreement may not be modified or amended other than by an agreement in writing signed by the parties hereto.

*[Remainder of the page intentionally left blank. Signature page follows.]*



IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

**CHERRY HILL MORTGAGE MANAGEMENT LLC**

By: /s/ Martine Levine

Name: Martine Levine

Title: Chief Financial Officer

**FREEDOM MORTGAGE CORPORATION**

By: /s/ Stanley C. Middleman

Name: Stanley C. Middleman

Title: President and Chief Executive Officer

FORM OFINDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (“Agreement”) is made and entered into as of the        day of       , 20        (the “Effective Time”), by and between Cherry Hill Mortgage Investment Corporation, a Maryland corporation (the “Company”), and        (“Indemnitee”).

WHEREAS, at the request of the Company, Indemnitee currently serves as a **director [and] [an officer]** of the Company and may, therefore, be subjected to claims, suits or proceedings arising as a result of such service;

WHEREAS, as an inducement to Indemnitee to serve or continue to serve in such capacity, the Company has agreed to indemnify Indemnitee and to advance expenses and costs incurred by Indemnitee in connection with any such claims, suits or proceedings, to the maximum extent permitted by law; and

WHEREAS, the parties by this Agreement desire to set forth their agreement regarding indemnification and advance of expenses;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. Definitions. For purposes of this Agreement:

(a) “Change in Control” means a change in control of the Company occurring after the Effective Date of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if, after the Effective Date, (i) any “person” (as such term is used in Sections 3(a)(9), 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 15% or more of the combined voting power of all of the Company’s then-outstanding securities entitled to vote generally in the election of directors without the prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person’s attaining such percentage interest; (ii) the Company is a party to a merger, consolidation, sale of assets, plan of liquidation or other reorganization not approved by at least two-thirds of the members of the Board of Directors then in office, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or (iii) at any time, a majority of the members of the Board of Directors are not individuals (A) who were directors as of the Effective Date or (B) whose election by the Board of Directors or nomination for election by the Company’s stockholders was approved by the affirmative

vote of at least two-thirds of the directors then in office who were directors as of the Effective Date or whose election or nomination for election was previously so approved.

(b) "Corporate Status" means the status of a person as a present or former director, officer, employee or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company. As a clarification and without limiting the circumstances in which Indemnitee may be serving at the request of the Company, service by Indemnitee shall be deemed to be at the request of the Company: (i) if Indemnitee serves or served as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any corporation, partnership, limited liability company, joint venture, trust or other enterprise (1) of which a majority of the voting power or equity interest is or was owned directly or indirectly by the Company or (2) the management of which is controlled directly or indirectly by the Company and (ii) if, as a result of Indemnitee's service to the Company or any of its affiliated entities, Indemnitee is subject to duties by, or required to perform services for, an employee benefit plan or its participants or beneficiaries, including as deemed fiduciary thereof.

(c) "Disinterested Director" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification and/or advance of Expenses is sought by Indemnitee.

(d) "Effective Date" means the date set forth in the first paragraph of this Agreement.

(e) "Expenses" means any and all reasonable and out-of-pocket attorneys' fees and costs, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, ERISA excise taxes and penalties and any other disbursements or expenses incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in or otherwise participating in a Proceeding. Expenses shall also include Expenses incurred in connection with any appeal resulting from any Proceeding, including, without limitation, the premium, security for and other costs relating to any cost bond, supersedeas bond or other appeal bond or its equivalent.

(f) "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement or of other indemnitees under similar indemnification agreements), or (ii) any other party to or participant or witness in the Proceeding giving rise to a claim for

indemnification or advance of Expenses hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(g) "Proceeding" means any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative or investigative (formal or informal) nature, including any appeal therefrom, except one pending or completed on or before the Effective Date, unless otherwise specifically agreed in writing by the Company and Indemnitee. If Indemnitee reasonably believes that a given situation may lead to or culminate in the institution of a Proceeding, such situation shall also be considered a Proceeding.

Section 2. Services by Indemnitee. Indemnitee **[will serve][serves]** in the capacity or capacities set forth in the first WHEREAS clause above. However, this Agreement shall not impose any obligation on Indemnitee or the Company to continue Indemnitee's service to the Company. This Agreement shall not be deemed an employment contract between the Company (or any other entity) and Indemnitee.

Section 3. General. The Company shall indemnify, and advance Expenses to, Indemnitee (a) as provided in this Agreement and (b) otherwise to the maximum extent permitted by Maryland law in effect on the Effective Date and as amended from time to time; provided, however, that no change in Maryland law shall have the effect of reducing the benefits available to Indemnitee hereunder based on Maryland law as in effect on the Effective Date. The rights of Indemnitee provided in this Section 3 shall include, without limitation, the rights set forth in the other sections of this Agreement, including any additional indemnification permitted by the Maryland General Corporation Law (the "MGCL"), including, without limitation, Section 2-418 of the MGCL.

Section 4. Standard for Indemnification. If, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be, made a party to any Proceeding, the Company shall indemnify Indemnitee against all judgments, penalties, fines and amounts paid in settlement and all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with any such Proceeding unless it is established that (a) the act or omission of Indemnitee was material to the matter giving rise to the Proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) Indemnitee actually received an improper personal benefit in money, property or services or (c) in the case of any criminal Proceeding, Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

Section 5. Certain Limits on Indemnification. Notwithstanding any other provision of this Agreement (other than Section 6), Indemnitee shall not be entitled to:

- (a) indemnification hereunder if the Proceeding was one by or in the right of the Company and Indemnitee is adjudged, in a final adjudication of the Proceeding not subject to further appeal, to be liable to the Company;
- (b) indemnification hereunder if Indemnitee is adjudged, in a final adjudication of the Proceeding not subject to further appeal, to be liable on the basis that personal benefit was improperly received in any Proceeding charging improper personal benefit to Indemnitee, whether or not involving action in the Indemnitee's Corporate Status; or
- (c) indemnification or advance of Expenses hereunder if the Proceeding was brought by Indemnitee, unless: (i) the Proceeding was brought to enforce indemnification under this Agreement, and then only to the extent in accordance with and as authorized by Section 12 of this Agreement, or (ii) the Company's charter or Bylaws, a resolution of the stockholders entitled to vote generally in the election of directors or of the Board of Directors or an agreement approved by the Board of Directors to which the Company is a party expressly provide otherwise.

Section 6. Court-Ordered Indemnification. Notwithstanding any other provision of this Agreement, a court of appropriate jurisdiction, upon application of Indemnitee and such notice as the court shall require, may order indemnification of Indemnitee by the Company in the following circumstances:

- (a) if such court determines that Indemnitee is entitled to reimbursement under Section 2-418(d)(1) of the MGCL, the court shall order indemnification, in which case Indemnitee shall be entitled to recover the Expenses of securing such reimbursement; or
- (b) if such court determines that Indemnitee is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not Indemnitee (i) has met the standards of conduct set forth in Section 2-418(b) of the MGCL or (ii) has been adjudged liable for receipt of an improper personal benefit under Section 2-418(c) of the MGCL, the court may order such indemnification as the court shall deem proper without regard to any limitation on such court-ordered indemnification contemplated by Section 2-418(d)(2)(ii) of the MGCL.

Section 7. Indemnification for Expenses of an Indemnitee Who is Wholly or Partially Successful. Notwithstanding any other provision of this Agreement, and without limiting any such provision, to the extent that Indemnitee was or is, by reason of Indemnitee's Corporate Status, made a party to (or otherwise becomes a participant in) any Proceeding and is successful, on the merits or otherwise, in the defense of such Proceeding, the Company shall indemnify Indemnitee for all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee under this Section 7 for all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each such claim, issue or matter, allocated on a reasonable and proportionate basis. For purposes of this Section 7 and, without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 8. Advance of Expenses for Indemnitee. If, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be, made a party to any Proceeding, the Company shall, without requiring a preliminary determination of Indemnitee's ultimate entitlement to indemnification hereunder, advance all Expenses incurred by or on behalf of Indemnitee in connection with such Proceeding. The Company shall make such advance within ten days after the receipt by the Company of a statement or statements requesting such advance from time to time, whether prior to or after final disposition of such Proceeding and may be in the form of, in the reasonable discretion of Indemnitee (but without duplication) (a) payment of such Expenses directly to third parties on behalf of Indemnitee, (b) advance of funds to Indemnitee in an amount sufficient to pay such Expenses or (c) reimbursement to Indemnitee for Indemnitee's payment of such Expenses. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by a written affirmation by Indemnitee and a written undertaking by or on behalf of Indemnitee, in substantially the form attached hereto as Exhibit A or in such form as may be required under applicable law as in effect at the time of the execution thereof. To the extent that Expenses advanced to Indemnitee do not relate to a specific claim, issue or matter in the Proceeding, such Expenses shall be allocated on a reasonable and proportionate basis. The undertaking required by this Section 8 shall be an unlimited general obligation by or on behalf of Indemnitee and shall be accepted without reference to Indemnitee's financial ability to repay such advanced Expenses and without any requirement to post security therefor.

Section 9. Indemnification and Advance of Expenses as a Witness or Other Participant. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is or may be, by reason of Indemnitee's Corporate Status, made a witness or otherwise asked to participate in any Proceeding, whether instituted by the Company or any other person, and to which Indemnitee is not a party, Indemnitee shall be advanced and indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith within ten days after the receipt by the Company of a statement or statements requesting any such advance or indemnification from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee. In connection with any such advance of Expenses, the Company may require Indemnitee to provide an undertaking and affirmation substantially in the form attached hereto as Exhibit A.

Section 10. Procedure for Determination of Entitlement to Indemnification.

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. Indemnitee may submit one or more such requests from time to time and at such time(s) as Indemnitee deems appropriate in Indemnitee's sole discretion. The officer of the Company receiving any such request from Indemnitee shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification.

(b) Upon written request by Indemnitee for indemnification pursuant to Section 10(a) above, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall promptly be made in the specific case: (i) if a Change in Control has occurred, by Independent Counsel, in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee, which Independent Counsel shall be selected by the Indemnitee and approved by the Board of Directors in accordance with Section 2-418(e)(2)(ii) of the MGCL, which approval shall not be unreasonably withheld; or (ii) if a Change in Control has not occurred, (A) by a majority vote of the Disinterested Directors or, by the majority vote of a group of Disinterested Directors designated by the Disinterested Directors to make the determination, (B) if Independent Counsel has been selected by the Board of Directors in accordance with Section 2-418(e)(2)(ii) of the MGCL and approved by the Indemnitee, which approval shall not be unreasonably withheld or delayed, by Independent Counsel, in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee or (C) if so directed by the Board of Directors, by the stockholders of the Company, other than directors or officers who are parties to the Proceeding. If it is so determined that Indemnitee is entitled to indemnification, the Company shall make payment to Indemnitee within ten days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary or appropriate to such determination in the discretion of the Board of Directors or Independent Counsel if retained pursuant to clause (ii)(B) of this Section 10(b). Any Expenses incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company shall indemnify and hold Indemnitee harmless therefrom.

(c) The Company shall pay the reasonable fees and expenses of Independent Counsel, if one is appointed.

Section 11. Presumptions and Effect of Certain Proceedings.

(a) In making any determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 10(a) of this Agreement, and the Company shall have the burden of overcoming that presumption in connection with the making of any determination contrary to that presumption.

(b) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, upon a plea of *nolo contendere* or its equivalent, or entry of an order of probation prior to judgment, does not create a presumption that Indemnitee did not meet the requisite standard of conduct described herein for indemnification.

(c) The knowledge and/or actions, or failure to act, of any other director, officer, employee or agent of the Company or any other director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation,

partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise shall not be imputed to Indemnitee for purposes of determining any other right to indemnification under this Agreement.

Section 12. Remedies of Indemnitee.

(a) If (i) a determination is made pursuant to Section 10(b) of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advance of Expenses is not timely made pursuant to Sections 8 or 9 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 10(b) of this Agreement within 60 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Sections 7 or 9 of this Agreement within ten days after receipt by the Company of a written request therefor, or (v) payment of indemnification pursuant to any other section of this Agreement or the charter or Bylaws of the Company is not made within ten days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall be entitled to an adjudication of Indemnitee's entitlement to indemnification or advance of Expenses in an appropriate court located in the State of Maryland, or in any other court of competent jurisdiction or in an arbitration conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence a proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 12(a); provided, however, that the foregoing clause shall not apply to a proceeding brought by Indemnitee to enforce Indemnitee's rights under Section 7 of this Agreement. Except as set forth herein, the provisions of Maryland law (without regard to its conflicts of laws rules) shall apply to any such arbitration. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In any judicial proceeding or arbitration commenced pursuant to this Section 12, Indemnitee shall be presumed to be entitled to indemnification or advance of Expenses, as the case may be, under this Agreement and the Company shall have the burden of proving that Indemnitee is not entitled to indemnification or advance of Expenses, as the case may be. If Indemnitee commences a judicial proceeding or arbitration pursuant to this Section 12, Indemnitee shall not be required to reimburse the Company for any advances pursuant to Section 8 of this Agreement until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed). The Company shall, to the fullest extent not prohibited by law, be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 12 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all of the provisions of this Agreement.

(c) If a determination shall have been made pursuant to Section 10(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 12, absent a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification that was not disclosed in connection with the determination.



(d) In the event that Indemnitee is successful in seeking, pursuant to this Section 12, a judicial adjudication of or an award in arbitration to enforce Indemnitee's rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company for, any and all Expenses actually and reasonably incurred by Indemnitee in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that Indemnitee is entitled to receive part but not all of the indemnification or advance of Expenses sought, the Expenses incurred by Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately prorated.

(e) Interest shall be paid by the Company to Indemnitee at the maximum rate allowed to be charged for judgments under the Courts and Judicial Proceedings Article of the Annotated Code of Maryland for amounts which the Company pays or is obligated to pay for the period (i) commencing with either the tenth day after the date on which the Company was requested to advance Expenses in accordance with Sections 8 or 9 of this Agreement or the 60<sup>th</sup> day after the date on which the Company was requested to make the determination of entitlement to indemnification under Section 10(b) of this Agreement, as applicable, and (ii) ending on the date such payment is made to Indemnitee by the Company.

Section 13. Defense of the Underlying Proceeding.

(a) Indemnitee shall notify the Company promptly in writing upon being served with any summons, citation, subpoena, complaint, indictment, request or other document relating to any Proceeding which may result in the right to indemnification or the advance of Expenses hereunder and shall include with such notice a description of the nature of the Proceeding and a summary of the facts underlying the Proceeding. The failure to give any such notice shall not disqualify Indemnitee from the right, or otherwise affect in any manner any right of Indemnitee, to indemnification or the advance of Expenses under this Agreement unless the Company's ability to defend in such Proceeding or to obtain proceeds under any insurance policy is materially and adversely prejudiced thereby, and then only to the extent the Company is thereby actually so prejudiced.

(b) Subject to the provisions of the last sentence of this Section 13(b) and of Section 13(c) below, the Company shall have the right to defend Indemnitee in any Proceeding which may give rise to indemnification hereunder; provided, however, that the Company shall notify Indemnitee of any such decision to defend within 15 calendar days following receipt of notice of any such Proceeding under Section 13(a) above. The Company shall not, without the prior written consent of Indemnitee, consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise which (i) includes an admission of fault of Indemnitee, (ii) does not include, as an unconditional term thereof, the full release of Indemnitee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnitee, or (iii) would impose any Expense, judgment, fine, penalty or limitation on Indemnitee. This Section 13(b) shall not apply to a Proceeding brought by Indemnitee under Section 12 of this Agreement.

(c) Notwithstanding the provisions of Section 13(b) above, if in a Proceeding to which Indemnitee is a party by reason of Indemnitee's Corporate Status, (i) Indemnitee reasonably concludes, based upon a written opinion of counsel, that Indemnitee may have separate defenses or counterclaims to assert with respect to any issue which may not be consistent with other defendants in such Proceeding, (ii) Indemnitee reasonably concludes, based upon a written opinion of counsel, that an actual or apparent conflict of interest or potential conflict of interest exists between Indemnitee and the Company, or (iii) if the Company fails to assume the defense of such Proceeding in a timely manner, Indemnitee shall be entitled to be represented by separate legal counsel, including one local counsel in each applicable jurisdiction, of Indemnitee's choice, subject to the prior approval of the Company, which approval shall not be unreasonably withheld or delayed, at the expense of the Company. In addition, if the Company fails to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes any action to declare this Agreement void or unenforceable, or institutes any Proceeding to deny or to recover from Indemnitee the benefits intended to be provided to Indemnitee hereunder, Indemnitee shall have the right to retain counsel of Indemnitee's choice at the expense of the Company (subject to Section 12(d) of this Agreement), to represent Indemnitee in connection with any such matter.

Section 14. Non-Exclusivity; Survival of Rights; Subrogation.

(a) The rights of indemnification and advance of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the charter or Bylaws of the Company, any agreement or a resolution of the stockholders entitled to vote generally in the election of directors or of the Board of Directors, or otherwise. Unless consented to in writing by Indemnitee, no amendment, alteration or repeal of the charter or Bylaws of the Company, this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal, regardless of whether a claim with respect to such action or inaction is raised prior or subsequent to such amendment, alteration or repeal. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right or remedy shall be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion of any right or remedy hereunder, or otherwise, shall not prohibit the concurrent assertion or employment of any other right or remedy.

(b) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers reasonably required and take all reasonable action necessary to secure such rights, including execution of such documents reasonably as are necessary to enable the Company to bring suit to enforce such rights.

Section 15. Insurance.

(a) The Company will use its reasonable best efforts to acquire directors and officers liability insurance, on terms and conditions deemed appropriate by the Board of Directors, with the advice of counsel, covering Indemnitee or any claim made against Indemnitee by reason of Indemnitee's Corporate Status and covering the Company for any indemnification or advance of Expenses made by the Company to Indemnitee for any claims made against Indemnitee by reason of Indemnitee's Corporate Status. In the event of a Change in Control, the Company shall maintain in force any and all directors and officers liability insurance policies that were maintained by the Company immediately prior to the Change in Control for a period of six years with the insurance carrier or carriers and through the insurance broker in place at the time of the Change in Control; provided, however, (i) if the carriers will not offer the same policy and an expiring policy needs to be replaced, a policy substantially comparable in scope and amount shall be obtained and (ii) if any replacement insurance carrier is necessary to obtain a policy substantially comparable in scope and amount, such insurance carrier shall have an AM Best rating that is the same or better than the AM Best rating of the existing insurance carrier; provided, further, however, in no event shall the Company be required to expend in the aggregate in excess of 500% of the annual premium or premiums paid by the Company for directors and officers liability insurance in effect on the date of the Change in Control. In the event that 500% of the annual premium paid by the Company for such existing directors and officers liability insurance is insufficient for such coverage, the Company shall spend up to that amount to purchase such lesser coverage as may be obtained with such amount.

(b) Without in any way limiting any other obligation under this Agreement, the Company shall indemnify Indemnitee for any payment by Indemnitee which would otherwise be indemnifiable hereunder arising out of the amount of any deductible or retention and the amount of any excess of the aggregate of all judgments, penalties, fines, settlements and Expenses incurred by Indemnitee in connection with a Proceeding over the coverage of any insurance referred to in Section 15(a). The purchase, establishment and maintenance of any such insurance shall not in any way limit or affect the rights or obligations of the Company or Indemnitee under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and the Indemnitee shall not in any way limit or affect the rights or obligations of the Company under any such insurance policies. If, at the time the Company receives notice from any source of a Proceeding to which Indemnitee is a party or a participant (as a witness or otherwise), the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies.

(c) The Indemnitee shall cooperate with the Company or any insurance carrier of the Company with respect to any Proceeding.

Section 16. Coordination of Payments. The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable or payable or reimbursable as Expenses hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 17. Contribution. If the indemnification provided in this Agreement is unavailable in whole or in part and may not be paid to Indemnitee for any reason, other than for failure to satisfy the standard of conduct set forth in Section 4 or due to the provisions of Section 5,

then, in respect to any Proceeding in which the Company is jointly liable with Indemnitee (or would be joined in such Proceeding), to the fullest extent permissible under applicable law, the Company, in lieu of indemnifying and holding harmless Indemnitee, shall pay, in the first instance, the entire amount incurred by Indemnitee, whether for Expenses, judgments, penalties, and/or amounts paid or to be paid in settlement, in connection with any Proceeding without requiring Indemnitee to contribute to such payment, and the Company hereby waives and relinquishes any right of contribution it may have at any time against Indemnitee.

Section 18. Reports to Stockholders. To the extent required by the MGCL, the Company shall report in writing to its stockholders the payment of any amounts for indemnification of, or advance of Expenses to, Indemnitee under this Agreement arising out of a Proceeding by or in the right of the Company with the notice of the meeting of stockholders of the Company next following the date of the payment of any such indemnification or advance of Expenses or prior to such meeting.

Section 19. Duration of Agreement; Binding Effect.

(a) This Agreement shall continue until and terminate on the later of (i) the date that Indemnitee shall have ceased to serve as a director, officer, employee or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company and (ii) the date that Indemnitee is no longer subject to any actual or possible Proceeding (including any rights of appeal thereto and any Proceeding commenced by Indemnitee pursuant to Section 12 of this Agreement).

(b) The indemnification and advance of Expenses provided by, or granted pursuant to, this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company, and shall inure to the benefit of Indemnitee and Indemnitee's spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

(c) The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(d) The Company and Indemnitee agree that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult of proof, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that by seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which Indemnitee may be entitled. Indemnitee shall further be entitled to such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertakings in connection therewith. The Company acknowledges that, in the absence of a waiver, a bond or undertaking may be required of Indemnitee by a court, and the Company hereby waives any such requirement of such a bond or undertaking.

Section 20. Severability. If any provision or provisions of this Agreement shall be held to be invalid, void, illegal or otherwise unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 21. Counterparts. This Agreement may be executed in one or more counterparts (delivery of which may be by facsimile, or via e-mail as a portable document format (.pdf) or other electronic format), each of which will be deemed to be an original, and it will not be necessary in making proof of this agreement or the terms of this Agreement to produce or account for more than one such counterpart. One such counterpart signed by the party against whom enforceability is sought shall be sufficient to evidence the existence of this Agreement.

Section 22. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

Section 23. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor, unless otherwise expressly stated, shall such waiver constitute a continuing waiver.

Section 24. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by



IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMPANY:

CHERRY HILL MORTGAGE INVESTMENT  
CORPORATION

By: \_\_\_\_\_

Name:

Title:

INDEMNITEE

\_\_\_\_\_  
Name:

Address:

EXHIBIT A

AFFIRMATION AND UNDERTAKING TO REPAY EXPENSES ADVANCED

To: The Board of Directors of Cherry Hill Mortgage Investment Corporation

Re: Affirmation and Undertaking

Ladies and Gentlemen:

This Affirmation and Undertaking is being provided pursuant to that certain Indemnification Agreement dated the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between Cherry Hill Mortgage Investment Corporation, a Maryland corporation (the "Company"), and the undersigned Indemnitee (the "Indemnification Agreement"), pursuant to which I am entitled to advance of Expenses in connection with **[Description of Proceeding]** (the "Proceeding").

Terms used herein and not otherwise defined shall have the meanings specified in the Indemnification Agreement.

I am subject to the Proceeding by reason of my Corporate Status or by reason of alleged actions or omissions by me in such capacity. I hereby affirm my good faith belief that at all times, insofar as I was involved as **[a director]** **[and]** **[an officer]** of the Company in any of the facts or events giving rise to the Proceeding, I (1) did not act with bad faith or active or deliberate dishonesty, (2) did not receive any improper personal benefit in money, property or services and (3) in the case of any criminal proceeding, had no reasonable cause to believe that any act or omission by me was unlawful.

In consideration of the advance by the Company for Expenses incurred by me in connection with the Proceeding (the "Advanced Expenses"), I hereby agree that if, in connection with the Proceeding, it is established that (1) an act or omission by me was material to the matter giving rise to the Proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty or (2) I actually received an improper personal benefit in money, property or services or (3) in the case of any criminal proceeding, I had reasonable cause to believe that the act or omission was unlawful, then I shall promptly reimburse the portion of the Advanced Expenses relating to the claims, issues or matters in the Proceeding as to which the foregoing findings have been established.

