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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2023
Commission File Number: 001-35808

READY CAPITAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Maryland	**90-0729143**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

1251 Avenue of the Americas, 50th Floor, New York, NY 10020
(Address of Principal Executive Offices, Including Zip Code)

(212) 257-4600
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 par value per share	RC	New York Stock Exchange
Preferred Stock, 6.25% Series C Cumulative Convertible, par value $0.0001 per share	RC PRC	New York Stock Exchange
	RC PRE	New York Stock Exchange
Preferred Stock, 6.50% Series E Cumulative Redeemable, par value $0.0001 per share	RCA	New York Stock Exchange
7.00% Convertible Senior Notes due 2023		
6.20% Senior Notes due 2026	RCB	New York Stock Exchange
5.75% Senior Notes due 2026	RCC	New York Stock Exchange

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

The Company has 171,971,814 shares of common stock, par value $0.0001 per share, outstanding as of August 7, 2023.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

READY CAPITAL CORPORATION
UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents	$ 227,504	$ 163,041
Restricted cash	34,534	55,927
Loans, net (including $9,773 and $9,786 held at fair value)	3,571,520	3,576,310
Loans, held for sale, at fair value	238,664	258,377
Paycheck Protection Program loans (including $172 and $576 held at fair value)	94,611	186,985
Mortgage-backed securities, at fair value	33,770	32,041
Loans eligible for repurchase from Ginnie Mae	59,015	66,193
Investment in unconsolidated joint ventures (including $7,731 and $8,094 held at fair value)	122,504	118,641
Investments held to maturity	3,446	3,306
Purchased future receivables, net	12,917	8,246
Derivative instruments	8,755	12,963
Servicing rights (including $201,471 and $192,203 held at fair value)	296,364	279,320
Real estate owned, held for sale	251,325	117,098
Other assets	220,691	189,769
Assets of consolidated VIEs	7,207,426	6,552,760
Total Assets	**$ 12,383,046**	**$ 11,620,977**
Liabilities		
Secured borrowings	2,395,687	2,846,293
Paycheck Protection Program Liquidity Facility (PPPLF) borrowings	110,838	201,011
Securitized debt obligations of consolidated VIEs, net	5,395,361	4,903,350
Convertible notes, net	114,942	114,397
Senior secured notes, net	344,241	343,355
Corporate debt, net	762,668	662,665
Guaranteed loan financing	226,084	264,889
Contingent consideration	15,566	28,500
Liabilities for loans eligible for repurchase from Ginnie Mae	59,015	66,193
Derivative instruments	2,261	1,586
Dividends payable	26,381	47,177
Loan participations sold	54,461	54,641
Due to third parties	4,467	11,805
Accounts payable and other accrued liabilities	159,651	176,520
Total Liabilities	**$ 9,671,623**	**$ 9,722,382**
Preferred stock Series C, liquidation preference $25.00 per share (refer to Note 21)	8,361	8,361
Commitments & contingencies (refer to Note 25)		
Stockholders' Equity		
Preferred stock Series E, liquidation preference $25.00 per share (refer to Note 21)	111,378	111,378
Common stock, $0.0001 par value, 500,000,000 shares authorized, 171,651,924 and 110,523,641 shares issued and outstanding, respectively	17	11
Additional paid-in capital	2,313,849	1,684,074
Retained earnings	187,139	4,994
Accumulated other comprehensive loss	(9,281)	(9,369)
Total Ready Capital Corporation equity	2,603,102	1,791,088
Non-controlling interests	99,960	99,146
Total Stockholders' Equity	**$ 2,703,062**	**$ 1,890,234**
Total Liabilities, Redeemable Preferred Stock, and Stockholders' Equity	**$ 12,383,046**	**$ 11,620,977**

See Notes To Unaudited Consolidated Financial Statements