IN WITNESS WHEREOF, I have executed this Affirmation and Undertaking on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

Name: \_\_\_\_\_



**AGREEMENT OF LIMITED PARTNERSHIP  
OF  
CHERRY HILL OPERATING PARTNERSHIP, L.P.**

**(a Delaware limited partnership)**

**Dated as of April 25, 2013**

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**EXHIBITS**

EXHIBIT A - Partners, Capital Contributions and Percentage Interests

EXHIBIT B - Notice of Redemption

EXHIBIT C-1 - Certification of Non-Foreign Status (For Redeeming Limited Partners That Are Entities)

EXHIBIT C-2 - Certification of Non-Foreign Status (For Redeeming Limited Partners That Are Individuals)

EXHIBIT D - Notice of Election by Partner to Convert LTIP Units into Common Units

EXHIBIT E - Notice of Election by Partnership to Force Conversion of LTIP Units into Common Units

**AGREEMENT OF LIMITED PARTNERSHIP**

**OF**

**CHERRY HILL OPERATING PARTNERSHIP, L.P.**

THIS AGREEMENT OF LIMITED PARTNERSHIP OF CHERRY HILL OPERATING PARTNERSHIP, L.P., dated as of April 25, 2013, is entered into by and among CHERRY HILL MORTGAGE INVESTMENT CORPORATION, a Maryland corporation, as the general partner of the Partnership, and the limited partner(s) listed on Exhibit A hereto (each a "**Limited Partner**").

WHEREAS, the Certificate of Limited Partnership of the Partnership was filed in the office of the Secretary of State of the State of Delaware on February 22, 2013.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

**ARTICLE I**

**DEFINED TERMS**

The following defined terms used in this Agreement shall have the meanings specified below:

"**Act**" means the Delaware Revised Uniform Limited Partnership Act, as it may be amended from time to time.

"**Additional Funds**" has the meaning set forth in Section 4.03 hereof.

"**Additional Securities**" means any: (1) shares of capital stock of the General Partner now or hereafter authorized or reclassified that have dividend rights, or rights upon liquidation, winding up and dissolution, that are superior or prior to the REIT Shares ("**Preferred Shares**"), (2) REIT Shares, (3) shares of capital stock of the General Partner now or hereafter authorized or reclassified that have dividend rights, or rights upon liquidation, winding up and dissolution, that are junior in rank to the REIT Shares ("**Junior Shares**") and (4) (i) rights, options, warrants or convertible or exchangeable securities having the right to subscribe for or purchase or otherwise acquire REIT Shares, Preferred Shares or Junior Shares, or (ii) indebtedness issued by the General Partner that provides any of the rights described in clause (4)(i) of this definition (any such securities referred to in clause (4)(i) or (ii) of this definition, "**New Securities**").

"**Adjustment Events**" has the meaning set forth in Section 4.04(a)(i) hereof.

"**Administrative Expenses**" means (i) all administrative and operating costs and expenses incurred by the Partnership, (ii) administrative costs and expenses of the General Partner, including any salaries or other payments to directors, officers or employees of the General Partner, and any accounting and legal expenses of the General Partner, which expenses, the Partners hereby agree, are expenses of the Partnership and not the General Partner, and (iii) to the extent not included in clauses

(i) or (ii) above, REIT Expenses; provided, that Administrative Expenses shall not include any administrative costs and expenses incurred by the General Partner that are attributable to Assets or interests in a Subsidiary that are owned by the General Partner other than through its ownership interest in the Partnership.

“**Affiliate**” means (i) any Person that, directly or indirectly, controls or is controlled by or is under common control with such Person, (ii) any other Person that owns, beneficially, directly or indirectly, 10% or more of the outstanding capital stock, shares or equity interests of such Person, or (iii) any officer, director, employee, partner, member, manager or trustee of such Person or any Person controlling, controlled by or under common control with such Person. For the purposes of this definition, “control” (including the correlative meanings of the terms “controlled by” and “under common control with”), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities or partnership interests, contract or otherwise.

“**Agreed Value**” means the fair market value of a Partner’s non-cash Capital Contribution as of the date of contribution as agreed to by such Partner and the General Partner. The names and addresses of the Partners, number of Partnership Units issued to each Partner, and the Agreed Value of non-cash Capital Contributions as of the date of contribution is set forth on Exhibit A, as it may be amended or restated from time to time.

“**Agreement**” means this Agreement of Limited Partnership of Cherry Hill Operating Partnership, L.P., as it may be amended, supplemented or restated from time to time.

“**Articles**” means the Articles of Amendment and Restatement of the General Partner filed with the State Department and Assessments and Taxation of the State of Maryland, as amended, supplemented or restated from time to time.

“**Asset**” means an asset or other investment in which the Partnership, directly or indirectly, holds an ownership interest.

“**Board of Directors**” means the Board of Directors of the General Partner.

“**Capital Account**” has the meaning set forth in Section 4.06 hereof.

“**Capital Account Limitation**” has the meaning set forth in Section 4.05(b) hereof.

“**Capital Contribution**” means the total amount of cash, cash equivalents and the Agreed Value of any Asset contributed or agreed to be contributed, as the context requires, to the Partnership by each Partner pursuant to the terms of the Agreement. Any reference to the Capital Contribution of a Partner shall include the Capital Contribution made by a predecessor holder of the Partnership Interest of such Partner.

“**Cash Amount**” means an amount of cash per Common Unit equal to the Value of the REIT Shares Amount on the Specified Redemption Date divided by the number of Common Units tendered for redemption.

“**Certificate**” means any instrument or document that is required under the laws of the State of Delaware, or any other jurisdiction in which the Partnership conducts business, to be signed and sworn to by the Partners of the Partnership (either by themselves or pursuant to the power-of-attorney granted to the General Partner in Section 8.02 hereof) and filed for recording in the appropriate public offices within the State of Delaware or such other jurisdiction to perfect or maintain the Partnership as a limited partnership, to effect the admission, withdrawal or substitution of any Partner of the Partnership, or to protect the limited liability of the Limited Partners as limited partners under the laws of the State of Delaware or such other jurisdiction.

“**Code**” means the Internal Revenue Code of 1986, as amended, and as hereafter amended from time to time. Reference to any particular provision of the Code shall mean that provision in the Code at the date hereof and any successor provision of the Code.

“**Commission**” means the U.S. Securities and Exchange Commission.

“**Common Partnership Unit Distribution**” has the meaning set forth in Section 4.04(a)(ii) hereof.

“**Common Unit**” means a Partnership Unit which is designated as a Common Unit of the Partnership.

“**Common Unit Economic Balance**” has the meaning set forth in Section 5.01(g) hereof.

“**Common Unit Transaction**” has the meaning set forth in Section 4.05(f) hereof.

“**Constituent Person**” has the meaning set forth in Section 4.05(f) hereof.

“**Conversion Date**” has the meaning set forth in Section 4.05(b) hereof.

“**Conversion Factor**” means a factor of 1.0, as adjusted as provided in this definition. The Conversion Factor will be adjusted in the event that the General Partner (i) declares or pays a dividend on its outstanding REIT Shares in REIT Shares or makes a distribution to all holders of its outstanding REIT Shares in REIT Shares, (ii) subdivides its outstanding REIT Shares or (iii) combines its outstanding REIT Shares into a smaller number of REIT Shares. In each of such events, the Conversion Factor shall be adjusted by multiplying the Conversion Factor by a fraction, the numerator of which shall be the number of REIT Shares issued and outstanding on the record date for such dividend, distribution, subdivision or combination (assuming for such purposes that such dividend, distribution, subdivision or combination has occurred as of such time), and the denominator of which shall be the actual number of REIT Shares (determined without the above assumption) issued and outstanding on such date and; provided, that in the event that an entity other than an Affiliate of the General Partner shall become General Partner pursuant to any merger, consolidation or combination of the General Partner with or into another entity (the “**Successor Entity**”), the Conversion Factor shall be adjusted by multiplying the Conversion Factor by the number of shares of the Successor Entity into which one REIT Share is converted pursuant to such merger, consolidation or combination, determined as of the date of such merger, consolidation or combination. Any adjustment to the Conversion Factor shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event. If, however, the General Partner receives a Notice of Redemption after the record date, if any, but prior to the

effective date of such event, the Conversion Factor shall be determined as if the General Partner had received the Notice of Redemption immediately prior to the record date for event. Notwithstanding the foregoing, no adjustment shall be made to the Conversion Factor if the number of outstanding Common Units is otherwise adjusted in the same manner and at the same time as the adjustment to the number of outstanding REIT Shares.

“**Conversion Notice**” has the meaning set forth in Section 4.05(b) hereof.

“**Conversion Right**” has the meaning set forth in Section 4.05(a) hereof.

“**Defaulting Limited Partner**” means a Limited Partner that has failed to pay any amount owed to the Partnership under a Partnership Loan within 15 days after demand for payment thereof is made by the Partnership.

“**Distributable Amount**” has the meaning set forth in Section 5.02(d) hereof.

“**Economic Capital Account Balances**” has the meaning set forth in Section 5.01(g) hereof.

“**Equity Incentive Plan**” means any equity incentive or compensation plan hereafter adopted by the Partnership or the General Partner.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended and in effect from time to time, as interpreted by the applicable regulations thereunder. Any reference herein to a specific section or Title of ERISA shall be deemed to include a reference to any corresponding provision of future law.

“**Event of Bankruptcy**” as to any Person means (i) the filing of a petition for relief as to such Person as debtor or bankrupt under the U.S. Bankruptcy Code of 1978, as amended, or similar provision of law of any jurisdiction (except if such petition is contested by such Person and has been dismissed within 90 days); (ii) the insolvency or bankruptcy of such Person as finally determined by a court proceeding; (iii) the filing by such Person of a petition or application to accomplish the same or for the appointment of a receiver or a trustee for such Person or a substantial part of his assets; or (iv) the commencement of any proceedings relating to such Person as a debtor under any other reorganization, arrangement, insolvency, adjustment of debt or liquidation law of any jurisdiction, whether now in existence or hereinafter in effect, either by such Person or by another, provided that if such proceeding is commenced by another, such Person indicates his approval of such proceeding, consents thereto or acquiesces therein, or such proceeding is contested by such Person and has not been finally dismissed within 90 days.

“**Excepted Holder Limit**” has the meaning set forth in the Articles.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Forced Conversion**” has the meaning set forth in Section 4.05(c) hereof.

“**Forced Conversion Notice**” has the meaning set forth in Section 4.05(c) hereof.



**“General Partner”** means Cherry Hill Mortgage Investment Corporation, a Maryland corporation, and its successors and assigns, as a general partner of the Partnership, in each case, that is admitted from time to time to the Partnership as a general partner pursuant to the Act and this Agreement and is listed as a general partner on Exhibit A, as such Exhibit A may be amended from time to time, in such Person’s capacity as a general partner of the Partnership.

**“General Partner Loan”** means a loan extended by the General Partner to a Defaulting Limited Partner in the form of a payment on a Partnership Loan by the General Partner to the Partnership on behalf of the Defaulting Limited Partner.

**“General Partnership Interest”** means the Partnership Interest held by the General Partner in its capacity as the general partner of the Partnership, which Partnership Interest is an interest as a general partner under the Act. The General Partnership Interest may be expressed as a number of Partnership Units. A number of Common Units held by the General Partner equal to one-tenth of one percent (0.1%) of all outstanding Partnership Units shall be deemed to be the General Partnership Interest. All other Partnership Units owned by the General Partner and any Partnership Units owned by any Affiliate or Subsidiary of the General Partner shall be considered to constitute a Limited Partnership Interest.

**“Indemnitee”** means (i) any Person made a party to a proceeding by reason of its status as (A) the General Partner or (B) a director, officer or employee of the General Partner or the Partnership or any Subsidiary thereof and (ii) such other Persons (including Affiliates of the General Partner or the Partnership) as the General Partner may designate from time to time (whether before or after the event giving rise to potential liability), in its sole and absolute discretion.

**“Independent Director”** means a director of the General Partner who meets the independence requirements of the NYSE as set forth from time to time.

**“Junior Shares”** has the meaning set forth in the definition of “Additional Securities.”

**“Limited Partner”** means any Person named as a Limited Partner on Exhibit A attached hereto, as it may be amended or restated from time to time, and any Person who becomes a Substitute Limited Partner or any additional Limited Partner, in such Person’s capacity as a Limited Partner in the Partnership.

**“Limited Partnership Interest”** means a Partnership Interest held by a Limited Partner at any particular time representing a fractional part of the Partnership Interest of all Limited Partners, and includes any and all benefits to which the holder of such a Limited Partnership Interest may be entitled as provided in this Agreement and in the Act, together with the obligations of such Limited Partner to comply with all the provisions of this Agreement and of the Act. Limited Partnership Interests may be expressed as a number of Common Units, LTIP Units or other Partnership Units.

**“Liquidating Gains”** has the meaning set forth in Section 5.01(g) hereof.

**“LTIP Unit”** means a Partnership Unit which is designated as an LTIP Unit and which has the rights, preferences and other privileges designated in Section 4.04 hereof and elsewhere in this Agreement in respect of holders of LTIP Units, including both vested LTIP Units and Unvested LTIP Units. The allocation of LTIP Units among the Partners shall be set forth on Exhibit A as it may be amended or restated from time to time.

“**LTIP Unitholder**” means a Partner that holds LTIP Units.

“**Loss**” has the meaning set forth in Section 5.01(h) hereof.

“**Manager**” means Cherry Hill Mortgage Management, LLC, a Delaware limited liability company.

“**Majority in Interest**” means Limited Partners holding more than 50% of the Percentage Interests of the Limited Partners.

“**New Securities**” has the meaning set forth in the definition of “Additional Securities”.

“**Notice of Redemption**” means the Notice of Redemption substantially in the form attached as Exhibit B hereto.

“**NYSE**” means the New York Stock Exchange.

“**Offer**” has the meaning set forth in Section 7.01(c)(ii) hereof.

“**Offering**” means the underwritten initial public offering of REIT Shares.

“**Partner**” means any General Partner or Limited Partner, and “Partners” means the General Partner and the Limited Partners.

“**Partner Nonrecourse Debt Minimum Gain**” has the meaning set forth in Regulations Section 1.704-2(i). A Partner’s share of Partner Nonrecourse Debt Minimum Gain shall be determined in accordance with Regulations Section 1.704-2(i)(5).

“**Partnership**” means Cherry Hill Operating Partnership, L.P., a limited partnership formed and continued under the Act and pursuant to this Agreement, and any successor thereto.

“**Partnership Interest**” means an ownership interest in the Partnership held by a Partner, and includes any and all benefits to which the holder of such a Partnership Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement. A Partnership Interest may be expressed as a number of Common Units, LTIP Units or other Partnership Units.

“**Partnership Loan**” means a loan from the Partnership to the Partner on the day the Partnership pays over the excess of the Withheld Amount over the Distributable Amount to a taxing authority.

“**Partnership Minimum Gain**” has the meaning set forth in Regulations Section 1.704-2(d). In accordance with Regulations Section 1.704-2(d), the amount of Partnership Minimum Gain is determined by first computing, for each Partnership nonrecourse liability, any gain the Partnership would realize if it disposed of the property subject to that liability for no consideration other than full satisfaction of the liability, and then aggregating the separately computed gains. A Partner’s share of Partnership Minimum Gain shall be determined in accordance with Regulations Section 1.704-2(g)(1).

**“Partnership Record Date”** means the record date established by the General Partner for the distribution of cash pursuant to Section 5.02 hereof, which record date shall be the same as the record date established by the General Partner for a distribution to its stockholders of some or all of its portion of such distribution.

**“Partnership Unit”** means a fractional, undivided share of the Partnership Interests of all Partners issued hereunder, and includes Common Units, LTIP Units and any other class or series of Partnership Units that may be established after the date hereof in accordance with the terms hereof. The number of Partnership Units outstanding and the Percentage Interests represented by such Partnership Units are set forth on Exhibit A hereto, as it may be amended or restated from time to time.

**“Partnership Unit Designation”** has the meaning set forth in Section 4.02(a)(i) hereof.

**“Percentage Interest”** means the percentage determined by dividing the number of Common Units of a Partner by the sum of the number of Common Units of all Partners, treating LTIP Units, in accordance with Section 4.04(a), as Common Units for this purpose.

**“Person”** means any individual, partnership, corporation, limited liability company, joint venture, trust or other entity.

**“Preferred Shares”** has the meaning set forth in the definition of “Additional Securities.”

**“Profit”** has the meaning set forth in Section 5.01(h) hereof.

**“Property”** means any property or other investment in which the Partnership, directly or indirectly, holds an ownership interest.

**“Redeeming Limited Partner”** has the meaning set forth in Section 8.04(a) hereof.

**“Redemption Amount”** means either the Cash Amount or the REIT Shares Amount.

**“Redemption Right”** has the meaning set forth in Section 8.04(a) hereof.

**“Regulations”** means the Federal Income Tax Regulations issued under the Code, as amended and as subsequently amended from time to time. Reference to any particular provision of the Regulations shall mean that provision of the Regulations on the date hereof and any successor provision of the Regulations.

**“REIT”** means a real estate investment trust under Sections 856 through 860 of the Code.

**“REIT Expenses”** means (i) costs and expenses relating to the formation and continuity of existence and operation of the General Partner and any Subsidiaries thereof (which Subsidiaries shall, for purposes hereof, be included within the definition of General Partner), including taxes, fees

and assessments associated therewith, any and all costs, expenses or fees payable to any director, officer or employee of the General Partner, (ii) costs and expenses relating to any public offering and registration, or private offering, of securities by the General Partner, and all statements, reports, fees and expenses incidental thereto, including, without limitation, underwriting discounts and selling commissions applicable to any such offering of securities, and any costs and expenses associated with any claims made by any holders of such securities or any underwriters or placement agents thereof, (iii) costs and expenses associated with any repurchase of any securities by the General Partner, (iv) costs and expenses associated with the preparation and filing of any periodic or other reports and communications by the General Partner under federal, state or local laws or regulations, including filings with the Commission, (v) costs and expenses associated with compliance by the General Partner with laws, rules and regulations promulgated by any regulatory body, including the Commission and any securities exchange, (vi) costs and expenses associated with any health, dental, vision, disability, life insurance, 401(k) plan, incentive plan, bonus plan or other plan providing for compensation or benefits for the benefit of the officers, directors or employees of the General Partner or employees of the Manager or any of their Affiliates, (vii) costs and expenses incurred by the General Partner relating to any issuance or redemption of Partnership Interests and (viii) all other operating, administrative or financing costs of the General Partner incurred in the ordinary course of its business on behalf of or related to the Partnership.

“**REIT Shares**” means shares of common stock, par value \$0.01 per share, of the General Partner (or Successor Entity, as the case may be).

“**REIT Shares Amount**” means the number of REIT Shares equal to the product of (X) the number of Common Units offered for redemption by a Redeeming Limited Partner, multiplied by (Y) the Conversion Factor as adjusted to and including the Specified Redemption Date; provided that in the event the General Partner issues to all holders of REIT Shares rights, options, warrants or convertible or exchangeable securities entitling the holders of REIT Shares to subscribe for or purchase or otherwise acquire additional REIT Shares, or any other securities or property (collectively, the “**Rights**”), and such Rights have not expired at the Specified Redemption Date, then the REIT Shares Amount shall also include such Rights issuable to a holder of the REIT Shares Amount on the record date fixed for purposes of determining the holders of REIT Shares entitled to Rights.

“**Restriction Notice**” has the meaning set forth in Section 8.04(g) hereof.

“**Rights**” has the meaning set forth in the definition of “REIT Shares Amount” herein.

“**Safe Harbor Election**” has the meaning set forth in Section 10.05(d) hereof.

“**Safe Harbor Interest**” has the meaning set forth in Section 10.05(d) hereof.

“**Securities Act**” means the Securities Act of 1933, as amended.

“**Service**” means the Internal Revenue Service.

“**Stock Ownership Limit**” has the meaning set forth in the Articles.

“**Specified Redemption Date**” means the first business day of the month that is at least 60 calendar days after the receipt by the General Partner of a Notice of Redemption.

“**Subsidiary**” means, with respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests is owned, directly or indirectly, by such Person.

“**Subsidiary Partnership**” means any partnership or limited liability company in which the General Partner, the Partnership, or a wholly owned Subsidiary of the General Partner or the Partnership owns a partnership or limited liability company interest.

“**Substitute Limited Partner**” means any Person admitted to the Partnership as a Limited Partner pursuant to Section 9.03 hereof.

“**Successor Entity**” has the meaning set forth in the definition of “Conversion Factor” herein.

“**Survivor**” has the meaning set forth in Section 7.01(d) hereof.

“**Tax Matters Partner**” has the meaning set forth within Section 6231(a)(7) of the Code.

“**Trading Day**” means a day on which the principal national securities exchange on which a security is listed or admitted to trading is open for the transaction of business or, if a security is not listed or admitted to trading on any national securities exchange, shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

“**Transaction**” has the meaning set forth in Section 7.01(c) hereof.

“**Transfer**” has the meaning set forth in Section 9.02(a) hereof.

“**TRS**” means a taxable REIT subsidiary (as defined in Section 856(l) of the Code) of the General Partner.

“**Unvested LTIP Units**” has the meaning set forth in Section 4.04(c) hereof.

“**Value**” means, with respect to any security, the average of the daily market prices of such security for the ten consecutive Trading Days immediately preceding the date of such valuation. The market price for each such Trading Day shall be: (i) if the security is listed or admitted to trading on the NYSE or any other national securities exchange, the last reported sale price, regular way, on such day, or if no such sale takes place on such day, the average of the closing bid and asked prices, regular way, on such day, (ii) if the security is not listed or admitted to trading on the NYSE or any other national securities exchange, the last reported sale price on such day or, if no sale takes place on such day, the average of the closing bid and asked prices on such day, as reported by a reliable quotation source designated by the General Partner, or (iii) if the security is not listed or admitted to trading on the NYSE or any national securities exchange and no such last reported sale price or closing bid and asked prices are available, the average of the reported high bid and low asked prices on such day, as reported by a reliable quotation source designated by the General Partner, or if there

shall be bid and asked prices on such day, the average of the high bid and low asked prices, as so reported, on the most recent day (not more than ten days prior to the date in question) for which prices have been so reported; provided that if there are no bid and asked prices reported during the ten days prior to the date in question, the value of the security shall be determined by the Board of Directors acting in good faith on the basis of such quotations and other information as it considers, in its reasonable judgment, appropriate. In the event the security includes any additional rights (including any Rights), then the value of such rights shall be determined by the Board of Directors acting in good faith on the basis of such quotations and other information as it considers, in its reasonable judgment, appropriate.

“**Vested LTIP Units**” has the meaning set forth in Section 4.04(c) hereof.

“**Vesting Agreement**” means each or any, as the context implies, agreement or instrument entered into by an LTIP Unitholder upon acceptance of an award of LTIP Units under an Equity Incentive Plan.

“**Withheld Amount**” means any amount required to be withheld by the Partnership to pay over to any taxing authority as a result of any allocation or distribution of income to a Partner.

**ARTICLE II**  
**FORMATION OF PARTNERSHIP**

**2.01 Formation of the Partnership.** The Partnership was formed as a limited partnership pursuant to the provisions of the Act and is continued upon the terms and conditions set forth in this Agreement. Except as expressly provided herein to the contrary, the rights and obligations of the Partners and administration and termination of the Partnership shall be governed by the Act. The Partnership Interest of each Partner shall be personal property for all purposes.

**2.02 Name.** The Name of the Partnership shall be “Cherry Hill Operating Partnership, L.P.” and the Partnership’s business may be conducted under any other name or names deemed advisable by the General Partner, including the name of the General Partner or any Affiliate thereof. The words “Limited Partnership,” “LP,” “L.P.” or “Ltd.” or similar words or letters shall be included in the Partnership’s name where necessary for the purposes of complying with the laws of any jurisdiction that so requires. The General Partner in its sole and absolute discretion may change the name of the Partnership at any time and from time to time and shall notify the Partners of such change in the next regular communication to the Partners; provided, failure to so notify the Partners shall not invalidate such change or the authority granted hereunder.

**2.03 Registered Office and Agent; Principal Office.** The registered office of the Partnership in the State of Delaware is located at 1675 South State Street, Suite B, in the City of Dover, County of Kent, State of Delaware 19901, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office is Capitol Services, Inc. The principal office of the Partnership is located at 301 Harper Drive, Suite 110, Moorestown, New Jersey 08057, or such other place as the General Partner may from time to time designate. Upon such a change of the principal office of the Partnership, the General Partner shall notify the Partners of such change in the next regular communication to the Partners; provided, failure to so notify the Partners shall not invalidate such change or the authority granted hereunder. The Partnership may maintain offices at such other place or places within or outside the State of Delaware as the General Partner deems necessary or desirable.

#### **2.04 Term and Dissolution.**

(a) The term of the Partnership shall continue in full force and effect until dissolved upon the first to occur of any of the following events:

(i) the occurrence of an Event of Bankruptcy as to a General Partner or the dissolution, death, removal or withdrawal of a General Partner unless the business of the Partnership is continued pursuant to Section 7.03(b) hereof; provided that if the General Partner is, on the date of such occurrence, a partnership, the dissolution of such General Partner as a result of the dissolution, death, withdrawal, removal or Event of Bankruptcy of a partner in such partnership shall not be an event of dissolution of the Partnership if the business of such General Partner is continued by the remaining partner or partners, either alone or with additional partners, and such General Partner and such partners comply with any other applicable requirements of this Agreement;

(ii) the passage of 90 days after the sale or other disposition of all or substantially all of the assets of the Partnership (provided that if the Partnership receives an installment obligation as consideration for such sale or other disposition, the Partnership shall continue, unless sooner dissolved under the provisions of this Agreement, until such time as such installment obligations are paid in full);

(iii) the redemption of all Limited Partnership Interests (other than any Limited Partnership Interests held by the General Partner), unless the General Partner determines to continue the term of the Partnership by the admission of one or more additional Limited Partners; or

(iv) the dissolution of the Partnership upon election by the General Partner.

(b) Upon dissolution of the Partnership (unless the business of the Partnership is continued pursuant to Section 7.03(b) hereof), the General Partner (or its trustee, receiver, successor or legal representative) shall amend or cancel the Certificate and liquidate the Partnership's assets and apply and distribute the proceeds thereof in accordance with Section 5.06 hereof. Notwithstanding the foregoing, the liquidating General Partner may either (i) defer liquidation of, or withhold from distribution for a reasonable time, any assets of the Partnership (including those necessary to satisfy the Partnership's debts and obligations), or (ii) distribute the assets to the Partners in kind.

**2.05 Filing of Certificate and Perfection of Limited Partnership.** The General Partner shall execute, acknowledge, record and file at the expense of the Partnership the Certificate and any and all amendments thereto and all requisite fictitious name statements and notices in such places and jurisdictions as may be necessary to cause the Partnership to be treated as a limited partnership under, and otherwise to comply with, the laws of each state or other jurisdiction in which the Partnership conducts business.

**2.06 Certificates Describing Partnership Units.** At the request of a Limited Partner, the General Partner, at its option, may issue a certificate summarizing the terms of such Limited Partner's interest in the Partnership, including the class or series and number of Partnership Units owned and the Percentage Interest represented by such Partnership Units as of the date of such certificate. Any such certificate (i) shall be in form and substance as determined by the General Partner, (ii) shall not be negotiable and (iii) shall bear a legend to the following effect:

THIS CERTIFICATE IS NOT NEGOTIABLE. THE PARTNERSHIP UNITS REPRESENTED BY THIS CERTIFICATE ARE GOVERNED BY AND TRANSFERABLE ONLY IN ACCORDANCE WITH (A) THE PROVISIONS OF THE AGREEMENT OF LIMITED PARTNERSHIP OF CHERRY HILL OPERATING PARTNERSHIP, L.P., AS AMENDED, SUPPLEMENTED OR RESTATED FROM TIME TO TIME, AND (B) ANY APPLICABLE FEDERAL OR STATE SECURITIES OR BLUE SKY LAWS.

### ARTICLE III

#### **BUSINESS OF THE PARTNERSHIP**

The purpose and nature of the business to be conducted by the Partnership is (i) to conduct any business that may be lawfully conducted by a limited partnership organized pursuant to the Act, provided, that such business shall be limited to and conducted in such a manner as to permit the General Partner at all times to qualify as a REIT, unless the General Partner otherwise shall have ceased to, or the Board of Directors determines, pursuant to Section 5.7 of the Articles, that the General Partner shall no longer, qualify as a REIT, (ii) to enter into any partnership, joint venture or other similar arrangement to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing and (iii) to do anything necessary or incidental to the foregoing. In connection with the foregoing, and without limiting the General Partner's right in its sole and absolute discretion to cease qualifying as a REIT, the Partners acknowledge the status of the General Partner as a REIT and the avoidance of income and excise taxes on the General Partner inures to the benefit of all the Partners and not solely to the General Partner or its Affiliates. Notwithstanding the foregoing, the Limited Partners agree that the General Partner may terminate or revoke its status as a REIT under the Code at any time. The General Partner shall also be empowered to do any and all acts and things necessary or prudent to ensure that the Partnership will not be classified as a "publicly traded partnership" taxable as a corporation for purposes of Section 7704 of the Code.

### ARTICLE IV

#### **CAPITAL CONTRIBUTIONS AND ACCOUNTS**

**4.01 Capital Contributions.** The General Partner and each Limited Partner has made or is deemed to have made a capital contribution to the Partnership in exchange for the Partnership Units set forth opposite such Partner's name on Exhibit A hereto, as it may be amended or restated from time to time by the General Partner to the extent necessary to reflect accurately sales, exchanges or other Transfers, redemptions, Capital Contributions, the issuance of additional Partnership Units or similar events having an effect on a Partner's ownership of Partnership Units.



**4.02 Additional Capital Contributions and Issuances of Additional Partnership Units.** Except as provided in this Section 4.02 or in Section 4.03 hereof, the Partners shall have no right or obligation to make any additional Capital Contributions or loans to the Partnership. The General Partner may contribute additional capital to the Partnership, from time to time, and receive additional Partnership Interests, in the form of Partnership Units, in respect thereof, in the manner contemplated in this Section 4.02.

(a) Issuances of Additional Partnership Units.

(i) General. As of the effective date of this Agreement, the Partnership shall have two classes of Partnership Units, entitled "Common Units" and "LTIP Units." The General Partner is hereby authorized to cause the Partnership to issue such additional Partnership Interests, in the form of Partnership Units, for any Partnership purpose at any time or from time to time to the Partners (including the General Partner) or to other Persons for such consideration and on such terms and conditions as shall be established by the General Partner in its sole and absolute discretion, all without the approval of any Limited Partners. The General Partner's determination that consideration is adequate shall be conclusive insofar as the adequacy of consideration relates to whether the Partnership Units are validly issued and fully paid. Any additional Partnership Units issued thereby may be issued in one or more classes, or one or more series of any of such classes, with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior to the then-outstanding Partnership Units held by the Limited Partners, all as shall be determined by the General Partner in its sole and absolute discretion and without the approval of any Limited Partner, subject to Delaware law that cannot be preempted by the terms hereof and as set forth in a written document hereafter attached to and made an exhibit to this Agreement (each, a "Partnership Unit Designation"), including, without limitation, (i) the allocations of items of Partnership income, gain, loss, deduction and credit to each such class or series of Partnership Units; (ii) the right of each such class or series of Partnership Units to share in Partnership distributions; and (iii) the rights of each such class or series of Partnership Units upon dissolution and liquidation of the Partnership; provided, that no additional Partnership Units shall be issued to the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) unless:

(1)(A) the additional Partnership Units are issued in connection with an issuance of REIT Shares or other capital stock of, or other interests in, the General Partner, which REIT Shares, capital stock or other interests have designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of the additional Partnership Units issued to the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) by the Partnership in accordance with this Section 4.02 and (B) the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) shall make a Capital Contribution to the Partnership in an amount equal to the cash consideration received by the General Partner from the issuance of such REIT Shares, capital stock or other interests in the General Partner;

(2) the additional Partnership Units are issued in connection with an issuance of REIT Shares or other capital stock of, or other interests in, the General Partner pursuant to a taxable share dividend declared by the General Partner, which REIT Shares, capital stock or interests have designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of the additional Partnership Units issued to the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) by the Partnership in accordance with this Section 4.02, provided that (A) if the General Partner allows the holders of its REIT Shares to elect whether to receive such dividend in REIT Shares or other capital stock of, or other interests in the General Partner or cash, the Partnership will give the Limited Partners (excluding the General Partner or any direct or indirect Subsidiary of the General Partner) the same election to elect to receive (I) Partnership Units or cash or, (II) at the election of the General Partner, REIT Shares, capital stock or other interests in the General Partner or cash, and (B) if the Partnership issues additional Partnership Units pursuant to this Section 4.02(a)(i)(2), then an amount of income equal to the value of the Partnership Units received will be allocated to those holders of Common Units that elect to receive additional Partnership Units;

(3) the additional Partnership Units are issued in exchange for property owned by the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) with a fair market value, as determined by the General Partner, in good faith, equal to the value of the Partnership Units; or

(4) the additional Partnership Units are issued to all Partners in proportion to their respective Percentage Interests.

Without limiting the foregoing, the General Partner is expressly authorized to cause the Partnership to issue Partnership Units for less than fair market value, so long as the General Partner concludes in good faith that such issuance is in the best interests of the General Partner and the Partnership. Upon the issuance of any additional Partnership Units, the General Partner shall amend Exhibit A as appropriate to reflect such issuance.

(ii) Upon Issuance of Additional Securities. The General Partner shall not issue any Additional Securities (other than REIT Shares issued in connection with an exchange pursuant to Section 8.04 hereof or REIT Shares or other capital stock of or other interests in the General Partner issued in connection with a taxable stock dividend as described in Section 4.02(a)(i)(2) hereof) or any transaction that would cause an adjustment to the Conversion Factor or Rights other than to all holders of REIT Shares, Preferred Shares, Junior Shares or New Securities, as the case may be, unless (A) the General Partner shall cause the Partnership to issue to the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) Partnership Units or Rights having designations, preferences and other rights, all such that the economic interests are substantially similar to those of the Additional Securities, and (B) the General Partner, directly or through any direct

or indirect wholly owned Subsidiary of the General Partner contributes the proceeds from the issuance of such Additional Securities and from any exercise of Rights contained in such Additional Securities to the Partnership; provided, that the General Partner is allowed to issue Additional Securities in connection with an acquisition of Property to be held directly by the General Partner, but if and only if, such direct acquisition and issuance of Additional Securities have been approved by a majority of the Independent Directors. Without limiting the foregoing, the General Partner is expressly authorized to issue Additional Securities for less than fair market value, and the General Partner is authorized to cause the Partnership to issue to the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) corresponding Partnership Units, so long as (x) the General Partner concludes in good faith that such issuance is in the best interests of the General Partner and the Partnership and (y) the General Partner, directly or through any direct or indirect wholly owned Subsidiary of the General Partner contributes all proceeds from such issuance to the Partnership, including without limitation, the issuance of REIT Shares and corresponding Partnership Units pursuant to a stock purchase plan providing for purchases of REIT Shares at a discount from fair market value or pursuant to stock awards, including stock options that have an exercise price that is less than the fair market value of the REIT Shares, either at the time of issuance or at the time of exercise, and restricted or other stock awards approved by the Board of Directors. For example, in the event the General Partner issues REIT Shares for a cash purchase price and the General Partner, directly or through any direct or indirect wholly owned Subsidiary of the General Partner contributes all of the proceeds of such issuance to the Partnership as required hereunder, the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) shall be issued a number of additional Partnership Units equal to the product of (A) the number of such REIT Shares issued by the General Partner, the proceeds of which were so contributed, multiplied by (B) a fraction, the numerator of which is 100%, and the denominator of which is the Conversion Factor in effect on the date of such contribution.

(b) Certain Contributions of Proceeds of Issuance of REIT Shares. In connection with any and all issuances of REIT Shares, the General Partner, directly or through any direct or indirect wholly owned Subsidiary of the General Partner shall make Capital Contributions to the Partnership of the proceeds therefrom, provided that if the proceeds actually received and contributed by the General Partner, directly or through any direct or indirect wholly owned Subsidiary of the General Partner are less than the gross proceeds of such issuance as a result of any underwriter's discount, commissions, placement fees or other expenses paid or incurred in connection with such issuance, then the General Partner, directly or through any direct or indirect wholly owned Subsidiary of the General Partner shall be deemed to have made a Capital Contribution to the Partnership in the amount equal to the sum of the net proceeds of such issuance plus the amount of such underwriter's discount, commissions, placement fees or other expenses paid by the General Partner, and the Partnership shall be deemed simultaneously to have reimbursed such discount, commissions, placement fees and expenses as an Administrative Expense for the benefit of the Partnership for purposes of Section 6.05(b) hereof.

(c) Repurchases of REIT Shares or Additional Securities. If the General Partner shall repurchase shares of any class or series of its capital stock, the purchase price thereof and all costs incurred in connection with such repurchase shall be reimbursed to the General Partner by the Partnership pursuant to Section 6.05 hereof and the General Partner shall cause the Partnership to

redeem an equivalent number of Partnership Units of the appropriate class or series held by the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) (which, in the case of REIT Shares, shall be a number equal to the quotient of the number of such REIT Shares divided by the Conversion Factor).

**4.03 Additional Funding.** If the General Partner determines that it is in the best interests of the Partnership to provide for additional Partnership funds (“Additional Funds”) for any Partnership purpose, the General Partner may (i) cause the Partnership to obtain such funds from outside borrowings, or (ii) elect to have the General Partner or any of its Affiliates provide such Additional Funds to the Partnership through loans or otherwise.

#### **4.04 LTIP Units.**

(a) **Issuance of LTIP Units.** Notwithstanding anything contained herein to the contrary, the General Partner may from time to time issue LTIP Units to Persons who provide services to or for the benefit of the Partnership, the General Partner for such consideration as the General Partner may determine to be appropriate, and admit such Persons as Limited Partners. Subject to the following provisions of this Section 4.04 and the special provisions of Section 4.05 and Section 5.01(g) hereof, LTIP Units shall be treated as Common Units, with all of the rights, privileges and obligations attendant thereto. For purposes of computing the Partners’ Percentage Interests, holders of LTIP Units shall be treated as Common Unit holders and LTIP Units shall be treated as Common Units. In particular, the Partnership shall maintain at all times a one-to-one correspondence between LTIP Units and Common Units for conversion, distribution and other purposes, including, without limitation, complying with the following procedures:

(i) If an Adjustment Event (as defined below) occurs, then the General Partner shall make a corresponding adjustment to the LTIP Units to maintain a one-for-one conversion and economic equivalence ratio between Common Units and LTIP Units. The following shall be “**Adjustment Events**”: (A) the Partnership makes a distribution on all outstanding Common Units in Partnership Units, (B) the Partnership subdivides the outstanding Common Units into a greater number of units or combines the outstanding Common Units into a smaller number of units, or (C) the Partnership issues any Partnership Units in exchange for its outstanding Common Units by way of a reclassification or recapitalization of its Common Units. If more than one Adjustment Event occurs, the adjustment to the LTIP Units need be made only once using a single formula that takes into account each and every Adjustment Event as if all Adjustment Events occurred simultaneously. For the avoidance of doubt, the following shall not be Adjustment Events: (x) the issuance of Partnership Units in a financing, reorganization, acquisition or other similar business Common Unit Transaction, (y) the issuance of Partnership Units pursuant to any employee benefit or compensation plan or distribution reinvestment plan or (z) the issuance of any Partnership Units to the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) in respect of a capital contribution to the Partnership of proceeds from the sale of Additional Securities by the General Partner. If the Partnership takes an action affecting the Common Units other than actions specifically described above as “Adjustment Events” and in the opinion of the General Partner such action would require an adjustment to the LTIP Units to maintain the one-to-one correspondence described above, the General Partner shall have the right to make such

adjustment to the LTIP Units, to the extent permitted by law and by any Equity Incentive Plan and Vesting Agreement, in such manner and at such time as the General Partner, in its sole discretion, may determine to be appropriate under the circumstances. If an adjustment is made to the LTIP Units, as herein provided, the Partnership shall promptly file in the books and records of the Partnership an officer's certificate setting forth such adjustment and a brief statement of the facts requiring such adjustment, which certificate shall be conclusive evidence of the correctness of such adjustment absent manifest error. Promptly after filing of such certificate, the Partnership shall deliver a notice to each LTIP Unitholder setting forth the adjustment to his or her LTIP Units and the effective date of such adjustment; provided, the failure to deliver such notice shall not invalidate the adjustment or the authority granted hereunder, and

(ii) The LTIP Unitholders shall, when, as and if authorized and declared by the General Partner out of assets legally available for that purpose, be entitled to receive distributions in an amount per LTIP Unit equal to the distributions per Common Unit (the "**Common Partnership Unit Distribution**"), paid to holders of Common Units on such Partnership Record Date established by the General Partner with respect to such distribution; provided, that distributions of assets on liquidation, dissolution or winding up shall be made solely in accordance with the Partners' positive Capital Account balances as provided in Section 5.06(a). So long as any LTIP Units are outstanding, no distributions (whether in cash or in kind) shall be authorized, declared or paid on Common Units, unless equal distributions have been or contemporaneously are authorized, declared and paid on the LTIP Units; provided, that distributions of assets on liquidation, dissolution or winding up shall be made solely in accordance with the Partners' positive Capital Account balances as provided in Section 5.06(a).

(b) Priority. Subject to the provisions of this Section 4.04, the special provisions of Section 4.05 and Section 5.01(g) hereof and any Vesting Agreement, the LTIP Units shall rank *pari passu* with the Common Units as to the payment of regular and special periodic or other distributions; provided, that distributions of assets on liquidation, dissolution or winding up shall be made solely in accordance with the Partners' positive Capital Account balances as provided in Section 5.06(a). As to the payment of distributions and as to distribution of assets upon liquidation, dissolution or winding up, any class or series of Partnership Units which by its terms specifies that it shall rank junior to, on a parity with, or senior to the Common Units shall also rank junior to, or *pari passu* with, or senior to, as the case may be, the LTIP Units; provided, that distributions of assets on liquidation, dissolution or winding up shall be made solely in accordance with the Partners' positive Capital Account balances as provided in Section 5.06(a). Subject to the terms of any Vesting Agreement, an LTIP Unitholder shall be entitled to transfer his or her LTIP Units to the same extent, and subject to the same restrictions as holders of Common Units are entitled to transfer their Common Units pursuant to Article IX.

(c) Special Provisions. LTIP Units shall be subject to the following special provisions:

(i) Vesting Agreements. LTIP Units may, in the sole discretion of the General Partner, be issued subject to vesting, forfeiture and additional restrictions on transfer pursuant to the terms of a Vesting Agreement. The terms of any Vesting Agreement may be

modified by the General Partner from time to time in its sole discretion, subject to any restrictions on amendment imposed by the relevant Vesting Agreement or by the Equity Incentive Plan, if applicable. LTIP Units that have vested under the terms of a Vesting Agreement are referred to as “**Vested LTIP Units**”; all other LTIP Units shall be treated as “**Unvested LTIP Units**.” Upon grant, the grantee of any LTIP Unit shall be treated as a Partner for all purposes. The Partners acknowledge that the liquidation value of each LTIP Unit shall be zero upon grant, the amount equal to the zero Capital Account balance of such LTIP Unit upon grant, for all purposes (including Section 10.05(d)).

(ii) Forfeiture. Unless otherwise specified in the Vesting Agreement, upon the occurrence of any event specified in a Vesting Agreement as resulting in either the right of the Partnership or the General Partner to repurchase LTIP Units at a specified purchase price or some other forfeiture of any LTIP Units, then if the Partnership or the General Partner exercises such right to repurchase or forfeiture in accordance with the applicable Vesting Agreement, the relevant LTIP Units shall immediately, and without any further action, be treated as cancelled and no longer outstanding for any purpose. Unless otherwise specified in the Vesting Agreement, no consideration or other payment shall be due with respect to any LTIP Units that have been forfeited, other than any distributions declared with respect to a Partnership Record Date prior to the effective date of the forfeiture. In connection with any repurchase or forfeiture of LTIP Units, the balance of the portion of the Capital Account of the LTIP Unitholder that is attributable to all of his or her LTIP Units shall be reduced by the amount, if any, by which it exceeds the product of (A) the balance of the LTIP Unitholder’s Capital Account attributable to all of the LTIP Units held prior to the repurchase or forfeiture and (B) the quotient obtained by dividing (x) the number of LTIP Units, if any, held by the LTIP Unitholder after the repurchase or forfeiture and (y) the number of LTIP Units held by the LTIP Unitholder prior to the repurchase or forfeiture.

(iii) Allocations. LTIP Unitholders shall be entitled to certain special allocations of gain under Section 5.01(g) hereof.

(iv) Redemption. The Redemption Right provided to Limited Partners under Section 8.04 hereof shall not apply with respect to LTIP Units unless and until they are converted to Common Units as provided in clause (v) below and Section 4.05 hereof.

(v) Conversion to Common Units. Vested LTIP Units are eligible to be converted into Common Units in accordance with Section 4.05 hereof.

(d) Voting. LTIP Unitholders shall (a) have the same voting rights as the holders of Common Units, with all Vested LTIP Units and Unvested LTIP Units voting as a single class with the Common Units and having one vote per LTIP Unit; and (b) have the additional voting rights that are expressly set forth below. So long as any LTIP Units remain outstanding, the Partnership shall not, without the affirmative vote of the holders of a majority of the LTIP Units (Vested LTIP Units and Unvested LTIP Units) outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), amend, alter or repeal, whether by merger, consolidation or otherwise, the provisions of this Agreement applicable to LTIP Units so as to materially and adversely affect (as determined in good faith by the General Partner) any right, privilege or voting power of the LTIP Units or the LTIP Unitholders as such, unless such amendment, alteration, or repeal affects equally, ratably and proportionately the rights, privileges and voting powers of the holders of Common Units; but subject, in any event, to the following provisions:

(i) With respect to any Common Unit Transaction, so long as the LTIP Units are treated in accordance with Section 4.05(f) hereof, the consummation of such Common Unit Transaction shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the LTIP Units or the LTIP Unitholders as such; and

(ii) Any creation or issuance of any Partnership Units or of any class or series of Partnership Interest including without limitation additional Common Units or LTIP Units, whether ranking senior to, junior to, or on a parity with the LTIP Units with respect to distributions and the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the LTIP Units or the LTIP Unitholders as such.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required will be effected, all outstanding LTIP Units shall have been converted into Common Units.

#### **4.05 Conversion of LTIP Units.**

(a) Subject to the provisions of this Section 4.05, an LTIP Unitholder shall have the right (the “**Conversion Right**”), at such holder’s option, at any time to convert all or a portion of such holder’s Vested LTIP Units into Common Units; provided, that a holder may not exercise the Conversion Right for less than 1,000 Vested LTIP Units or, if such holder holds less than 1,000 Vested LTIP Units, all of the Vested LTIP Units held by such holder. LTIP Unitholders shall not have the right to convert Unvested LTIP Units into Common Units until they become Vested LTIP Units; provided, that when an LTIP Unitholder is notified of the expected occurrence of an event that will cause such LTIP Unitholder’s Unvested LTIP Units to become Vested LTIP Units, such LTIP Unitholder may give the Partnership a Conversion Notice conditioned upon and effective as of the time of vesting and such Conversion Notice, unless subsequently revoked by the LTIP Unitholder, shall be accepted by the Partnership subject to such condition. The General Partner shall have the right at any time to cause a conversion of Vested LTIP Units into Common Units. In all cases, the conversion of any LTIP Units into Common Units shall be subject to the conditions and procedures set forth in this Section 4.05.

(b) A holder of Vested LTIP Units may convert such LTIP Units into an equal number of fully paid and non-assessable Common Units, giving effect to all adjustments (if any) made pursuant to Section 4.04 hereof. Notwithstanding the foregoing, in no event may a holder of Vested LTIP Units convert a number of Vested LTIP Units that exceeds (x) the Economic Capital Account Balance of such Limited Partner, to the extent attributable to its ownership of LTIP Units, divided by (y) the Common Unit Economic Balance, in each case as determined as of the effective date of conversion (the “**Capital Account Limitation**”).

In order to exercise the Conversion Right, an LTIP Unitholder shall deliver a notice (a “**Conversion Notice**”) in the form attached as Exhibit D to the Partnership (with a copy to the General Partner) not less than ten nor more than 60 days prior to a date (the “**Conversion Date**”) specified in such Conversion Notice; provided, that if the General Partner has not given to the LTIP Unitholders notice of a proposed or upcoming Common Unit Transaction at least 30 days prior to the effective date of such Common Unit Transaction, then LTIP Unitholders shall have the right to deliver a Conversion Notice until the earlier of (x) the tenth day after such notice from the General Partner of a Common Unit Transaction or (y) the third Trading Day immediately preceding the effective date of such Common Unit Transaction. A Conversion Notice shall be provided in the manner provided in Section 12.01 hereof. Each LTIP Unitholder covenants and agrees with the Partnership that all Vested LTIP Units to be converted pursuant to this Section 4.05(b) shall be free and clear of all liens. Notwithstanding anything herein to the contrary, a holder of LTIP Units may deliver a Notice of Redemption pursuant to Section 8.04(a) hereof relating to those Common Units that will be issued to such holder upon conversion of such LTIP Units into Common Units in advance of the Conversion Date; provided, that the redemption of such Common Units by the Partnership shall in no event take place until after the Conversion Date. For clarity, it is noted that the objective of this paragraph is to put an LTIP Unitholder in a position where, if such holder so wishes, the Common Units into which such holder’s Vested LTIP Units will be converted can be tendered to the Partnership for redemption simultaneously with such conversion, with the further consequence that, if the General Partner elects to assume the Partnership’s redemption obligation with respect to such Common Units under Section 8.04(b) hereof by delivering to such holder the REIT Shares Amount, then such holder can have the REIT Shares Amount issued to such holder simultaneously with the conversion of such holder’s Vested LTIP Units into Common Units. The General Partner and LTIP Unitholder shall reasonably cooperate with each other to coordinate the timing of the events described in the foregoing sentence.

(c) The Partnership, at any time at the election of the General Partner, may cause any number of Vested LTIP Units held by an LTIP Unitholder to be converted (a “**Forced Conversion**”) into an equal number of Common Units, giving effect to all adjustments (if any) made pursuant to Section 4.04 hereof; provided, that the Partnership may not cause Forced Conversion of any LTIP Units that would not at the time be eligible for conversion at the option of such LTIP Unitholder pursuant to Section 4.05(b) hereof. In order to exercise its right of Forced Conversion, the Partnership shall deliver a notice (a “**Forced Conversion Notice**”) in the form attached as Exhibit E to the applicable LTIP Unitholder not less than ten nor more than 60 days prior to the Conversion Date specified in such Forced Conversion Notice. A Forced Conversion Notice shall be provided in the manner provided in Section 12.01 hereof and shall be revocable by the General Partner at any time prior to the Forced Conversion.

(d) A conversion of Vested LTIP Units for which the holder thereof has given a Conversion Notice or the Partnership has given a Forced Conversion Notice shall occur automatically after the close of business on the applicable Conversion Date without any action on the part of such LTIP Unitholder, as of which time such LTIP Unitholder shall be credited on the books and records of the Partnership with the issuance as of the opening of business on the next day of the number of Common Units issuable upon such conversion. After the conversion of LTIP Units as aforesaid, the Partnership shall deliver to such LTIP Unitholder, upon his or her written request, a certificate of the General Partner certifying the number of Common Units and remaining LTIP Units, if any, held by such person immediately after such conversion. The Assignee of any Limited Partner pursuant to Article IX hereof may exercise the rights of such Limited Partner pursuant to this Section 4.05 and such Limited Partner shall be bound by the exercise of such rights by the Assignee.



(e) For purposes of making future allocations under Section 5.01(g) hereof and applying the Capital Account Limitation, the portion of the Economic Capital Account Balance of the applicable LTIP Unitholder that is treated as attributable to his or her LTIP Units shall be reduced, as of the date of conversion, by the product of the number of LTIP Units converted and the Common Unit Economic Balance.

(f) If the Partnership shall be a party to any Common Unit Transaction (including without limitation a merger, consolidation, unit exchange, self tender offer for all or substantially all Common Units or other business combination or reorganization, or sale of all or substantially all of the Partnership's assets, but excluding any Common Unit Transaction which constitutes an Adjustment Event) in each case as a result of which Common Units shall be exchanged for or converted into the right, or the holders of Common Units shall otherwise be entitled, to receive cash, securities or other property or any combination thereof (each of the foregoing being referred to herein as a "**Common Unit Transaction**"), then the General Partner shall, subject to the terms of any applicable Equity Incentive Plan or Vesting Agreement, exercise immediately prior to the Common Unit Transaction its right to cause a Forced Conversion with respect to the maximum number of LTIP Units then eligible for conversion, taking into account any allocations that occur in connection with the Common Unit Transaction or that would occur in connection with the Common Unit Transaction if the assets of the Partnership were sold at the Common Unit Transaction price or, if applicable, at a value determined by the General Partner in good faith using the value attributed to the Partnership Units in the context of the Common Unit Transaction (in which case the Conversion Date shall be the effective date of the Common Unit Transaction).

In anticipation of such Forced Conversion and the consummation of the Common Unit Transaction, the Partnership shall use commercially reasonable efforts to cause each LTIP Unitholder to be afforded the right to receive in connection with such Common Unit Transaction in consideration for the Common Units into which such LTIP Unitholder's LTIP Units will be converted the same kind and amount of cash, securities and other property (or any combination thereof) receivable upon the consummation of such Common Unit Transaction by a holder of the same number of Common Units, assuming such holder of Common Units is not a Person with which the Partnership consolidated or into which the Partnership merged or which merged into the Partnership or to which such sale or transfer was made, as the case may be (a "**Constituent Person**"), or an affiliate of a Constituent Person. In the event that holders of Common Units have the opportunity to elect the form or type of consideration to be received upon consummation of the Common Unit Transaction, prior to such Common Unit Transaction the General Partner shall give prompt written notice to each LTIP Unitholder of such election, and shall use commercially reasonable efforts to afford the LTIP Unitholders the right to elect, by written notice to the General Partner, the form or type of consideration to be received upon conversion of each LTIP Unit held by such holder into Common Units in connection with such Common Unit Transaction. If an LTIP Unitholder fails to make such an election, such holder (and any of its transferees) shall receive upon conversion of each LTIP Unit held by such LTIP Unitholder (or by any of such LTIP Unitholder's transferees) the same kind and amount of consideration that a holder of a Common Unit would receive if such Common Unit holder failed to make such an election.

Subject to the rights of the Partnership and the General Partner under any Vesting Agreement and any Equity Incentive Plan, the Partnership shall use commercially reasonable efforts to cause the terms of any Common Unit Transaction to be consistent with the provisions of this Section 4.05(f)

and to enter into an agreement with the successor or purchasing entity, as the case may be, for the benefit of any LTIP Unitholders whose LTIP Units will not be converted into Common Units in connection with the Common Unit Transaction that will (i) contain provisions enabling the holders of LTIP Units that remain outstanding after such Common Unit Transaction to convert their LTIP Units into securities as comparable as reasonably possible under the circumstances to the Common Units and (ii) preserve as far as reasonably possible under the circumstances the distribution, special allocation, conversion, and other rights set forth in this Agreement for the benefit of the LTIP Unitholders.

**4.06 Capital Accounts.** A separate capital account (a “**Capital Account**”) shall be established and maintained for each Partner in accordance with Regulations Section 1.704-1(b)(2)(iv). If (i) a new or existing Partner acquires an additional Partnership Interest in exchange for more than a *de minimis* Capital Contribution, (ii) the Partnership distributes to a Partner more than a *de minimis* amount of Partnership property as consideration for a Partnership Interest, (iii) the Partnership is liquidated within the meaning of Regulation Section 1.704-1(b)(2)(ii)(g) or (iv) the Partnership grants a Partnership Interest (other than a *de minimis* Partnership Interest) as consideration for the provision of services to or for the benefit of the Partnership to an existing Partner acting in a Partner capacity, or to a new Partner acting in a Partner capacity or in anticipation of being a Partner, the General Partner shall revalue the property of the Partnership to its fair market value (as determined by the General Partner, in its sole and absolute discretion, and taking into account Section 7701(g) of the Code) in accordance with Regulations Section 1.704-1(b)(2)(iv)(f); provided, that (i) the issuance of any LTIP Unit shall be deemed to require a revaluation pursuant to this Section 4.06 and (ii) the General Partner may elect not to revalue the property of the Partnership in connection with the issuance of additional Partnership Units pursuant to Section 4.02 to the extent it determines, in its sole and absolute discretion, that revaluing the property of the Partnership is not necessary or appropriate to reflect the relative economic interests of the Partners. When the Partnership’s property is revalued by the General Partner, the Capital Accounts of the Partners shall be adjusted in accordance with Regulations Sections 1.704-1(b)(2)(iv)(f) and (g), which generally require such Capital Accounts to be adjusted to reflect the manner in which the unrealized gain or loss inherent in such property (that has not been reflected in the Capital Accounts previously) would be allocated among the Partners pursuant to Section 5.01 hereof if there were a taxable disposition of such property for its fair market value (as determined by the General Partner, in its sole and absolute discretion, and taking into account Section 7701(g) of the Code) on the date of the revaluation.

**4.07 Percentage Interests.** If the number of outstanding Common Units or other class or series of Partnership Units increases or decreases during a taxable year, each Partner’s Percentage Interest shall be adjusted by the General Partner effective as of the effective date of each such increase or decrease to a percentage equal to the number of Common Units or other class or series of Partnership Units held by such Partner divided by the aggregate number of Common Units or other class or series of Partnership Units, as applicable, outstanding after giving effect to such increase or decrease. If the Partners’ Percentage Interests are adjusted pursuant to this Section 4.07, the Profits and Losses for the taxable year in which the adjustment occurs shall be allocated between the part of the year ending on the day when that adjustment occurs and the part of the year beginning on the following day either (i) as if the taxable year had ended on the date of the adjustment or (ii) based on the number of days in each part. The General Partner, in its sole and absolute discretion, shall determine which method shall be used to allocate Profits and Losses for the taxable year in which the adjustment occurs. The allocation of Profits and Losses for the earlier part of the year shall be

based on the Percentage Interests before adjustment, and the allocation of Profits and Losses for the later part shall be based on the adjusted Percentage Interests. In the event that there is an increase or decrease in the number of outstanding Partnership Units (other than Common Units or LTIP Units) during a taxable year, the General Partner shall have similar discretion, as provided in the preceding sentences of this Section 4.07, to allocate items of Profit and Loss between the part of the year ending on the day when that increase or decrease occurs and the part of the year beginning on the following day, and that allocation shall take into account the Partners' relative interests in those items of Profit and Loss before and after such increase or decrease.

**4.08 No Interest on Contributions.** No Partner shall be entitled to interest on its Capital Contribution.

**4.09 Return of Capital Contributions.** No Partner shall be entitled to withdraw any part of its Capital Contribution or its Capital Account or to receive any distribution from the Partnership, except as specifically provided in this Agreement. Except as otherwise provided herein, there shall be no obligation to return to any Partner or withdrawn Partner any part of such Partner's Capital Contribution for so long as the Partnership continues in existence.

**4.10 No Third-Party Beneficiary.** No creditor or other third party having dealings with the Partnership shall have the right to enforce the right or obligation of any Partner to make Capital Contributions or loans or to pursue any other right or remedy hereunder or at law or in equity, it being understood and agreed that the provisions of this Agreement, except as provided in Section 6.03(h) hereof, shall be solely for the benefit of, and may be enforced solely by, the parties to this Agreement and their respective permitted successors and assigns. None of the rights or obligations of the Partners herein set forth to make Capital Contributions or loans to the Partnership shall be deemed an asset of the Partnership for any purpose by any creditor or other third party, nor may such rights or obligations be sold, transferred or assigned by the Partnership or pledged or encumbered by the Partnership to secure any debt or other obligation of the Partnership or of any of the Partners. In addition, it is the intent of the parties hereto that no distribution to any Limited Partner shall be deemed a return of money or other property in violation of the Act. However, if any court of competent jurisdiction holds that, notwithstanding the provisions of this Agreement, any Limited Partner is obligated to return such money or property, such obligation shall be the obligation of such Limited Partner and not of the General Partner. Without limiting the generality of the foregoing, a deficit Capital Account of a Partner shall not be deemed to be a liability of such Partner nor an asset or property of the Partnership.

## ARTICLE V

### PROFITS AND LOSSES; DISTRIBUTIONS

#### **5.01 Allocation of Profit and Loss.**

(a) Profit. Profit of the Partnership for each fiscal year of the Partnership shall be allocated to the Partners in accordance with their respective Percentage Interests.

(b) Loss. Loss of the Partnership for each fiscal year of the Partnership shall be allocated to the Partners in accordance with their respective Percentage Interests.

(c) Minimum Gain Chargeback. Notwithstanding any provision to the contrary, (i) any expense of the Partnership that is a “nonrecourse deduction” within the meaning of Regulations Section 1.704-2(b)(1) shall be allocated in accordance with the Partners’ respective Percentage Interests, (ii) any expense of the Partnership that is a “partner nonrecourse deduction” within the meaning of Regulations Section 1.704-2(i)(2) shall be allocated to the Partner that bears the “economic risk of loss” of such deduction in accordance with Regulations Section 1.704-2(i)(1), (iii) if there is a net decrease in Partnership Minimum Gain within the meaning of Regulations Section 1.704-2(f)(1) for any Partnership taxable year, then, subject to the exceptions set forth in Regulations Section 1.704-2(f)(2),(3), (4) and (5), items of gain and income shall be allocated among the Partners in accordance with Regulations Section 1.704-2(f) and the ordering rules contained in Regulations Section 1.704-2(j), and (iv) if there is a net decrease in Partner Nonrecourse Debt Minimum Gain within the meaning of Regulations Section 1.704-2(i)(4) for any Partnership taxable year, then, subject to the exceptions set forth in Regulations Section 1.704-2(g), items of gain and income shall be allocated among the Partners in accordance with Regulations Section 1.704-2(i)(4) and the ordering rules contained in Regulations Section 1.704-2(j). The manner in which it is reasonably expected that the deductions attributable to nonrecourse liabilities will be allocated for purposes of determining a Partner’s share of the nonrecourse liabilities of the Partnership within the meaning of Regulations Section 1.752-3(a)(3) shall be in accordance with a Partner’s Percentage Interest.

(d) Qualified Income Offset. If a Partner receives in any taxable year an adjustment, allocation or distribution described in subparagraphs (4), (5) or (6) of Regulations Section 1.704-1(b)(2)(ii)(d) that causes or increases a deficit balance in such Partner’s Capital Account that exceeds the sum of such Partner’s shares of Partnership Minimum Gain and Partner Nonrecourse Debt Minimum Gain, as determined in accordance with Regulations Sections 1.704-2(g) and 1.704-2(i), such Partner shall be allocated specially for such taxable year (and, if necessary, later taxable years) items of income and gain in an amount and manner sufficient to eliminate such deficit Capital Account balance as quickly as possible as provided in Regulations Section 1.704-1(b)(2)(ii)(d). After the occurrence of an allocation of income or gain to a Partner in accordance with this Section 5.01(d), to the extent permitted by Regulations Section 1.704-1(b), items of expense or loss shall be allocated to such Partner in an amount necessary to offset the income or gain previously allocated to such Partner under this Section 5.01(d).

(e) Capital Account Deficits. Loss shall not be allocated to a Limited Partner to the extent that such allocation would cause a deficit in such Partner’s Capital Account (after reduction to reflect the items described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6)) to exceed the sum of such Partner’s shares of Partnership Minimum Gain and Partner Nonrecourse Debt Minimum Gain. Any Loss in excess of that limitation shall be allocated to the General Partner. After the occurrence of an allocation of Loss to the General Partner in accordance with this Section 5.01(e), to the extent permitted by Regulations Section 1.704-1(b), Profit first shall be allocated to the General Partner in an amount necessary to offset the Loss previously allocated to the General Partner under this Section 5.01(e).

(f) Allocations Between Transferor and Transferee. If a Partner transfers any part or all of its Partnership Interest, the distributive shares of the various items of Profit and Loss allocable among the Partners during such fiscal year of the Partnership shall be allocated between the transferor and the transferee Partner either (i) as if the Partnership’s fiscal year had ended on the

date of the transfer or (ii) based on the number of days of such fiscal year that each was a Partner without regard to the results of Partnership activities in the respective portions of such fiscal year in which the transferor and the transferee were Partners. The General Partner, in its sole and absolute discretion, shall determine which method shall be used to allocate the distributive shares of the various items of Profit and Loss between the transferor and the transferee Partner.

(g) **Special Allocations Regarding LTIP Units.** Notwithstanding the provisions of Sections 5.01(a) and (b) hereof, Liquidating Gains shall first be allocated to the LTIP Unitholders until their Economic Capital Account Balances, to the extent attributable to their ownership of LTIP Units, are equal to (i) the Common Unit Economic Balance, multiplied by (ii) the number of their LTIP Units. For this purpose, “**Liquidating Gains**” means net capital gains realized in connection with the actual or hypothetical sale of all or substantially all of the assets of the Partnership, including but not limited to net capital gain realized in connection with an adjustment to the value of Partnership assets under Section 704(b) of the Code. The “**Economic Capital Account Balances**” of the LTIP Unit holders will be equal to their Capital Account balances plus shares of Partner Nonrecourse Debt Minimum Gain or Partnership Minimum Gain (after reduction to reflect the items described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6)) to the extent attributable to their ownership of LTIP Units. Similarly, the “**Common Unit Economic Balance**” shall mean (i) the Capital Account balance of the General Partner, plus the amount of the General Partner’s share of any Partner Nonrecourse Debt Minimum Gain or Partnership Minimum Gain (after reduction to reflect the items described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6)), in either case to the extent attributable to the General Partner’s direct or indirect ownership of Common Units and computed on a hypothetical basis after taking into account all allocations through the date on which any allocation is made under this Section 5.01(g), divided by (ii) the number of Common Units directly or indirectly owned by the General Partner. Any such allocations shall be made among the LTIP Unitholders in proportion to the amounts required to be allocated to each under this Section 5.01(g). The parties agree that the intent of this Section 5.01(g) is to make the Capital Account balance associated with each LTIP Unit to be economically equivalent to the Capital Account balance associated with Common Units directly or indirectly owned by the General Partner (on a per-Unit basis).

(h) **Definition of Profit and Loss.** “**Profit**” and “**Loss**” and any items of income, gain, expense or loss referred to in this Agreement shall be determined in accordance with federal income tax accounting principles, as modified by Regulations Section 1.704-1(b)(2)(iv), except that Profit and Loss shall not include items of income, gain and expense that are specially allocated pursuant to Sections 5.01(c), (d) or (e) hereof. All allocations of income, Profit, gain, Loss and expense (and all items contained therein) for federal income tax purposes shall be identical to all allocations of such items set forth in this Section 5.01, except as otherwise required by Section 704(c) of the Code and Regulations Section 1.704-1(b)(4). With respect to properties acquired by the Partnership, the General Partner shall have the authority to elect the method to be used by the Partnership for allocating items of income, gain and expense as required by Section 704(c) of the Code with respect to such properties, and such election shall be binding on all Partners.

## 5.02 Distribution of Cash.

(a) Subject to Sections 5.02(c), (d) and (e) hereof and to the terms of any Partnership Unit Designation, the Partnership shall distribute cash at such times and in such amounts as are determined by the General Partner in its sole and absolute discretion, to the Partners who are Partners on the Partnership Record Date with respect to such quarter (or other distribution period) in proportion with their respective Common Units on the Partnership Record Date.

(b) In accordance with Section 4.04(a)(ii) hereof, the LTIP Unitholders shall be entitled to receive distributions in an amount per LTIP Unit equal to the Common Partnership Unit Distribution.

(c) If a new or existing Partner acquires additional Partnership Units in exchange for a Capital Contribution on any date other than a Partnership Record Date (other than Partnership Units acquired by the General Partner (or any direct or indirect wholly owned Subsidiary of the General Partner) in connection with the issuance of additional REIT Shares or Additional Securities), the cash distribution attributable to such additional Partnership Units relating to the Partnership Record Date next following the issuance of such additional Partnership Units shall be reduced in the proportion to (i) the number of days that such additional Partnership Units are held by such Partner bears to (ii) the number of days between such Partnership Record Date and the immediately preceding Partnership Record Date.

(d) Notwithstanding any other provision of this Agreement, the General Partner is authorized to take any action that it determines to be necessary or appropriate to cause the Partnership to comply with any withholding requirements established under the Code or any other federal, state or local law including, without limitation, pursuant to Sections 1441, 1442, 1445, 1446 and 1471 through 1474 of the Code. To the extent that the Partnership is required to withhold and pay over to any taxing authority any amount resulting from the allocation or distribution of income to a Partner or assignee (including by reason of Section 1446 of the Code), either (i) if the actual amount to be distributed to the Partner (the "**Distributable Amount**") equals or exceeds the Withheld Amount, the entire Distributable Amount shall be treated as a distribution of cash to such Partner, or (ii) if the Distributable Amount is less than the Withheld Amount, the excess of the Withheld Amount over the Distributable Amount shall be treated as a Partnership Loan from the Partnership to the Partner on the day the Partnership pays over such amount to a taxing authority. A Partnership Loan shall be repaid upon the demand of the Partnership or, alternatively, through withholding by the Partnership with respect to subsequent distributions to the applicable Partner or assignee and any such distributions so withheld shall be deemed first to have been distributed to the applicable Partner or assignee and then immediately repaid to the Partnership.

Any amounts treated as a Partnership Loan pursuant to this Section 5.02(d) shall bear interest at the lesser of (i) 300 basis points above the base rate on corporate loans at large United States money center commercial banks, as published from time to time in The Wall Street Journal, or (ii) the maximum lawful rate of interest on such obligation, such interest to accrue from the date the Partnership or the General Partner, as applicable, is deemed to extend the loan until such loan is repaid in full.

(e) In no event may a Partner receive a distribution of cash with respect to a Partnership Unit if such Partner is entitled to receive a cash dividend or other distribution of cash as the holder of record of a REIT Share for which all or part of such Partnership Unit has been or will be redeemed.

**5.03 REIT Distribution Requirements.** The General Partner shall use commercially reasonable efforts, as determined by it in its sole and absolute discretion, to cause the Partnership to distribute amounts sufficient to enable the General Partner to pay distributions to its stockholders that will allow the General Partner to (i) meet its distribution requirement for qualification as a REIT as set forth in Section 857 of the Code and (ii) avoid any federal income or excise tax liability imposed by the Code, other than to the extent the General Partner elects to retain and pay income tax on its net capital gain.

**5.04 No Right to Distributions in Kind.** No Partner shall be entitled to demand property other than cash in connection with any distributions by the Partnership.

**5.05 Limitations on Return of Capital Contributions.** Notwithstanding any of the provisions of this Article V, no Partner shall have the right to receive, and the General Partner shall not have the right to make, a distribution that includes a return of all or part of a Partner's Capital Contributions, unless after giving effect to the return of a Capital Contribution, the sum of all Partnership liabilities, other than the liabilities to a Partner for the return of his Capital Contribution, does not exceed the fair market value of the Partnership's assets.

**5.06 Distributions Upon Liquidation.**

(a) Upon liquidation of the Partnership, after payment of, or adequate provision for, debts and obligations of the Partnership, including any Partner loans, any remaining assets of the Partnership shall be distributed to all Partners with positive Capital Accounts in accordance with their respective positive Capital Account balances.

(b) For purposes of Section 5.06(a) hereof, the Capital Account of each Partner shall be determined after all adjustments made in accordance with Sections 5.01 and 5.02 hereof resulting from Partnership operations and from all sales and dispositions of all or any part of the Partnership's assets.

(c) Any distributions pursuant to this Section 5.06 shall be made by the end of the Partnership's taxable year in which the liquidation occurs (or, if later, within 90 days after the date of the liquidation). To the extent deemed advisable by the General Partner, appropriate arrangements (including the use of a liquidating trust) may be made to assure that adequate funds are available to pay any contingent debts or obligations.

**5.07 Substantial Economic Effect.** It is the intent of the Partners that the allocations of Profit and Loss under the Agreement have substantial economic effect (or be consistent with the Partners' interests in the Partnership in the case of the allocation of losses attributable to nonrecourse debt) within the meaning of Section 704(b) of the Code as interpreted by the Regulations promulgated pursuant thereto. Article V and other relevant provisions of this Agreement shall be interpreted in a manner consistent with such intent.

**ARTICLE VI**  
**RIGHTS, OBLIGATIONS AND**  
**POWERS OF THE GENERAL PARTNER**

**6.01 Management of the Partnership.**

(a) Except as otherwise expressly provided in this Agreement, the General Partner shall have full, complete and exclusive discretion to manage and control the business of the Partnership for the purposes herein stated, and shall make all decisions affecting the business and assets of the Partnership. Subject to the restrictions specifically contained in this Agreement, the powers of the General Partner shall include, without limitation, the authority to take the following actions on behalf of the Partnership:

(i) to acquire, purchase, own, operate, lease and dispose of any real property and any other property or assets including, but not limited to, notes and mortgages that the General Partner determines are necessary or appropriate in the business of the Partnership;

(ii) to construct buildings and make other improvements on the properties owned or leased by the Partnership;

(iii) to authorize, issue, sell, redeem or otherwise purchase any Partnership Units or any securities (including secured and unsecured debt obligations of the Partnership, debt obligations of the Partnership convertible into any class or series of Partnership Units, or Rights relating to any class or series of Partnership Units) of the Partnership;

(iv) to borrow or lend money for the Partnership, issue or receive evidences of indebtedness in connection therewith, refinance, increase the amount of, modify, amend or change the terms of, or extend the time for the payment of, any such indebtedness, and secure indebtedness by mortgage, deed of trust, pledge or other lien on the Partnership's assets;

(v) to pay, either directly or by reimbursement, all operating costs and general administrative expenses of the Partnership to third parties or to the General Partner or its Affiliates as set forth in this Agreement;

(vi) to guarantee or become a co-maker of indebtedness of any Subsidiary of the General Partner or the Partnership, refinance, increase the amount of, modify, amend or change the terms of, or extend the time for the payment of, any such guarantee or indebtedness, and secure such guarantee or indebtedness by mortgage, deed of trust, pledge or other lien on the Partnership's assets;

(vii) to use assets of the Partnership (including, without limitation, cash on hand) for any purpose consistent with this Agreement, including, without limitation, payment, either directly or by reimbursement, of all operating costs and general and administrative expenses of the General Partner, the Partnership or any Subsidiary of the foregoing to third parties or to the General Partner as set forth in this Agreement;



(viii) to lease all or any portion of any of the Partnership's assets, whether or not the terms of such leases extend beyond the termination date of the Partnership and whether or not any portion of the Partnership's assets so leased are to be occupied by the lessee, or, in turn, subleased in whole or in part to others, for such consideration and on such terms as the General Partner may determine and to further lease property from third parties, including ground leases;

(ix) to prosecute, defend, arbitrate or compromise any and all claims or liabilities in favor of or against the Partnership, on such terms and in such manner as the General Partner may reasonably determine, and similarly to prosecute, settle or defend litigation with respect to the Partners, the Partnership or the Partnership's assets;

(x) to file applications, communicate and otherwise deal with any and all governmental agencies having jurisdiction over, or in any way affecting, the Partnership's assets or any other aspect of the Partnership's business;

(xi) to make or revoke any election permitted or required of the Partnership by any taxing authority;

(xii) to maintain such insurance coverage for public liability, fire and casualty, and any and all other insurance for the protection of the Partnership, for the conservation of Partnership assets, or for any other purpose convenient or beneficial to the Partnership, in such amounts and such types, as it shall determine from time to time;

(xiii) to determine whether or not to apply any insurance proceeds for any property to the restoration of such property or to distribute the same;

(xiv) to establish one or more divisions of the Partnership, to hire and dismiss employees of the Partnership or any division of the Partnership, and to retain legal counsel, accountants, consultants, real estate brokers and such other persons as the General Partner may deem necessary or appropriate in connection with the Partnership business and to pay therefor such reasonable remuneration as the General Partner may deem reasonable and proper;

(xv) to retain other services of any kind or nature in connection with the Partnership business, and to pay therefor such remuneration as the General Partner may deem reasonable and proper;

(xvi) to negotiate and conclude agreements on behalf of the Partnership with respect to any of the rights, powers and authority conferred upon the General Partner;

(xvii) to maintain accurate accounting records and to file promptly all federal, state and local income tax returns on behalf of the Partnership;

(xviii) to distribute Partnership cash or other Partnership assets in accordance with this Agreement;

(xix) to form or acquire an interest in, and contribute property to, any further limited or general partnerships, joint ventures or other relationships that it deems desirable (including, without limitation, the acquisition of interests in, and the contributions of property to, its Subsidiaries and any other Person in which it has an equity interest from time to time);

(xx) to establish Partnership reserves for working capital, capital expenditures, contingent liabilities or any other valid Partnership purpose;

(xxi) to merge, consolidate or combine the Partnership with or into another Person;

(xxii) to enter into and perform obligations under underwriting or other agreements in connection with issuances of securities by the Partnership or the General Partner or any affiliate thereof;

(xxiii) to do any and all acts and things necessary or prudent to ensure that the Partnership will not be classified as a “publicly traded partnership” taxable as a corporation under Section 7704 of the Code or an “investment company” or a Subsidiary of an investment company under the Investment Company Act of 1940; and

(xxiv) to take such other action, execute, acknowledge, swear to or deliver such other documents and instruments, and perform any and all other acts that the General Partner deems necessary or appropriate for the formation, continuation and conduct of the business and affairs of the Partnership (including, without limitation, all actions consistent with allowing the General Partner at all times to qualify as a REIT unless the General Partner voluntarily terminates or revokes its REIT status) and to possess and enjoy all of the rights and powers of a general partner as provided by the Act.

(b) Except as otherwise provided herein, to the extent the duties of the General Partner require expenditures of funds to be paid to third parties, the General Partner shall not have any obligations hereunder except to the extent that Partnership funds are reasonably available to it for the performance of such duties, and nothing herein contained shall be deemed to authorize or require the General Partner, in its capacity as such, to expend its individual funds for payment to third parties or to undertake any individual liability or obligation on behalf of the Partnership.

**6.02 Delegation of Authority.** The General Partner may delegate any or all of its powers, rights and obligations hereunder, and may appoint, employ, contract or otherwise deal with any Person for the transaction of the business of the Partnership, which Person may, under supervision of the General Partner, perform any acts or services for the Partnership as the General Partner may approve.

**6.03 Indemnification and Exculpation of Indemnitees.**

(a) The Partnership shall indemnify an Indemnitee from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including reasonable legal fees and expenses), judgments, fines, settlements, and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to

the operations of the Partnership as set forth in this Agreement in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, unless it is established that: (i) the act or omission of the Indemnitee was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the Indemnitee actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful. The termination of any proceeding by judgment, order or settlement does not create a presumption that the Indemnitee did not meet the requisite standard of conduct set forth in this Section 6.03(a). The termination of any proceeding by conviction or upon a plea of *nolo contendere* or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that the Indemnitee acted in a manner contrary to that specified in this Section 6.03(a). Any indemnification pursuant to this Section 6.03 shall be made only out of the assets of the Partnership.

(b) The Partnership shall reimburse an Indemnitee for reasonable expenses incurred by an Indemnitee who is a party to a proceeding in advance of the final disposition of the proceeding upon receipt by the Partnership of (i) a written affirmation by the Indemnitee of the Indemnitee's good faith belief that the standard of conduct necessary for indemnification by the Partnership as authorized in this Section 6.03 has been met, and (ii) a written undertaking by or on behalf of the Indemnitee to repay the amount if it shall ultimately be determined that the standard of conduct has not been met.

(c) The indemnification provided by this Section 6.03 shall be in addition to any other rights to which an Indemnitee or any other Person may be entitled under any agreement, pursuant to any vote of the Partners, as a matter of law or otherwise, and shall continue as to an Indemnitee who has ceased to serve in such capacity.

(d) The Partnership may purchase and maintain insurance, as an expense of the Partnership, on behalf of the Indemnitees and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expenses that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 6.03, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute fines within the meaning of this Section 6.03; and actions taken or omitted by the Indemnitee with respect to an employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose that is not opposed to the best interests of the Partnership.

(f) In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 6.03 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 6.03 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(i) Any amendment, modification or repeal of this Section 6.03 or any provision hereof shall be prospective only and shall not in any way affect the indemnification of an Indemnitee by the Partnership under this Section 6.03 as in effect immediately prior to such amendment, modification or repeal with respect to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when claims relating to such matters may arise or be asserted.

#### **6.04 Liability of the General Partner.**

(a) Notwithstanding anything to the contrary set forth in this Agreement, neither the General Partner, nor any of its directors, officers, agents or employees shall be liable for monetary damages to the Partnership or any Partners for losses sustained or liabilities incurred as a result of errors in judgment or mistakes of fact or law or of any act or omission if any such party acted in good faith. The General Partner shall not be in breach of any duty that the General Partner may owe to the Limited Partners or the Partnership or any other Persons under this Agreement or of any duty stated or implied by law or equity provided the General Partner, acting in good faith, abides by the terms of this Agreement.

(b) The Limited Partners expressly acknowledge that the General Partner is acting on behalf of the Partnership, the Limited Partners and the General Partner's stockholders collectively, that the General Partner is under no obligation to consider the separate interests of the Limited Partners (including, without limitation, the tax consequences to Limited Partners or the tax consequences of some, but not all, of the Limited Partners) in deciding whether to cause the Partnership to take (or decline to take) any actions. In the event of a conflict between the interests of the stockholders of the General Partner on the one hand and the Limited Partners on the other, the General Partner shall endeavor in good faith to resolve the conflict in a manner not adverse to either the stockholders of the General Partner or the Limited Partners; provided, that for so long as the General Partner owns a controlling interest in the Partnership, any such conflict that the General Partner, in its sole and absolute discretion, determines cannot be resolved in a manner not adverse to either the stockholders of the General Partner or the Limited Partners shall be resolved in favor of the stockholders of the General Partner. The General Partner shall not be liable for monetary damages for losses sustained, liabilities incurred or benefits not derived by the Limited Partners in connection with such decisions.

(c) Subject to its obligations and duties as General Partner set forth in Section 6.01 hereof, the General Partner may exercise any of the powers granted to it under this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents. The General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by it in good faith.

(d) Notwithstanding any other provisions of this Agreement or the Act, any action of the General Partner on behalf of the Partnership or any decision of the General Partner to refrain from acting on behalf of the Partnership, undertaken in the good faith belief that such action or omission is necessary or advisable in order (i) to protect the ability of the General Partner to continue to qualify as a REIT or (ii) to prevent the General Partner from incurring any taxes under Section 857, Section 4981 or any other provision of the Code, is expressly authorized under this Agreement and is deemed approved by all of the Limited Partners.

(e) Any amendment, modification or repeal of this Section 6.04 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the General Partner's or any of its officers', directors', agents' or employees' liability to the Partnership and the Limited Partners under this Section 6.04 as in effect immediately prior to such amendment, modification or repeal with respect to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when claims relating to such matters may arise or be asserted.

#### **6.05 Partnership Obligations.**

(a) Except as provided in this Section 6.05 and elsewhere in this Agreement (including the provisions of Articles V and VI hereof regarding distributions, payments and allocations to which it may be entitled), the General Partner shall not be compensated for its services as general partner of the Partnership.

(b) All Administrative Expenses shall be obligations of the Partnership, and the General Partner or the General Partner shall be entitled to reimbursement by the Partnership for any expenditure (including Administrative Expenses) incurred by it on behalf of the Partnership that shall be made other than out of the funds of the Partnership. All reimbursements hereunder shall be characterized for federal income tax purposes as expenses of the Partnership incurred on its behalf, and not as expenses of the General Partner or the General Partner.

**6.06 Outside Activities.** Subject to Section 6.08 hereof, the Certificate of Formation and any agreements entered into by the General Partner or its Affiliates with the Partnership or a Subsidiary, any officer, director, employee, agent, trustee, Affiliate or stockholder of the General Partner, shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities substantially similar or identical to those of the Partnership. Neither the Partnership nor any of the Limited Partners shall have any rights by virtue of this Agreement in any such business ventures, interest or activities. None of the Limited Partners nor any other Person shall have any rights by virtue of this Agreement or the partnership relationship established hereby in any such business ventures, interests or activities, and the General Partner shall have no obligation pursuant to this Agreement to offer any interest in any such business ventures, interests and activities to the Partnership or any Limited Partner, even if such opportunity is of a character that, if presented to the Partnership or any Limited Partner, could be taken by such Person.

#### **6.07 Employment or Retention of Affiliates.**

(a) Any Affiliate of the General Partner may be employed or retained by the Partnership and may otherwise deal with the Partnership (whether as a buyer, lessor, lessee, manager, furnisher of goods or services, broker, agent, lender or otherwise) and may receive from the Partnership any compensation, price or other payment therefor that the General Partner determines to be fair and reasonable.

(b) The Partnership may lend or contribute to its Subsidiaries or other Persons in which it has an equity investment, and such Persons may borrow funds from the Partnership, on terms and conditions established in the sole and absolute discretion of the General Partner. The foregoing authority shall not create any right or benefit in favor of any Subsidiary or any other Person.

(c) The Partnership may transfer assets to joint ventures, other partnerships, corporations or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions as the General Partner deems are consistent with this Agreement and applicable law.

**6.08 The General Partner's Activities.** The General Partner agrees that, generally, all business activities of the General Partner, including activities pertaining to the acquisition, development, ownership of or investment in Assets, shall be conducted through the Partnership or one or more Subsidiaries of the Partnership; provided, that the General Partner may make direct acquisitions or undertake business activities if such acquisitions or activities are made in connection with the issuance of Additional Securities by the General Partner or the business activity has been approved by a majority of the Independent Directors. If, at any time, the General Partner acquires material assets (other than Partnership Units or other assets on behalf of the Partnership) without transferring such assets to the Partnership, the definition of "REIT Shares Amount" may be adjusted, as reasonably determined by the General Partner, to reflect only the fair market value of a REIT Share attributable to the General Partner's Partnership Units directly or indirectly owned by the General Partner and other assets held on behalf of the Partnership.

**6.09 Title to Partnership Assets.** Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner or one or more nominees, as the General Partner may determine, including Affiliates of the General Partner. The General Partner hereby declares and warrants that any Partnership assets for which legal title is held in the name of the General Partner or any nominee or Affiliate of the General Partner shall be held by the General Partner for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, that the General Partner shall use commercially reasonable efforts to cause beneficial and record title to such assets to be vested in the Partnership as soon as reasonably practicable. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which legal title to such Partnership assets is held.

**ARTICLE VII**  
**CHANGES IN GENERAL PARTNER**

**7.01 Transfer of the General Partner's Partnership Interest.**

(a) Other than to an Affiliate of the General Partner, the General Partner shall not transfer all or any portion of its General Partnership Interests, and the General Partner shall not withdraw as General Partner, except as provided in or in connection with a transaction contemplated by Sections 7.01(c), (d) or (e) hereof.

(b) The General Partner agrees that its General Partnership Interest will at all times be in the aggregate at least 0.1%.

(c) Except as otherwise provided in Section 7.01(d) or (e) hereof, the General Partner shall not engage in any merger, consolidation or other combination with or into another Person or sale of all or substantially all of its assets (other than in connection with a change in the General Partner's state of incorporation or organizational form), in each case which results in a change of control of the General Partner (a "**Transaction**"), unless at least one of the following conditions is met:

(i) the consent of a Majority in Interest (other than the General Partner or any Subsidiary of the General Partner) is obtained;

(ii) as a result of such Transaction, all Limited Partners (other than the General Partner and any Subsidiary of the General Partner, and, in the case of LTIP Unitholders, subject to the terms of any applicable Equity Incentive Plan or Vesting Agreement) will receive, or have the right to receive, for each Partnership Unit an amount of cash, securities or other property equal or substantially equivalent in value, as determined by the General Partner in good faith, to the product of the Conversion Factor and the greatest amount of cash, securities or other property paid in the Transaction to a holder of one REIT Share in consideration of one REIT Share, provided that if, in connection with such Transaction, a purchase, tender or exchange offer ("**Offer**") shall have been made to and accepted by the holders of more than 50% of the outstanding REIT Shares, each holder of Partnership Units (other than the General Partner and any Subsidiary of the General Partner) shall be given the option to exchange its Partnership Units for an amount of cash, securities or other property equal or substantially equivalent in value, as determined by the General Partner in good faith, to the greatest amount of cash, securities or other property that such Limited Partner would have received had it (A) exercised its Redemption Right pursuant to Section 8.04 hereof and (B) sold, tendered or exchanged pursuant to the Offer the REIT Shares received upon exercise of the Redemption Right immediately prior to the expiration of the Offer; or

(iii) the General Partner is the surviving entity in the Transaction and either (A) the holders of REIT Shares do not receive cash, securities or other property in the Transaction or (B) all Limited Partners (other than the General Partner and any Subsidiary of the General Partner, and, in the case of LTIP Unitholders, subject to the terms of any

applicable Equity Incentive Plan or Vesting Agreement) receive for each Partnership Unit an amount of cash, securities or other property (expressed as an amount per REIT Share) equal or substantially equivalent in value, as determined by the General Partner in good faith, to the product of the Conversion Factor and the greatest amount of cash, securities or other property (expressed as an amount per REIT Share) received in the Transaction by any holder of REIT Shares.

(d) Notwithstanding Section 7.01(c) hereof, the General Partner may merge with or into or consolidate with another entity if immediately after such merger or consolidation (i) substantially all of the assets of the successor or surviving entity (the “**Survivor**”), other than Partnership Units held directly or indirectly by the General Partner, are contributed, directly or indirectly, to the Partnership as a Capital Contribution in exchange for Partnership Units, or for economically equivalent partnership interests issued by a Subsidiary Partnership established at the direction of the Board of Directors, with a fair market value equal to the value of the assets so contributed as determined by the Survivor in good faith and (ii) the Survivor expressly agrees to assume all obligations of the General Partner hereunder. Upon such contribution and assumption, the Survivor shall have the right and duty to amend this Agreement as set forth in this Section 7.01(d). The Survivor shall in good faith arrive at a new method for the calculation of the Cash Amount, the REIT Shares Amount and Conversion Factor for a Partnership Unit after any such merger or consolidation so as to approximate the existing method for such calculation as closely as reasonably possible. Such calculation shall take into account, among other things, the kind and amount of securities, cash and other property that was receivable upon such merger or consolidation by a holder of REIT Shares or options, warrants or other rights relating thereto, and which a holder of Partnership Units could have acquired had such Partnership Units been exchanged immediately prior to such merger or consolidation. Such amendment to this Agreement shall provide for adjustment to such method of calculation, which shall be as nearly equivalent as may be practicable to the adjustments provided for with respect to the Conversion Factor. The Survivor also shall in good faith modify the definition of REIT Shares and make such amendments to Section 8.04 hereof so as to approximate the existing rights and obligations set forth in Section 8.04 hereof as closely as reasonably possible. The above provisions of this Section 7.01(d) shall similarly apply to successive mergers or consolidations permitted hereunder.

(e) Notwithstanding anything in this Article VII,

(i) The General Partner may transfer all or any portion of its General Partnership Interest to any wholly owned Subsidiary of the General Partner or the owner of all of the ownership interests of the General Partner, and following a transfer of all of its General Partnership Interest, may withdraw as General Partner; and

(ii) The General Partner may engage in a transaction required by law or by the rules of any national securities exchange or over-the-counter interdealer quotation system on which the REIT Shares are listed or traded.



**7.02 Admission of a Substitute or Additional General Partner.** A Person shall be admitted as a substitute or additional General Partner of the Partnership only if the following terms and conditions are satisfied:

(a) the Person to be admitted as a substitute or additional General Partner shall have accepted and agreed to be bound by all the terms and provisions of this Agreement by executing a counterpart thereof and such other documents or instruments as may be required or appropriate in order to effect the admission of such Person as a General Partner, and a certificate evidencing the admission of such Person as a General Partner shall have been filed for recordation and all other actions required by Section 2.05 hereof in connection with such admission shall have been performed;

(b) if the Person to be admitted as a substitute or additional General Partner is a corporation or a partnership, it shall have provided the Partnership with evidence satisfactory to counsel for the Partnership of such Person's authority to become a General Partner and to be bound by the terms and provisions of this Agreement; and

(c) counsel for the Partnership shall have rendered an opinion (relying on such opinions from other counsel as may be necessary) that the admission of the Person to be admitted as a substitute or additional General Partner is in conformity with the Act, that none of the actions taken in connection with the admission of such Person as a substitute or additional General Partner will cause (i) the Partnership to be classified other than as a partnership for federal income tax purposes, or (ii) the loss of any Limited Partner's limited liability.

**7.03 Effect of Bankruptcy, Withdrawal, Death or Dissolution of General Partner.**

(a) Upon the occurrence of an Event of Bankruptcy as to the General Partner (and its removal pursuant to Section 7.04(a) hereof) or the death, withdrawal, removal or dissolution of the General Partner (except that, if the General Partner is on the date of such occurrence a partnership, the withdrawal, death, dissolution, Event of Bankruptcy as to, or removal of a partner in, such partnership shall be deemed not to be a dissolution of the General Partner if the business of the General Partner is continued by the remaining partner or partners), the Partnership shall be dissolved and terminated unless the Partnership is continued pursuant to Section 7.03(b) hereof. The merger of the General Partner with or into any entity that is admitted as a substitute or successor General Partner pursuant to Section 7.02 hereof shall not be deemed to be the withdrawal, dissolution or removal of the General Partner.

(b) Following the occurrence of an Event of Bankruptcy as to the General Partner (and its removal pursuant to Section 7.04(a) hereof) or the death, withdrawal, removal or dissolution of the General Partner (except that, if the General Partner is on the date of such occurrence a partnership, the withdrawal, death, dissolution, Event of Bankruptcy as to, or removal of a partner in, such partnership shall be deemed not to be a dissolution of the General Partner if the business of such General Partner is continued by the remaining partner or partners), the Limited Partners, within 90 days after such occurrence, may elect to continue the business of the Partnership for the balance of the term specified in Section 2.04 hereof by selecting, subject to Section 7.02 hereof and any other provisions of this Agreement, a substitute General Partner by consent of a Majority in Interest. If the Limited Partners elect to continue the business of the Partnership and admit a substitute General Partner, the relationship with the Partners and of any Person who has acquired an interest of a Partner in the Partnership shall be governed by this Agreement.

#### **7.04 Removal of General Partner.**

(a) Upon the occurrence of an Event of Bankruptcy as to, or the dissolution of, the General Partner, the General Partner shall be deemed to be removed automatically; provided, that if the General Partner is on the date of such occurrence a partnership, the withdrawal, death, dissolution, Event of Bankruptcy as to or removal of a partner in such partnership shall be deemed not to be a dissolution of the General Partner if the business of the General Partner is continued by the remaining partner or partners. The Limited Partners may not remove the General Partner, with or without cause.

(b) If the General Partner has been removed pursuant to this Section 7.04 and the Partnership is continued pursuant to Section 7.03 hereof, the General Partner shall promptly transfer and assign its General Partnership Interest in the Partnership to the substitute General Partner approved by a Majority in Interest in accordance with Section 7.03(b) hereof and otherwise be admitted to the Partnership in accordance with Section 7.02 hereof. At the time of assignment, the removed General Partner shall be entitled to receive from the substitute General Partner the fair market value of the General Partnership Interest of such removed General Partner. Such fair market value shall be determined by an appraiser mutually agreed upon by the General Partner and a Majority in Interest (excluding the General Partner and any Subsidiary of the General Partner) within ten days following the removal of the General Partner. In the event that the parties are unable to agree upon an appraiser, the removed General Partner and a Majority in Interest (excluding the General Partner and any Subsidiary of the General Partner) each shall select an appraiser. Each such appraiser shall complete an appraisal of the fair market value of the removed General Partner's General Partnership Interest within 30 days of the General Partner's removal, and the fair market value of the removed General Partner's General Partnership Interest shall be the average of the two appraisals; provided, that if the higher appraisal exceeds the lower appraisal by more than 20% of the amount of the lower appraisal, the two appraisers, no later than 40 days after the removal of the General Partner, shall select a third appraiser who shall complete an appraisal of the fair market value of the removed General Partner's General Partnership Interest no later than 60 days after the removal of the General Partner. In such case, the fair market value of the removed General Partner's General Partnership Interest shall be the average of the two appraisals closest in value.

(c) The General Partnership Interest of a removed General Partner, during the time after removal until transfer under Section 7.04(b) hereof, shall be converted to that of a special Limited Partner; provided, such removed General Partner shall not have any rights to participate in the management and affairs of the Partnership, and shall not be entitled to any portion of the income, expense, profit, gain or loss allocations or cash distributions allocable or payable, as the case may be, to the Limited Partners. Instead, such removed General Partner shall receive and be entitled only to retain distributions or allocations of such items that it would have been entitled to receive in its capacity as General Partner, until the transfer is effective pursuant to Section 7.04(b) hereof.

(d) All Partners shall have given and hereby do give such consents, shall take such actions and shall execute such documents as shall be legally necessary and sufficient to effect all the foregoing provisions of this Section 7.04.

## ARTICLE VIII

### RIGHTS AND OBLIGATIONS OF THE LIMITED PARTNERS

**8.01 Management of the Partnership.** The Limited Partners shall not participate in the management or control of Partnership business nor shall they transact any business for the Partnership, nor shall they have the power to sign for or bind the Partnership, such powers being vested solely and exclusively in the General Partner. The Limited Partners covenant and agree not to hold themselves out in a manner that could reasonably be considered in contravention of the terms hereof by any third party.

**8.02 Power of Attorney.** Each Limited Partner by execution of this Agreement, directly or through execution by power of attorney or other consent, irrevocably appoints the General Partner its true and lawful attorney-in-fact, who may act for each Limited Partner and in its name, place and stead, and for its use and benefit, to sign, acknowledge, swear to, deliver, file or record, at the appropriate public offices, any and all documents, certificates and instruments, including without limitation, any and all amendments and restatements of this Agreement as may be deemed necessary or desirable by the General Partner to carry out fully the provisions of this Agreement and the Act in accordance with their terms, which power of attorney is coupled with an interest and shall survive the death, dissolution or legal incapacity of the Limited Partner, or the transfer by the Limited Partner of any part or all of its Partnership Interest.

**8.03 Limitation on Liability of Limited Partners.** No Limited Partner shall be liable for any debts, liabilities, contracts or obligations of the Partnership. A Limited Partner shall be liable to the Partnership only to make payments of its Capital Contribution, if any, as and when due hereunder. After its Capital Contribution is fully paid, no Limited Partner shall, except as otherwise required by the Act, be required to make any further Capital Contributions or other payments or lend any funds to the Partnership.

#### **8.04 Redemption Right.**

(a) Subject to Section 8.04(c) and the provisions of any agreement between the Partnership and one or more Limited Partners, beginning on the date that is twelve months after the date of issuance of any Common Units (including any Common Units that are issued upon the conversion of LTIP Units), each Limited Partner (other than the General Partner or any Subsidiary of the General Partner) shall have the right (the “**Redemption Right**”) to require the Partnership to redeem on a Specified Redemption Date all or a portion of such Limited Partner’s Common Units at a redemption price equal to and in the form of the Cash Amount. The Redemption Right shall be exercised pursuant to a Notice of Redemption in the form attached hereto as Exhibit B delivered to the Partnership (c/o the General Partner) by the Limited Partner who is exercising the Redemption Right (the “**Redeeming Limited Partner**”), and such notice shall be irrevocable unless otherwise agreed upon by the General Partner. No Limited Partner may deliver more than one Notice of Redemption during each calendar quarter unless otherwise agreed upon by the General Partner. A Limited Partner may not exercise the Redemption Right for less than one thousand (1,000) Common Units or, if such Limited Partner holds less than one thousand (1,000) Common Units, all of the Common Units held by such Limited Partner. The Redeeming Limited Partner shall have no right, with respect to any Common Units so redeemed, to receive any distribution paid with respect to Common Units if the record date for such distribution is on or after the Specified Redemption Date.

(b) Notwithstanding the provisions of Section 8.04(a) hereof, if a Limited Partner exercises the Redemption Right by delivering to the Partnership a Notice of Redemption, then the General Partner may, in its sole and absolute discretion, elect to purchase directly and acquire some or all of, and in such event the General Partner agrees to purchase and acquire, such Common Units by paying to the Redeeming Limited Partner the REIT Shares Amount, whereupon the General Partner shall acquire the Common Units tendered for redemption by the Redeeming Limited Partner and the General Partner shall be treated for all purposes of this Agreement as the owner of such Common Units. In the event the General Partner shall exercise its right to satisfy the Redemption Right in the manner described in the preceding sentence, the Partnership shall have no obligation to pay any amount to the Redeeming Limited Partner with respect to such Redeeming Limited Partner's exercise of the Redemption Right, and each of the Redeeming Limited Partner, the Partnership and the General Partner shall treat the transaction between the General Partner and the Redeeming Limited Partner as a sale of the Redeeming Limited Partner's Common Units to the General Partner for federal income tax purposes. Each Redeeming Limited Partner agrees to execute such documents as the General Partner may reasonably require in connection with the issuance of REIT Shares upon exercise of the Redemption Right.

(c) Notwithstanding the provisions of Sections 8.04(a) and 8.04(b) hereof, a Limited Partner shall not be entitled to exercise the Redemption Right if the delivery of REIT Shares to such Limited Partner on the Specified Redemption Date by the General Partner pursuant to Section 8.04(b) hereof (regardless of whether or not the General Partner would in fact exercise its rights under Section 8.04(b)) would (i) result in such Limited Partner or any other Person (as defined in the Articles) owning, directly or indirectly, REIT Shares in excess of the Stock Ownership Limit or any Excepted Holder Limit (each as defined in Articles) and calculated in accordance therewith, except as provided in the Articles, (ii) result in REIT Shares being owned by fewer than 100 persons (determined without reference to any rules of attribution), (iii) result in the General Partner being "closely held" within the meaning of Section 856(h) of the Code, (iv) cause the General Partner to own, actually or constructively, 10% or more of the ownership interests in a tenant (other than a TRS) of the General Partner's, the Partnership's or a Subsidiary Partnership's real property, within the meaning of Section 856(d)(2)(B) of the Code, (v) otherwise cause the General Partner to fail to qualify as a REIT under the Code, or (vi) cause the acquisition of REIT Shares by such Limited Partner to be "integrated" with any other distribution of REIT Shares or Common Units for purposes of complying with the registration provisions of the Securities Act. The General Partner, in its sole and absolute discretion, may waive the restriction on redemption set forth in this Section 8.04(c).

(d) Each Redeeming Limited Partner covenants and agrees that all Common Units tendered for redemption pursuant to this Section 8.04 will be delivered to the Partnership or the General Partner free and clear of all liens, claims, and encumbrances whatsoever and should any such liens, claims or encumbrances exist or arise with respect to such Common Units, neither the Partnership nor the General Partner shall be under any obligation to acquire such Common Units pursuant to Section 8.04(a) or Section 8.04(b) hereof. Each Redeeming Limited Partner further agrees that, in the event any state or local property transfer tax is payable as a result of the transfer of its Common Units to the Partnership or the General Partner, such Redeeming Limited Partner shall assume and pay such transfer tax.

(e) Any Cash Amount to be paid to a Redeeming Limited Partner pursuant to this Section 8.04 shall be paid on the Specified Redemption Date; provided, that the General Partner may elect to cause the Specified Redemption Date to be delayed for up to an additional 180 days to the extent required for the General Partner to cause additional REIT Shares to be issued to provide financing to be used to make such payment of the Cash Amount and may also delay such Specified Redemption Date to the extent necessary to effect compliance with applicable requirements of the law. Any REIT Share Amount to be paid to a Redeeming Limited Partner pursuant to this Section 8.04 shall be paid on the Specified Redemption Date; provided, that the General Partner may elect to cause the Specified Redemption Date to be delayed to the extent necessary to effect compliance with applicable requirements of the law. Notwithstanding the foregoing, the General Partner agrees to use its commercially reasonable efforts to cause the closing of the acquisition of redeemed Common Units hereunder to occur as quickly as reasonably possible.

(f) Notwithstanding any other provision of this Agreement, the General Partner is authorized to take any action that it determines to be necessary or appropriate to cause the General Partner and the Partnership to comply with any withholding requirements established under the Code or any other federal, state, local or foreign law that apply upon a Redeeming Limited Partner's exercise of the Redemption Right. If a Redeeming Limited Partner believes that it is exempt from such withholding upon the exercise of the Redemption Right, such Redeeming Limited Partner must furnish the General Partner with a FIRPTA Certificate in the form attached hereto as Exhibit C and any similar forms or certificates required to avoid or reduce the withholding under federal, state, local or foreign law or such other form as the General Partner may reasonably request. If the Partnership, the General Partner or the General Partner is required to withhold and pay over to any taxing authority any amount upon a Redeeming Limited Partner's exercise of the Redemption Right and if the Redemption Amount equals or exceeds the Withheld Amount, the Withheld Amount shall be treated as an amount received by such Redeeming Limited Partner in redemption of its Common Units. If, however, the Redemption Amount is less than the Withheld Amount, the Redeeming Limited Partner shall not receive any portion of the Redemption Amount, the Redemption Amount shall be treated as an amount received by such Redeeming Limited Partner in redemption of its Common Units, and such Redeeming Limited Partner shall contribute the excess of the Withheld Amount over the Redemption Amount to the Partnership before the Partnership is required to pay over such excess to a taxing authority.

(g) Notwithstanding any other provision of this Agreement, the General Partner may place appropriate restrictions on the ability of the Limited Partners to exercise their Redemption Rights as and if deemed necessary or reasonable to ensure that the Partnership does not constitute a "publicly traded partnership" under Section 7704 of the Code. If and when the General Partner determines that imposing such restrictions is necessary, the General Partner shall give prompt written notice thereof (a "**Restriction Notice**") to each of the Limited Partners, which notice shall be accompanied by a copy of an opinion of counsel to the Partnership that states that, in the opinion of such counsel, restrictions are necessary or reasonable in order to avoid the Partnership being treated as a "publicly traded partnership" under Section 7704 of the Code.

**ARTICLE IX**  
**TRANSFERS OF PARTNERSHIP INTERESTS**

**9.01 Purchase for Investment.**

(a) Each Limited Partner, by its signature below or by its subsequent admission to the Partnership, hereby represents and warrants to the General Partner and to the Partnership that the acquisition of such Limited Partner's Partnership Units is made for investment purposes only and not with a view to the resale or distribution of such Partnership Units.

(b) Subject to the provisions of Section 9.02 hereof, each Limited Partner agrees that such Limited Partner will not sell, assign or otherwise transfer such Limited Partner's Partnership Units or any fraction thereof, whether voluntarily or by operation of law or at judicial sale or otherwise, to any Person who does not make the representations and warranties to the General Partner set forth in Section 9.01(a) hereof.

**9.02 Restrictions on Transfer of Partnership Units.**

(a) Subject to the provisions of Sections 9.02(b) and (c) hereof, no Limited Partner may offer, sell, assign, hypothecate, pledge or otherwise transfer all or any portion of such Limited Partner's Partnership Units, or any of such Limited Partner's economic rights as a Limited Partner, whether voluntarily or by operation of law or at judicial sale or otherwise (collectively, a "**Transfer**") without the consent of the General Partner, which consent may be granted or withheld in the General Partner's sole and absolute discretion; provided, that the term Transfer does not include (a) any redemption of Common Units by the Partnership or the General Partner, or acquisition of Common Units by the General Partner, pursuant to Section 8.04 or (b) any redemption of Partnership Units pursuant to any Partnership Unit Designation. The General Partner may require, as a condition of any Transfer to which it consents, that the transferor assume all costs incurred by the Partnership in connection therewith (including, but not limited to, cost of legal counsel).

(b) No Limited Partner may withdraw from the Partnership other than as a result of a permitted Transfer (*i.e.*, a Transfer consented to as contemplated by clause (a) above or a Transfer pursuant to Section 9.05 hereof) of all of such Limited Partner's Partnership Units pursuant to this Article IX or pursuant to a redemption of all of such Limited Partner's Common Units pursuant to Section 8.04 hereof. Upon the permitted Transfer or redemption of all of a Limited Partner's Common Units, such Limited Partner shall cease to be a Limited Partner.

(c) No Limited Partner may effect a Transfer of its Partnership Units, in whole or in part, if, in the opinion of legal counsel for the Partnership, such proposed Transfer would require the registration of the Partnership Units under the Securities Act or would otherwise violate any applicable federal or state securities or blue sky law (including investment suitability standards).

(d) No Transfer by a Limited Partner of its Partnership Units, in whole or in part, may be made to any Person (including pursuant to the Redemption Right) if (i) in the opinion of legal counsel for the Partnership, such Transfer would result in the Partnership being treated as an association taxable as a corporation (other than a qualified REIT subsidiary within the meaning of

Section 856(i) of the Code), (ii) in the opinion of legal counsel for the Partnership, it would adversely affect the ability of the General Partner to continue to qualify as a REIT or subject the General Partner to any additional taxes under Section 857 or Section 4981 of the Code, (iii) such Transfer is effectuated through an “established securities market” or a “secondary market (or the substantial equivalent thereof)” within the meaning of Section 7704 of the Code, (iv) in the opinion of legal counsel for the Partnership, such Transfer is reasonably likely to cause the Partnership to fail to satisfy the 90% qualifying income test described in Section 7704(c) of the Code, (v) in the opinion of legal counsel to the Partnership, such Transfer is reasonably likely to cause the Partnership to become, with respect to any employee benefit plan subject to Title I of ERISA or to Section 4975 of the Code, a “party-in-interest” (as defined in Section 3(14) of ERISA) or a “disqualified person” (as defined in Section 4975(e)(2) of the Code) or (vi) in the opinion of legal counsel to the Partnership, such Transfer is reasonably likely to cause any portion of the assets of the Partnership to constitute assets of any employee benefit plan pursuant to Department of Labor Regulations Section 2510.3-101.

(e) Any purported Transfer in contravention of any of the provisions of this Article IX shall be void *ab initio* and ineffectual and shall not be binding upon, or recognized by, the General Partner or the Partnership.

(f) Prior to the consummation of any Transfer under this Article IX, the transferor and/or the transferee shall deliver to the General Partner such opinions, certificates and other documents as the General Partner shall request in connection with such Transfer.

### **9.03 Admission of Substitute Limited Partner.**

(a) Subject to the other provisions of this Article IX, an assignee of the Partnership Units of a Limited Partner (which shall be understood to include any purchaser, transferee, donee or other recipient of any disposition of such Partnership Units) shall be deemed admitted as a Limited Partner of the Partnership only with the consent of the General Partner, which consent may be given or withheld by the General Partner in its sole and absolute discretion, and upon the satisfactory completion of the following:

(i) The assignee shall have accepted and agreed to be bound by the terms and provisions of this Agreement by executing a counterpart or an amendment thereof, including a revised Exhibit A, and such other documents or instruments as the General Partner may require in order to effect the admission of such Person as a Limited Partner.

(ii) To the extent required, an amended Certificate evidencing the admission of such Person as a Limited Partner shall have been signed, acknowledged and filed in accordance with the Act.

(iii) The assignee shall have delivered a letter containing the representations and warranties set forth in Sections 9.01(a) and 9.01(b) hereof.

(iv) If the assignee is a corporation, partnership, limited liability company or trust, the assignee shall have provided the General Partner with evidence satisfactory to counsel for the Partnership of the assignee’s authority to become a Limited Partner under the terms and provisions of this Agreement.

(v) The assignee shall have executed a power of attorney containing the terms and provisions set forth in Section 8.02 hereof.

(vi) The assignee shall have paid all legal fees and other expenses of the Partnership and the General Partner and filing and publication costs in connection with its substitution as a Limited Partner.

(vii) The assignee shall have obtained the prior written consent of the General Partner to its admission as a Substitute Limited Partner, which consent may be given or denied in the exercise of the General Partner's sole and absolute discretion.

(b) For the purpose of allocating Profits and Losses and distributing cash received by the Partnership, a Substitute Limited Partner shall be treated as having become, and appearing in the records of the Partnership as, a Partner upon the filing of the Certificate described in Section 9.03(a)(ii) hereof or, if no such filing is required, the later of the date specified in the transfer documents or the date on which the General Partner has received all necessary instruments of transfer and substitution.

(c) The General Partner and the Substitute Limited Partner shall cooperate with each other by preparing the documentation required by this Section 9.03 and making all official filings and publications. The Partnership shall take all such action as promptly as practicable after the satisfaction of the conditions in this Article IX to the admission of such Person as a Limited Partner of the Partnership.

**9.04 Rights of Assignees of Partnership Units.**

(a) Subject to the provisions of Section 9.01 and Section 9.02 hereof, except as required by operation of law, the Partnership shall not be obligated for any purposes whatsoever to recognize the assignment by any Limited Partner of its Partnership Units until the Partnership has received notice thereof.

(b) Any Person who is the assignee of all or any portion of a Limited Partner's Partnership Units, but does not become a Substitute Limited Partner and desires to make a further assignment of such Partnership Units, shall be subject to all the provisions of this Article IX to the same extent and in the same manner as any Limited Partner desiring to make an assignment of its Partnership Units.

**9.05 Effect of Bankruptcy, Death, Incompetence or Termination of a Limited Partner.** The occurrence of an Event of Bankruptcy as to a Limited Partner, the death of a Limited Partner or a final adjudication that a Limited Partner is incompetent (which term shall include, but not be limited to, insanity) shall not cause the termination or dissolution of the Partnership, and the business of the Partnership shall continue if an order for relief in a bankruptcy proceeding is entered against a Limited Partner, the trustee or receiver of his estate or, if such Limited Partner dies, such Limited Partner's executor, administrator or trustee, or, if such Limited Partner is finally adjudicated incompetent, such Limited Partner's committee, guardian or conservator, shall have the rights of such Limited Partner for the purpose of settling or managing such Limited Partner's estate property and such power as the bankrupt, deceased or incompetent Limited Partner possessed to assign all or any part of such Limited Partner's Partnership Units and to join with the assignee in satisfying conditions precedent to the admission of the assignee as a Substitute Limited Partner.



**9.06 Joint Ownership of Partnership Units.** A Partnership Unit may be acquired by two individuals as joint tenants with right of survivorship, provided that such individuals either are married or are related and share the same home as tenants in common. The written consent or vote of both owners of any such jointly held Partnership Unit shall be required to constitute the action of the owners of such Partnership Unit; provided, that the written consent of only one joint owner will be required if the Partnership has been provided with evidence satisfactory to the counsel for the Partnership that the actions of a single joint owner can bind both owners under the applicable laws of the state of residence of such joint owners. Upon the death of one owner of a Partnership Unit held in a joint tenancy with a right of survivorship, the Partnership Unit shall become owned solely by the survivor as a Limited Partner and not as an assignee. The Partnership need not recognize the death of one of the owners of a jointly-held Partnership Unit until it shall have received certificated notice of such death. Upon notice to the General Partner from either owner, the General Partner shall cause the Partnership Unit to be divided into two equal Partnership Units, which shall thereafter be owned separately by each of the former owners.

## ARTICLE X

### **BOOKS AND RECORDS; ACCOUNTING; TAX MATTERS**

**10.01 Books and Records.** At all times during the continuance of the Partnership, the General Partner shall keep or cause to be kept at the Partnership's specified office true and complete books of account in accordance with generally accepted accounting principles, including: (a) a current list of the full name and last known business address of each Partner, (b) a copy of the Certificate of Limited Partnership and all certificates of amendment thereto, (c) copies of the Partnership's federal, state and local income tax returns and reports, (d) copies of this Agreement and any financial statements of the Partnership for the three most recent years and (e) all documents and information required under the Act. Any Partner or its duly authorized representative, upon paying the costs of collection, duplication and mailing, shall be entitled to a copy of such records upon reasonable request.

#### **10.02 Custody of Partnership Funds; Bank Accounts.**

(a) All funds of the Partnership not otherwise invested shall be deposited in one or more accounts maintained in such banking or brokerage institutions as the General Partner shall determine, and withdrawals shall be made only on such signature or signatures as the General Partner may, from time to time, determine.

(b) All deposits and other funds not needed in the operation of the business of the Partnership may be invested by the General Partner. The funds of the Partnership shall not be commingled with the funds of any Person other than the General Partner, except for such commingling as may necessarily result from an investment in those investment companies permitted by this Section 10.02(b).

**10.03 Fiscal and Taxable Year.** The fiscal and taxable year of the Partnership shall be the calendar year unless otherwise required by the Code.

**10.04 Annual Tax Information and Report.** The General Partner shall use commercially reasonable efforts to furnish to each person who was a Limited Partner at any time during such year, within 75 days after the end of each fiscal year of the Partnership, the tax information necessary to file such Limited Partner's individual tax returns as shall be reasonably required by law.

**10.05 Tax Matters Partner; Tax Elections; Special Basis Adjustments.**

(a) The General Partner shall be the Tax Matters Partner of the Partnership. As Tax Matters Partner, the General Partner shall have the right and obligation to take all actions authorized and required, respectively, by the Code for the Tax Matters Partner. The General Partner shall have the right to retain professional assistance in respect of any audit of the Partnership by the Service and all out-of-pocket expenses and fees incurred by the General Partner on behalf of the Partnership as Tax Matters Partner shall constitute Partnership expenses. In the event the General Partner receives notice of a final Partnership adjustment under Section 6223(a)(2) of the Code, the General Partner shall either (i) file a court petition for judicial review of such final adjustment within the period provided under Section 6226(a) of the Code, a copy of which petition shall be mailed to all Limited Partners on the date such petition is filed, or (ii) mail a written notice to all Limited Partners, within such period, that describes the General Partner's reasons for determining not to file such a petition.

(b) All elections required or permitted to be made by the Partnership under the Code or any applicable state or local tax law shall be made by the General Partner in its sole and absolute discretion.

(c) In the event of a transfer of all or any part of the Partnership Interest of any Partner, the Partnership, at the option of the General Partner, may elect pursuant to Section 754 of the Code to adjust the basis of the Properties. Notwithstanding anything contained in Article V of this Agreement, any adjustments made pursuant to Section 754 shall affect only the successor in interest to the transferring Partner and in no event shall be taken into account in establishing, maintaining or computing Capital Accounts for the other Partners for any purpose under this Agreement. Each Partner will furnish the Partnership with all information necessary to give effect to such election.

(d) The Partners, intending to be legally bound, hereby authorize the Partnership to make an election (the "**Safe Harbor Election**") to have the "liquidation value" safe harbor provided in Proposed Treasury Regulation § 1.83-3(1) and the Proposed Revenue Procedure set forth in Internal Revenue Service Notice 2005-43, as such safe harbor may be modified when such proposed guidance is issued in final form or as amended by subsequently issued guidance (the "**Safe Harbor**"), apply to any interest in the Partnership transferred to a service provider while the Safe Harbor Election remains effective, to the extent such interest meets the Safe Harbor requirements (collectively, such interests are referred to as "**Safe Harbor Interests**"). The Tax Matters Partner is authorized and directed to execute and file the Safe Harbor Election on behalf of the Partnership and the Partners. The Partnership and the Partners (including any person to whom an interest in the Partnership is transferred in connection with the performance of services) hereby agree to comply

with all requirements of the Safe Harbor (including forfeiture allocations) with respect to all Safe Harbor Interests and to prepare and file all U.S. federal income tax returns reporting the tax consequences of the issuance and vesting of Safe Harbor Interests consistent with such final Safe Harbor guidance. The Partnership is also authorized to take such actions as are necessary to achieve, under the Safe Harbor, the effect that the election and compliance with all requirements of the Safe Harbor referred to above would be intended to achieve under Proposed Treasury Regulation § 1.83-3, including amending this Agreement. In the event the Safe Harbor Election is rendered moot or obsolete by future legislation that amends Section 83 of the Code, this Section 10.05(d) shall have no effect. The liquidation value of each LTIP Unit shall be zero upon grant as provided in Section 4.04(c)(i).

(e) Each Limited Partner shall be required to provide such information as reasonably requested by the Partnership in order to determine whether such Limited Partner (i) owns, directly or constructively (within the meaning of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code and Section 7704(d)(3) of the Code), 5% or more of the value of the Partnership or (ii) owns, directly or constructively (within the meaning of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code and Section 7704(d)(3) of the Code), 10% or more of (a) the stock, by voting power or value, of a tenant (other than a TRS) of the Partnership that is a corporation or (b) the assets or net profits of a tenant of the Partnership that is a noncorporate entity.

## ARTICLE XI

### AMENDMENT OF AGREEMENT; MERGER

#### **11.01 Amendment of Agreement.**

The General Partner's consent shall be required for any amendment to this Agreement. The General Partner, without the consent of the Limited Partners, may amend this Agreement in any respect; provided, that the following amendments shall require the consent of a Majority in Interest (other than the General Partner or any Subsidiary of the General Partner):

(a) any amendment affecting the operation of the Conversion Factor or the Redemption Right (except as otherwise provided herein) in a manner that adversely affects the Limited Partners in any material respect;

(b) any amendment that would adversely affect the rights of the Limited Partners to receive the distributions payable to them hereunder, other than with respect to the issuance of additional Partnership Units pursuant to Section 4.02 hereof;

(c) any amendment that would alter the Partnership's allocations of Profit and Loss to the Limited Partners, other than with respect to the issuance of additional Partnership Units pursuant to Section 4.02 hereof;

(d) any amendment that would impose on the Limited Partners any obligation to make additional Capital Contributions to the Partnership; or

(e) any amendment to this Article XI.

### **11.02 Merger of Partnership.**

The General Partner, without the consent of the Limited Partners, may (i) merge or consolidate the Partnership with or into any other domestic or foreign partnership, limited partnership, limited liability company or corporation or (ii) sell all or substantially all of the assets of the Partnership in a transaction pursuant to which the Limited Partners (other than the General Partner or any Subsidiary of the General Partner) receive the consideration set forth in Section 7.01(c)(ii) hereof or in a transaction that complies with Section 7.01(c)(iii) or Section 7.01(d) hereof and may amend this Agreement in connection with any such transaction consistent with the provisions of this Article XI; provided, that the consent of a Majority in Interest shall be required in the case of any other (a) merger or consolidation of the Partnership with or into any other domestic or foreign partnership, limited partnership, limited liability company or corporation or (b) sale of all or substantially all of the assets of the Partnership.

## **ARTICLE XII**

### **GENERAL PROVISIONS**

**12.01 Notices.** All communications required or permitted under this Agreement shall be in writing and shall be deemed to have been given when delivered personally, by email, by press release, by posting on the web site of the General Partner or upon deposit in the United States mail, registered, first-class postage prepaid return receipt requested, or via courier to the Partners at the addresses set forth in Exhibit A attached hereto, as it may be amended or restated from time to time; provided, that any Partner may specify a different address by notifying the General Partner in writing of such different address. Notices to the General Partner and the Partnership shall be delivered at or mailed to its principal office address set forth in Section 2.03 hereof. The General Partner and the Partnership may specify a different address by notifying the Limited Partners in writing of such different address.

**12.02 Survival of Rights.** Subject to the provisions hereof limiting Transfers, this Agreement shall be binding upon and inure to the benefit of the Partners and the Partnership and their permitted respective legal representatives, successors, transferees and assigns.

**12.03 Additional Documents.** Each Partner agrees to perform all further acts and execute, swear to, acknowledge and deliver all further documents that may be reasonable, necessary, appropriate or desirable to carry out the provisions of this Agreement or the Act.

**12.04 Severability.** If any provision of this Agreement shall be declared illegal, invalid or unenforceable in any jurisdiction, then such provision shall be deemed to be severable from this Agreement (to the extent permitted by law) and in any event such illegality, invalidity or unenforceability shall not affect the remainder hereof. To the extent permitted under applicable law, the severed provision shall be interpreted or modified so as to be enforceable to the maximum extent permitted by law.

**12.05 Entire Agreement.** This Agreement and exhibits attached hereto constitute the entire Agreement of the Partners and supersede all prior written agreements and prior and contemporaneous oral agreements, understandings and negotiations with respect to the subject matter hereof.

**12.06 Pronouns and Plurals.** When the context in which words are used in the Agreement indicates that such is the intent, words in the singular number shall include the plural and the masculine gender shall include the neuter or female gender as the context may require.

**12.07 Headings.** The Article headings or sections in this Agreement are for convenience only and shall not be used in construing the scope of this Agreement or any particular Article.

**12.08 Counterparts.** This Agreement may be executed by hand or by power of attorney in several counterparts, each of which shall be deemed to be an original copy and all of which together shall constitute one and the same instrument binding on all parties hereto, notwithstanding that all parties shall not have signed the same counterpart.

**12.09 Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, this Agreement of Limited Partnership has been executed as of the date first written above.

**GENERAL PARTNER:**

CHERRY HILL MORTGAGE INVESTMENT  
CORPORATION

By: /s/ Martine Levine  
Name: Martine Levine  
Title: Chief Financial Officer

**LIMITED PARTNER:**

CHERRY HILL MORTGAGE INVESTMENT  
CORPORATION

By: /s/ Martine Levine  
Name: Martine Levine  
Title: Chief Financial Officer

**EXHIBIT A**

(As of April 25, 2013)

<u>Partner</u>	<u>Cash Contribution</u>	<u>Agreed Value of Capital Contribution</u>	<u>Common Units</u>	<u>LTIP Units</u>	<u>Percentage Interest</u>
<b>General Partner:</b>					
Cherry Hill Mortgage Investment Corp. 907 Pleasant Valley Avenue, Suite 3, Mount Laurel, NJ 08054	\$ 1	—	1	—	0.1%
<b>Limited Partners:</b>					
Cherry Hill Mortgage Investment Corp. 907 Pleasant Valley Avenue, Suite 3, Mount Laurel, NJ 08054	\$ 100	—	100	—	99.9%
<b>TOTALS</b>	<u>\$ 101</u>	—	<u>101</u>		<u>100%</u>

Exhibit A-1

**EXHIBIT B**  
**NOTICE OF REDEMPTION**

In accordance with Section 8.04 of the Agreement of Limited Partnership, as amended (the "Agreement"), of Cherry Hill Operating Partnership, L.P., the undersigned hereby irrevocably (i) presents for redemption \_\_\_\_\_ Common Units in Cherry Hill Operating Partnership, L.P. in accordance with the terms of the Agreement and the Redemption Right referred to in Section 8.04 thereof, (ii) surrenders such Common Units and all right, title and interest therein and (iii) directs that the Cash Amount or REIT Shares Amount (as defined in the Agreement) as determined by the General Partner deliverable upon exercise of the Redemption Right be delivered to the address specified below, and if REIT Shares (as defined in the Agreement) are to be delivered, such REIT Shares be registered or placed in the name(s) and at the address(es) specified below. The undersigned hereby represents, warrants and certifies that the undersigned (a) has title to such Common Units, free and clear of the rights and interests of any person or entity other than the Partnership or the General Partner; (b) has the full right, power and authority to cause the redemption of the Common Units as provided herein; and (c) has obtained the approval of all persons or entities, if any, having the right to consent to or approve the Common Units for redemption.

Dated: \_\_\_\_\_, \_\_\_\_\_

Name of Limited Partner:

\_\_\_\_\_  
(Signature of Limited Partner or Authorized Representative)

\_\_\_\_\_  
(Mailing Address)

\_\_\_\_\_  
(City) (State) (Zip Code)

Signature Guaranteed by:  
\_\_\_\_\_

If REIT Shares are to be issued, issue to:

Please insert social security or identifying number:

Name:



**EXHIBIT C-1**

**CERTIFICATION OF NON-FOREIGN STATUS  
(FOR REDEEMING LIMITED PARTNERS THAT ARE ENTITIES)**

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), in the event of a disposition by a non-U.S. person of a partnership interest in a partnership in which (i) 50% or more of the value of the gross assets consists of United States real property interests ("USRPIs"), as defined in Section 897(c) of the Code, and (ii) 90% or more of the value of the gross assets consists of USRPIs, cash, and cash equivalents, the transferee will be required to withhold 10% of the amount realized by the non-U.S. person upon the disposition. To inform Cherry Hill Mortgage Investment Corporation (the "General Partner") and Cherry Hill Operating Partnership, L.P. (the "Partnership") that no withholding is required with respect to the redemption by \_\_\_\_\_ ("Partner") of its Common Units in the Partnership, the undersigned hereby certifies the following on behalf of Partner:

1. Partner is not a foreign corporation, foreign partnership, foreign trust, or foreign estate, as those terms are defined in the Code and the Treasury regulations thereunder.
2. Partner is not a disregarded entity as defined in Treasury Regulation Section 1.1445-2(b)(2)(iii).
3. The U.S. employer identification number of Partner is \_\_\_\_\_.
4. The principal business address of Partner is: \_\_\_\_\_, \_\_\_\_\_ and Partner's place of incorporation is \_\_\_\_\_.
5. Partner agrees to inform the General Partner if it becomes a foreign person at any time during the three-year period immediately following the date of this notice.
6. Partner understands that this certification may be disclosed to the Internal Revenue Service by the General Partner and that any false statement contained herein could be punished by fine, imprisonment, or both.

PARTNER:

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Under penalties of perjury, I declare that I have examined this certification and, to the best of my knowledge and belief, it is true, correct, and complete, and I further declare that I have authority to sign this document on behalf of Partner.

Date: \_\_\_\_\_

\_\_\_\_\_  
Name:  
Title:

Exhibit C-1-2

**EXHIBIT C-2**

**CERTIFICATION OF NON-FOREIGN STATUS  
(FOR REDEEMING LIMITED PARTNERS THAT ARE INDIVIDUALS)**

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), in the event of a disposition by a non-U.S. person of a partnership interest in a partnership in which (i) 50% or more of the value of the gross assets consists of United States real property interests ("USRPIs"), as defined in Section 897(c) of the Code, and (ii) 90% or more of the value of the gross assets consists of USRPIs, cash, and cash equivalents, the transferee will be required to withhold 10% of the amount realized by the non-U.S. person upon the disposition. To inform Cherry Hill Mortgage Investment Corporation (the "General Partner") and Cherry Hill Operating Partnership, L.P. (the "Partnership") that no withholding is required with respect to my redemption of my Common Units in the Partnership, I, \_\_\_\_\_, hereby certify the following:

1. I am not a nonresident alien for purposes of U.S. income taxation.
2. My U.S. taxpayer identification number (social security number) is \_\_\_\_\_.
3. My home address is: \_\_\_\_\_.
4. I agree to inform the General Partner promptly if I become a nonresident alien at any time during the three-year period immediately following the date of this notice.
5. I understand that this certification may be disclosed to the Internal Revenue Service by the General Partner and that any false statement contained herein could be punished by fine, imprisonment, or both.

\_\_\_\_\_  
Name:

Under penalties of perjury, I declare that I have examined this certification and, to the best of my knowledge and belief, it is true, correct, and complete.

Date: \_\_\_\_\_

\_\_\_\_\_  
Name:

Title:

Exhibit C-2-1

**EXHIBIT D**

**NOTICE OF ELECTION BY PARTNER TO CONVERT  
LTIP UNITS INTO COMMON UNITS**

The undersigned holder of LTIP Units hereby irrevocably: (i) elects to convert the number of LTIP Units in Cherry Hill Operating Partnership, L.P. (the "Partnership") set forth below into Common Units in accordance with the terms of the Agreement of Limited Partnership of the Partnership, as amended; and (ii) directs that any cash in lieu of Common Units that may be deliverable upon such conversion be delivered to the address specified below. The undersigned hereby represents, warrants and certifies that the undersigned: (a) has title to such LTIP Units, free and clear of the rights or interests of any other person or entity other than the Partnership or the General Partner; (b) has the full right, power, and authority to cause the conversion of such LTIP Units as provided herein; and (c) has obtained the consent to or approval of all persons or entities, if any, having the right to consent to or approve such conversion.

Name of Holder: \_\_\_\_\_

(Please Print: Exact Name as Registered with Partnership)

Number of LTIP Units to be Converted: \_\_\_\_\_

Date of this Notice: \_\_\_\_\_

\_\_\_\_\_  
(Signature of Holder: Sign Exact Name as Registered with Partnership)

\_\_\_\_\_  
(Street Address)

\_\_\_\_\_  
(City)

\_\_\_\_\_  
(State)

\_\_\_\_\_  
(Zip Code)

Signature Guaranteed by: \_\_\_\_\_

**EXHIBIT E**

**NOTICE OF ELECTION BY PARTNERSHIP TO FORCE CONVERSION  
OF LTIP UNITS INTO COMMON UNITS**

Cherry Hill Operating Partnership, L.P. (the "Partnership") hereby elects to cause the number of LTIP Units held by the holder of LTIP Units set forth below to be converted into Common Units in accordance with the terms of the Agreement of Limited Partnership of the Partnership, as amended, effective as of \_\_\_\_\_ (the "Conversion Date").

Name of Holder: \_\_\_\_\_  
(Please Print: Exact Name as Registered with Partnership)

Number of LTIP Units to be Converted: \_\_\_\_\_

Date of this Notice: \_\_\_\_\_

Exhibit E-1

**FORM OF  
STOCK PURCHASE AGREEMENT**

This STOCK PURCHASE AGREEMENT (this “*Agreement*”) is dated as of [                    ], 2013, by and among Cherry Hill Mortgage Investment Corporation, a Maryland corporation (the “*Issuer*”), and Stanley C. Middleman (the “*Purchaser*”).

WHEREAS, the Issuer is entering into an underwriting agreement on the date hereof (the “*Underwriting Agreement*”), a copy of which is attached hereto as Annex I, with the underwriters named therein (the “*Underwriters*”) pursuant to which the Issuer will, subject to the satisfaction of the terms and conditions set forth in the Underwriting Agreement, issue and sell to the Underwriters [                    ] shares (the “*IPO Shares*”) of common stock, par value \$0.01 per share, of the Issuer (the “*Common Stock*”) in connection with an offering to the public (the “*IPO*”) of the IPO Shares for \$[                    ] per share (the “*IPO Price*”); and

WHEREAS, subject to and concurrent with the consummation of the Issuer’s sale of the IPO Shares to the Underwriters upon the satisfaction of the terms and conditions set forth in the Underwriting Agreement, the Purchaser desires to purchase [                    ] shares of Common Stock at the IPO Price, and the Issuer desires to issue and sell such shares to the Purchaser.

NOW THEREFORE, in consideration of the premises and of the mutual agreements, covenants and provisions herein contained and for good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

PURCHASE AND SALE

1.1 Purchase and Sale of Subject Shares. Subject to (a) the terms and conditions set forth in this Agreement and (b) concurrent with the consummation of the Issuer’s agreement to issue and sell the IPO Shares to the Underwriters upon the satisfaction of the terms and conditions set forth in the Underwriting Agreement (the “*IPO Closing*”), the Issuer agrees to issue to the Purchaser [                    ] shares of Common Stock (the “*Subject Shares*”), and the Purchaser agrees to purchase the Subject Shares, for a price per share equal to the IPO Price, which in the aggregate equals \$[                    ] (the “*Subject Shares Purchase Price*”).

1.2 Closing. Subject to the terms and conditions of this Agreement and concurrent with the IPO Closing, the closing of the purchase and sale of the Subject Shares (the “*Closing*”) shall take place on the date of the IPO Closing at the offices of counsel to the Issuer, Hunton & Williams LLP, located at 200 Park Avenue, New York, New York 10166, or as such other place as the parties to such closing shall agree in writing.

1.3 Delivery at Closing. At the Closing, (a) the Purchaser shall deliver to the Issuer the Subject Shares Purchase Price by wire transfer of immediately available funds to an account designated by the Issuer in writing by 10:30 a.m., and (b) the Issuer shall deliver to the Purchaser either certificates representing the Subject Shares or evidence of the issuance of the Subject Shares in uncertificated form, in either case, registered in such denominations and in the name of the Purchaser or the Purchaser’s designees as previously specified by the Purchaser.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE ISSUER

The Issuer represents and warrants to the Purchaser as follows:

2.1 Formation and Good Standing. The Issuer is a corporation duly incorporated, validly existing and in good standing under the jurisdiction and laws of the State of Maryland.

2.2 Authorization and Validity of Agreements. The Issuer has all requisite power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement, the performance by the Issuer of its obligations hereunder and the consummation of the transactions contemplated hereby have been duly authorized by all requisite corporate action of the Issuer. This Agreement constitutes a legal, valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its respective terms.

2.3 Validity of Issuance of Subject Shares. The Subject Shares have been duly authorized and, when issued, delivered and paid for in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Subject Shares will not be subject to any preemptive or similar rights.

2.4 No Conflicts; Consents. The execution, delivery and performance of this Agreement by the Issuer and the consummation by the Issuer of the transactions contemplated hereby do not and will not conflict with, contravene, result in a violation or breach of or default under (with or without the giving of notice or the lapse of time, or both), permit any party to terminate, amend or accelerate the provisions of, or result in the imposition of any claim, lien, pledge, deed of trust, option, charge, security interest, hypothecation, encumbrance, right of first offer, voting trust, proxy, right of third parties or other restriction or limitation of any nature whatsoever (each, a "*Lien*"), or any obligation to create any Lien, upon any of the property or assets of the Issuer under (a) any contract, agreement, indenture, letter of credit, mortgage, security agreement, pledge agreement, deed of trust, bond, note, guarantee, surety obligation, warranty, license, franchise, permit, power of attorney, lease, instrument or other agreement (each, a "*Contract*") to which the Issuer is a party or by which any of its property or assets may be bound or (b) any provision of the organizational document of the Issuer.

2.5 Exemption from Registration; No Integration; No General Solicitation.

(a) Subject to the accuracy of the representations and warranties of the Purchaser in Article III hereof, it is not necessary in connection with the offer, sale and delivery of the Subject Shares to the Purchaser in the manner contemplated by this Agreement to register the Subject Shares under the Securities Act of 1933 (the "*Securities Act*").

(b) Neither the Issuer nor any affiliate (as defined in Rule 501 (b) of Regulation D under the Securities Act) of the Issuer has directly, or through any agent, (i) sold, offered for sale,

solicited offers to buy or otherwise negotiated in respect of, any security (as defined in the Securities Act) which is or will be integrated with the sale of the Subject Shares in a manner that would require the registration under the Securities Act of the Subject Shares or (ii) offered, solicited offers to buy or sold the Subject Shares by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser represents and warrants to the Issuer as follows:

3.1 Validity of Agreements. The Purchaser has all requisite capacity to purchase the Subject Shares, execute and deliver this Agreement and perform all of the Purchaser's obligations hereunder. This Agreement constitutes a legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its respective terms.

3.2 No Conflicts; Consents. The execution, delivery and performance of this Agreement by the Purchaser and the consummation by the Purchaser of the transactions contemplated hereby do not and will not conflict with, contravene, result in a violation or breach of or default under (with or without the giving of notice or the lapse of time, or both), permit any party to terminate, amend or accelerate the provisions of, or result in the imposition of any Lien (or any obligation to create any Lien) upon any of the property or assets of the Purchaser under any Contract to which the Purchaser is a party or by which any of the Purchaser's property or assets may be bound.

3.3 Investment Purpose; Accredited Purchaser; Access to Information.

(a) The Purchaser hereby acknowledges that the Subject Shares have not been registered under the Securities Act and may not be offered or sold except pursuant to registration or to an exemption from the registration requirements of the Securities Act and that the certificates, if any, evidencing the Subject Shares will bear a legend to that effect. The Subject Shares to be acquired by the Purchaser pursuant to this Agreement are being acquired for the Purchaser's own account and with no intention of distributing or reselling the Subject Shares or any part thereof in any transaction that would be in violation of the securities laws of the United States, any state of the United States or any foreign jurisdiction. The Purchaser further agrees that the Purchaser has not entered and prior to the Closing will not enter into any Contract with respect to the distribution, sale, transfer or delivery of the Subject Shares.

(b) The Purchaser is an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act, as presently in effect. The Purchaser acknowledges that neither the Company nor any other person offered to sell the Subject Shares to the Purchaser by means of any form of general solicitation or advertising, including but not limited to: (i) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio; or (ii) the Issuer's Registration Statement on Form S-11 (File No. 333-188214) filed by the Issuer in connection with the IPO. The Purchaser has a substantive, pre-existing relationship with the Issuer.



(c) The Purchaser is sufficiently experienced in financial and business matters to be capable of evaluating the merits and risks involved in purchasing the Subject Shares and to make an informed decision relating thereto. The Purchaser has been furnished with the materials relating to the business, operations, financial condition, assets, liabilities of the Issuer and other matters relevant to Purchaser's investment in the Subject Shares, which have been requested by the Purchaser. The Purchaser has had adequate opportunity to ask questions of, and receive answers from, the officers, employees, agents, accountants and representatives of the Issuer concerning the business, operations, financial condition, assets and liabilities of the Issuer and all other matters relevant to its investment in the Subject Shares.

#### ARTICLE IV

##### COVENANTS

4.1 Registration Rights. Subject to the occurrence of the IPO Closing and the Closing, each of the parties hereto covenants to enter into that certain Registration Rights Agreement, a copy of which is attached as Annex II hereto with respect to the Subject Shares.

4.2 Further Assurances. Each party hereto shall execute and deliver such instruments and take such other actions prior to or after the Closing as the other party may reasonably request in order to carry out the intent of this Agreement, including without limitation obtaining any required consents or approvals from third parties.

#### ARTICLE V

##### CONDITIONS PRECEDENT TO THE OBLIGATIONS

5.1 Mutual Conditions. The obligations of the Issuer and the Purchaser to consummate the purchase and sale of the Subject Shares contemplated hereby are subject to the following conditions: (a) the completion of all closing conditions to the IPO, (b) the absence of any order, decree, judgment or injunction of a court of competent jurisdiction or other governmental or regulatory authority precluding the consummation of the purchase and sale of the Subject Shares contemplated hereby, and (c) there shall not have been any action taken or any statute, rule or regulation enacted, promulgated or deemed applicable to, the purchase and sale of the Subject Shares contemplated hereby by any court, governmental agency or regulatory or administrative authority that makes consummation of such transactions illegal.

5.2 Conditions to the Obligations of the Issuer. The obligations of the Issuer under this Agreement to consummate the purchase and sale of the Subject Shares contemplated hereby are subject to the fulfillment (or waiver by the Issuer) of the conditions that (a) the representations and warranties of the Purchaser contained in or made pursuant to this Agreement shall be deemed to have been made again at and as of the Closing and shall then be true and accurate, and (b) the Purchaser shall have performed and complied in all material respects with all agreements required by this Agreement to be performed or complied with by it prior to or at the Closing.

5.3 Conditions to the Obligations of the Purchaser. The obligation of the Purchaser under this Agreement to consummate the purchase of the Subject Shares contemplated hereby is subject to the fulfillment (or waiver in writing by the Purchaser) of the condition that (a) all representations and warranties of the Issuer shall be deemed to have been made again at and as of the Closing and shall then be true and accurate, and (b) the Issuer shall have performed and complied in all material respects with all agreements required by this Agreement to be performed or complied with by it prior to or at the Closing.

## ARTICLE VI

### MISCELLANEOUS

6.1 Termination. This Agreement shall be terminated prior to the consummation of the transactions contemplated hereby if, prior to the consummation of the IPO Closing, the Underwriting Agreement is terminated pursuant to its terms. In the event of any termination of this Agreement, this Agreement shall become void and have no effect, without any liability to any person in respect hereof on the part of any party hereto, except for any liability resulting from such party's breach of this Agreement prior to such termination.

6.2 Survival. Each of the representations and warranties contained in this Agreement shall survive indefinitely. Each of the covenants contained in this Agreement shall survive the Closing until performed in accordance with its terms.

6.3 Amendments; Waivers. The provisions of this Agreement may not be amended or modified except by a writing signed by each of the parties. No waiver of any term or condition hereof or obligation hereunder shall be valid unless made in writing and signed by the party to which performance is due.

6.4 Severability of Provisions. Each provision of this Agreement shall be considered severable and if for any reason any provision or provisions herein are determined to be invalid, unenforceable or illegal under any existing or future law, such invalidity, unenforceability or illegality shall not impair the operation of or affect those portions of this Agreement which are valid, enforceable and legal.

6.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to any conflict of laws principles thereof (other than Section 5-1401 of the General Obligations Law) that would cause the application of the laws of another jurisdiction.

6.6 Waiver of Trial By Jury. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH PARTY HERETO IRREVOCABLY WAIVES ALL RIGHT OF TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ANY MATTER ARISING HEREUNDER.

6.7 Remedies and Waivers. No delay or omission on the part of any party to this Agreement in exercising any right, power or remedy provided by law or under this agreement shall (i) impair such right, power or remedy; or (ii) operate as a waiver thereof. The single or partial exercise of any right, power or remedy. The rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

6.8 Notices. All notices, requests, demands, waivers and other communications to be given by either party hereunder shall be in writing and shall be (i) mailed by first-class, registered or certified mail, postage prepaid, (ii) sent by hand delivery or reputable overnight delivery service or (iii) transmitted by fax (provided that a copy is also sent by reputable overnight delivery service) addressed to the Chief Financial Officer of the Issuer or to the Purchaser, as applicable, in each case at 301 Harper Drive, Suite 110, Moorestown, New Jersey 08057 (fax: (877) 239-2533), or such other address as may be specified in writing to the other party hereto. All such notices, requests, demands, waivers and other communications shall be deemed to have been given and received if by personal delivery or fax, on the day of such delivery, (i) if by first-class, registered or certified mail, on the fifth business day after the mailing thereof, or (ii) if by reputable overnight delivery service, on the day delivered.

6.9 Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts shall together constitute but one and the same instrument.

6.10 Headings. The Article and Section headings contained herein are for the convenience of the parties only and shall not affect the construction or interpretation of this Agreement.

6.11 Entire Agreements. This Agreement, including the Annexes hereto, contains the entire understanding of the parties with respect to the subject matter hereof, and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

ISSUER:

CHERRY HILL MORTGAGE INVESTMENT  
CORPORATION

By: \_\_\_\_\_

Name:

Title:

PURCHASER:

\_\_\_\_\_  
Stanley C. Middleman

**Subsidiaries of the Registrant**

<b><u>Subsidiary</u></b>	<b><u>Jurisdiction of Formation</u></b>
Cherry Hill Operating Partnership, LP	Delaware
Cherry Hill QRS I, LLC	Delaware
Cherry Hill QRS II, LLC	Delaware
Cherry Hill TRS, LLC	Delaware

**Consent of Independent Registered Public Accounting Firm**

We consent to the reference to our firm under the caption “Experts” and to the use of our report dated April 29, 2013, in the Registration Statement (Form S-11 No. 333-188214) and related Prospectus of Cherry Hill Mortgage Investment Corporation for the registration of shares of its Common Stock.

/s/ Ernst & Young LLP

New York, NY

May 28, 2013

**CONSENT OF DIRECTOR NOMINEE**

I hereby consent to being named in the Registration Statement on Form S-11 of Cherry Hill Mortgage Investment Corporation (the "Company"), and to serve as a director of the Company upon my appointment to the board of directors of the Company.

Dated: May 28, 2013

/s/ Joseph J. Murin  
Joseph J. Murin

**CONSENT OF DIRECTOR NOMINEE**

I hereby consent to being named in the Registration Statement on Form S-11 of Cherry Hill Mortgage Investment Corporation (the "Company"), and to serve as a director of the Company upon my appointment to the board of directors of the Company.

Dated: May 24, 2013

/s/ Jonathan Kislak  
\_\_\_\_\_  
Jonathan Kislak



**CONSENT OF DIRECTOR NOMINEE**

I hereby consent to being named in the Registration Statement on Form S-11 of Cherry Hill Mortgage Investment Corporation (the "Company"), and to serve as a director of the Company upon my appointment to the board of directors of the Company.

Dated: May 22, 2013

/s/ Robert Salcetti

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Robert Salcetti

May 28, 2013

**VIA EDGAR**

Mr. Duc Dang, Special Counsel  
United States Securities and Exchange Commission  
Division of Corporation Finance  
100 F Street, N.E.  
Washington, D.C. 20549

Re: Cherry Hill Mortgage Investment Corporation  
Registration Statement on Form S-11  
File No. 333-188214

Dear Mr. Dang:

As counsel to Cherry Hill Mortgage Investment Corporation, a Maryland corporation (the "Company"), we are transmitting for filing pursuant to the Securities Act of 1933, as amended (the "Securities Act"), Pre-Effective Amendment No. 1 ("Amendment No. 1") to the Company's Registration Statement on Form S-11 (File No. 333-188214) (the "Registration Statement") relating to the Company's proposed initial public offering, and the Company's responses to the comments of the Staff of the Division of Corporation Finance (the "Staff") of the Securities and Exchange Commission (the "Commission") contained in your letter dated May 17, 2013 relating to the Registration Statement.

For convenience of reference, each Staff comment contained in your May 17, 2013 comment letter is reprinted below in italics, numbered to correspond with the paragraph numbers assigned in your letter, and is followed by the corresponding response of the Company.

We have provided to you a courtesy copy of this letter and two courtesy copies of the Amendment No. 1 filed on the date hereof, one copy of which has been marked to reflect changes made to the Registration Statement file with the Commission on April 29, 2013. The changes reflected in the Amendment No. 1 have been made in response to the Staff's comments and for the purpose of updating and revising certain information in the Registration Statement. All page references in responses are to pages of the marked version of the Amendment No. 1. Capitalized terms used and not otherwise defined in this response letter that are defined in the Registration Statement shall have the meanings set forth in the Registration Statement.

General

1. *We note your response to comment 1 of our letter dated April 10, 2013. We have forwarded your response to the Division of Investment Management for review. Please contact the Division of Investment Management directly and be advised that, with respect to issues relating to the Investment Company Act of 1940, you are responsible for clearing the filing with the Division of Investment Management.*

**RESPONSE:**

The Company acknowledges the Staff's comment. Prior to requesting acceleration of the effective date of the Registration Statement, the Company will contact the Division of Investment Management directly to clear the filing.

2. *Please tell us if there is any arranged benefit due to the manager for its agreement to pay the entire underwriting discount and structuring fee.*

**RESPONSE:**

The Company advises the Staff there is no arranged benefit due to Cherry Hill Mortgage Management, LLC (the "Manager") or any of its affiliates for the Manager's agreement to pay the entire underwriting discount and structuring fee.

Our Initial Portfolio, page 88

3. *We note your response to comment 8 and the disclosure of the participation interest percentages. Please revise to clarify, if true, that you are entitled to only 17 basis points of the excess MSRs from the initial pool. Also, please revise to clarify if the split between basic and excess servicing fees on future pools will be consistent with the split of the initial pool. If not, please discuss how the split is determined and whether it is governed by your strategic alliance agreements.*

**RESPONSE:**

In response to the Staff's comment, the Company has revised the disclosure on page 2, on page 11, on page 83, and on page 97 of the Registration Statement to clarify that the Company is entitled to only 17 basis points of the excess servicing fee for the initial pool. With respect to the split between the basic servicing fee and the excess servicing fee for future pools, the Company has revised the disclosure on page 99 and on page 100 of the Registration Statement to:

- clarify that the split for future pools could differ from the split for the Initial Pool, the split for future pools will be agreed upon by the Company and Freedom Mortgage Corporation ("Freedom Mortgage") prior to entering into future Excess

MSR transactions and the split, along with all other pricing parameters, will be approved by the Company's independent directors; and

- clarify that the basic servicing fee to which Freedom Mortgage will be entitled for future pools will represent Freedom Mortgage's anticipated direct costs of servicing the mortgage loans in the pool, Freedom Mortgage's sub-servicer oversight costs, if any, and reasonable compensation to be paid to Freedom Mortgage for servicing the mortgage loans in the pool.

4. *Please tell us if the any of the loans in the initial pool are subject to foreclosure.*

**RESPONSE:**

The Company informs the Staff that at March 31, 2013, approximately \$23.4 million, or approximately 0.3% of the aggregate UPB, of the loans set aside for the formation of the Initial Pool were in foreclosure. The Company does not anticipate the dollar amount or the percentage of the aggregate UPB of the loans set aside for the formation of the Initial Pool to change materially when the Initial Pool is determined. The Company has revised the disclosure on page 12 and page 98 in response to the Staff's comment.

5. *We note the revised disclosure of the impact of prepayments on the initial pool since January 31, 2013. Please tell us if you are able to provide the constant prepayment rate for the initial pool. Also, please tell us if the composition of the initial pool's interest rate terms (e.g., fixed rate, floating rate, and interest only) is relevant to an understanding of the excess MSRs for the initial pool.*

**RESPONSE:**

In response to the Staff's comment, the Company has revised the disclosure on page 12 and on page 98 of the Registration Statement to disclose the constant prepayment rate for the mortgage loans set aside for the formation of the Initial Pool for the period from January 31, 2013 through March 31, 2013. In addition, the Company has revised the disclosure on pages 11,12, 97 and 98 of the Registration Statement to clarify that substantially all of the mortgage loans set aside for the formation of the Initial Pool are fully amortizing, fixed rate mortgage loans (approximately 98.8% and 1.2% of the aggregate UPB of the mortgage loans set aside for the formation of the Initial Pool at March 31, 2013 are fully amortizing FRMs and ARMs, respectively). None of the mortgage loans set aside for the formation of the Initial Pool are interest-only loans.

6. *Please tell us if you would be able to determine the yield for your investment in the initial excess MSR based on your purchase price and your participation interest. If so, clarify if such yield is adjusted for assumptions of prepayments and delinquencies.*

**RESPONSE:**

The Company informs the Staff that the purchase price being paid for the Initial Excess MSR takes into account the Company's target yield for its investment in the Initial Excess MSR, which has been risk adjusted for prepayment, recapture and delinquency assumptions with respect to the underlying mortgage loans expected to be in the Initial Pool. The Company notes for the Staff that it intends to disclose actual prepayment, recapture and delinquency rates, on a post-acquisition basis for each pool, in its periodic reports filed with the Commission under the Securities Exchange Act of 1934, as amended. In addition, the Company has revised the disclosure on page 11, on page 30, on page 78, on page 83, and on page 127 of the Registration Statement to summarize the impact if its assumptions are different than expected.

7. *We note the revised disclosure on page 89. Please clarify how, if at all, a mortgage pool's weighted average interest rate, credit quality, and average principle balance impacts the total MSRs charged to a pool.*

**RESPONSE:**

The Company advises the Staff that a pool's weighted average interest rate, credit quality and average principal balance does not impact the servicing fees charged to a particular pool. Mortgage servicing spreads are a function of how the underlying mortgage loans have been pooled and sold. For example, servicing fees for mortgage loans that have been pooled and sold into a GSE-guaranteed Agency RMBS are set at 25 basis points. Servicing fees for mortgage loans that have been pooled and sold into a Ginnie Mae-guaranteed Agency RMBS range from 19 basis points to 44 basis points depending on the note rate of the underlying loan and the Agency residential mortgage pass-through certificate for the securitization in which the loan has been pooled and sold.

Management, page 97

8. *We note you identify Jay Lown as your President and Chief Investment Officer in this section. We further note that on page II-4, Signatures, you identify Jeffrey B. Lown II as your President and Chief Investment Officer. Please revise for clarity and consistency.*

**RESPONSE:**

In response to the Staff's comment, the Company has revised the disclosure throughout the Registration Statement for clarity and consistency.

9. *We note your disclosure that your Chief Financial Officer, Martin Levine, served on the board of managers of SouthStar Funding LLC when that company filed a voluntary petition for bankruptcy protection. Please revise your disclosure to provide the date upon which the petition became final.*

**RESPONSE:**

In response to the Staff's comment, the Company has revised the disclosure on page 110 of the Registration Statement to provide the date upon which the petition became final.

10. *Please revise Mr. Levine's biographical information to provide the dates of his employment with First Town Mortgage, Kaplan Companies, Pan American Properties and Kenneth Leventhal & Company, Coopers and Lybrand and Touche, Ross and Company.*

**RESPONSE:**

In response to the Staff's comment, the Company has revised the disclosure on page 110 and page 111 of the Registration Statement to provide the dates of Mr. Levine's employment with the companies noted above.

**Underwriting, page 162**

11. *We note you indicate on page 163 that you are party to master repurchase agreements with certain underwriters or their affiliates, that certain of the underwriters and their affiliates also maintain warehouse facilities with Freedom Mortgage and its affiliates, and that certain of the underwriters or their affiliates currently engage in trading activities with Freedom Mortgage. Please revise to identify the underwriters to which you are referring.*

**RESPONSE:**

In response to the Staff's comment, the Company has revised the disclosure on page 181 of the Registration Statement to identify the underwriters with certain relationships with the Company and Freedom Mortgage.

**Financial Statements**

12. *We note your response to our prior comment 22. We will continue to monitor your future amendments for compliance with our comment.*

**RESPONSE:**

The Company has included its audited financial statements in the filing.

Exhibit Index

13. *We note you indicate that all of your exhibits are to be filed by amendment. Please file all required exhibits as promptly as possible. If you are not in a position to file your legal and tax opinions with the next amendment, please file a draft copy on EDGAR as correspondence.*

**RESPONSE:**

The Company acknowledges the Staff's comment and is filing or will file all required exhibits to the Registration Statement as promptly as possible. In response to the Staff's comment, the Company advises the Staff that it is providing drafts of the legal and tax opinions as Exhibit A and Exhibit B to this letter.

If you have any questions or comments regarding the foregoing, or have additional questions or comments, please contact the undersigned at 804-788-7366 or David Freed at 212-309-1220.

Very truly yours,

/s/ Daniel M. LeBey  
Daniel M. LeBey

cc: Mr. Martin Levine  
David S. Freed, Esq.  
Paul D. Tropp, Esq.

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**Exhibit A**

**Draft Legality Opinion of Venable LLP**



DRAFT

\_\_\_\_\_, 2013

Cherry Hill Mortgage Investment Corporation  
301 Harper Drive, Suite 110  
Moorestown, NJ 08057

Re: Registration Statement on Form S-11 (File No. 333-188214)

Ladies and Gentlemen:

We have served as Maryland counsel to Cherry Hill Mortgage Investment Corporation, a Maryland corporation (the "Company"), in connection with certain matters of Maryland law relating to the registration by the Company of shares (the "Shares") of common stock, \$0.01 par value per share, of the Company having an aggregate gross public offering price of up to \$[\_\_\_\_\_]. The Shares are covered by the above-referenced Registration Statement, and all amendments thereto (the "Registration Statement"), filed by the Company with the United States Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "1933 Act").

In connection with our representation of the Company, and as a basis for the opinion hereinafter set forth, we have examined originals, or copies certified or otherwise identified to our satisfaction, of the following documents (hereinafter collectively referred to as the "Documents"):

1. The Registration Statement and the related form of prospectus included therein in the form in which it was transmitted to the Commission under the 1933 Act;
2. The charter of the Company, certified by the State Department of Assessments and Taxation of Maryland (the "SDAT");
3. The form of Articles of Amendment and Restatement of the Company to be filed prior to the issuance of the Shares (the "Charter"), certified as of the date hereof by an officer of the Company;
4. The Bylaws of the Company, certified as of the date hereof by an officer of the Company;
5. A certificate of the SDAT as to the good standing of the Company, dated as of a recent date;
6. Resolutions adopted by the Board of Directors of the Company relating to, among other matters, the Charter and the authorization of the sale, issuance and registration of the Shares (the "Board Resolutions"), certified as of the date hereof by an officer of the Company;
7. Resolutions adopted by the sole stockholder of the Company relating to, among other matters, the Charter, certified as of the date hereof by an officer of the Company
8. A certificate executed by an officer of the Company, dated as of the date hereof; and
9. Such other documents and matters as we have deemed necessary or appropriate to express the opinion set forth below, subject to the assumptions, limitations and qualifications stated herein.

In expressing the opinion set forth below, we have assumed the following:

1. Each individual executing any of the Documents, whether on behalf of such individual or another person, is legally competent to do so.
2. Each individual executing any of the Documents on behalf of a party (other than the Company) is duly authorized to do so.

3. Each of the parties (other than the Company) executing any of the Documents has duly and validly executed and delivered each of the Documents to which such party is a signatory, and such party's obligations set forth therein are legal, valid and binding and are enforceable in accordance with all stated terms.

4. All Documents submitted to us as originals are authentic. The form and content of all Documents submitted to us as unexecuted drafts do not differ in any respect relevant to this opinion from the form and content of such Documents as executed and delivered. All Documents submitted to us as certified or photostatic copies conform to the original documents. All signatures on all Documents are genuine. All public records reviewed or relied upon by us or on our behalf are true and complete. All representations, warranties, statements and information contained in the Documents are true and complete. There has been no oral or written modification of or amendment to any of the Documents, and there has been no waiver of any provision of any of the Documents, by action or omission of the parties or otherwise.

5. Prior to the issuance of the Shares, the Charter will be filed with, and accepted for record by, the SDAT.

6. The Shares will not be issued or transferred in violation of the restrictions on transfer and ownership contained in Article VII of the Charter.

Based upon the foregoing, and subject to the assumptions, limitations and qualifications stated herein, it is our opinion that:

1. The Company is a corporation duly incorporated and existing under and by virtue of the laws of the State of Maryland and is in good standing with the SDAT.
2. The issuance of the Shares has been duly authorized and, when issued and delivered by the Company in accordance with the Board Resolutions, the Charter and the Registration Statement against payment of the consideration set forth therein, the Shares will be validly issued, fully paid and nonassessable.

The foregoing opinion is limited to the laws of the State of Maryland and we do not express any opinion herein concerning any other law. We express no opinion as to the applicability or effect of federal or state securities laws, including the securities laws of the State of Maryland, or as to federal or state laws regarding fraudulent transfers. To the extent that any matter as to which our opinion is expressed herein would be governed by the laws of any jurisdiction other than the State of Maryland, we do not express any opinion on such matter. The opinion expressed herein is subject to the effect of any judicial decision which may permit the introduction of parol evidence to modify the terms or the interpretation of agreements.

The opinion expressed herein is limited to the matters specifically set forth herein and no other opinion shall be inferred beyond the matters expressly stated. We assume no obligation to supplement this opinion if any applicable law changes after the date hereof or if we become aware of any fact that might change the opinion expressed herein after the date hereof.

This opinion is being furnished to you for submission to the Commission as an exhibit to the Registration Statement. We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the use of the name of our firm therein. In giving this consent, we do not admit that we are within the category of persons whose consent is required by Section 7 of the 1933 Act.

Very truly yours,

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**Exhibit B**

**Draft Tax Opinion of Hunton & Williams LLP**

[ ], 2013

Cherry Hill Mortgage Investment Corporation  
301 Harper Drive, Suite 110  
Moorestown, NJ 08057

Cherry Hill Mortgage Investment Corporation  
Qualification as  
Real Estate Investment Trust

Ladies and Gentlemen:

We have acted as tax counsel to Cherry Hill Mortgage Investment Corporation, a Maryland corporation (the "Company"), in connection with the preparation of a registration statement on Form S-11 (the "Registration Statement"), as filed with the Securities and Exchange Commission on March 13, 2013, as amended through the date hereof, with respect to the offer and sale of up to [ ] shares of common stock, par value \$0.01 per share, of the Company (the "Common Stock"). You have requested our opinion regarding certain U.S. federal income tax matters.

In giving this opinion letter, we have examined the following:

1. the Registration Statement and the Prospectus filed as part of the Registration Statement;
2. the Company's Charter;
3. the Amended and Restated Agreement of Limited Partnership of Cherry Hill Operating Partnership, LP (the "Operating Partnership"); and
4. such other documents as we have deemed necessary or appropriate for purposes of this opinion.

In connection with the opinions rendered below, we have assumed, with your consent, that:

1. each of the documents referred to above has been duly authorized, executed, and delivered; is authentic, if an original, or is accurate, if a copy; and has not been amended;
2. during its short taxable year ending December 31, 2013 and future taxable years, the Company will operate in a manner that will make the factual representations contained in a certificate, dated the date hereof and executed by a duly appointed officer of the Company (the "Officer's Certificate"), true for such years;
3. the Company will not make any amendments to its organizational documents after the date of this opinion that would affect the Company's qualification as a real estate investment trust (a "REIT") for any taxable year; and
4. no action will be taken by the Company after the date hereof that would have the effect of altering the facts upon which the opinions set forth below are based.

In connection with the opinions rendered below, we also have relied upon the correctness of the factual representations contained in the Officer's Certificate and the factual matters discussed in the Prospectus that relate to the Company's status as a REIT. We are not aware of any facts that are inconsistent with the representations contained in the Officer's Certificate. Where the factual representations in the Officer's Certificate involve terms defined in the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury regulations thereunder (the "Regulations"), published rulings of the Internal Revenue Service (the "Service"), or other relevant authority, we have reviewed with the individual making such representations the relevant provisions of the Code, the applicable Regulations, the published rulings of the Service, and other relevant authority.

Based solely on the documents and assumptions set forth above, the representations set forth in the Officer's Certificate, and the factual matters discussed in the Prospectus under the caption "Material U.S. Federal Income Tax Considerations" (which is incorporated herein by reference), we are of the opinion that:

(a) commencing with its short taxable year ending on December 31, 2013, the Company will be organized in conformity with the requirements for qualification and taxation as a REIT pursuant to sections 856 through 860 of the Code, and the Company's organization and proposed method of operation will enable it to qualify as a REIT under the Code for its short taxable year ending December 31, 2013 and thereafter; and

ATLANTA AUSTIN BANGKOK BEIJING BRUSSELS CHARLOTTE DALLAS HOUSTON LONDON LOS ANGELES  
McLEAN MIAMI NEW YORK NORFOLK RALEIGH RICHMOND SAN FRANCISCO TOKYO WASHINGTON  
[www.hunton.com](http://www.hunton.com)

(b) the descriptions of the law and the legal conclusions contained in the Prospectus under the caption "Material U.S. Federal Income Tax Considerations" are correct in all material respects.

We will not review on a continuing basis the Company's compliance with the documents or assumptions set forth above, or the representations set forth in the Officer's Certificate. Accordingly, no assurance can be given that the actual results of the Company's operations for any given taxable year will satisfy the requirements for qualification and taxation as a REIT. Although we have made such inquiries and performed such investigations as we have deemed necessary to fulfill our professional responsibilities as counsel, we have not undertaken an independent investigation of all the facts referred to in this opinion letter or the Officer's Certificate.

The foregoing opinions are based on current provisions of the Code and the Regulations, published administrative interpretations thereof, and published court decisions. The Service has not issued Regulations or administrative interpretations with respect to various provisions of the Code relating to REIT qualification. No assurance can be given that the law will not change in a way that will prevent the Company from qualifying as a REIT.

The foregoing opinions are limited to the U.S. federal income tax matters addressed herein, and no other opinions are rendered with respect to other U.S. federal tax matters or to any issues arising under the tax laws of any other country, or any state or locality. We undertake no obligation to update the opinions expressed herein after the date of this letter. This opinion letter speaks only as of the date hereof. Except as provided in the next paragraph, this opinion letter may not be distributed, quoted in whole or in part or otherwise reproduced in any document, or filed with any governmental agency without our express written consent.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement. We also consent to the references to Hunton & Williams LLP under the captions “Material U.S. Federal Income Tax Considerations” and “Legal Matters” in the Prospectus. In giving this consent, we do not admit that we are in the category of persons whose consent is required by Section 7 of the Securities Act of 1933, as amended, or the rules and regulations promulgated thereunder by the Securities and Exchange Commission.

Very truly yours,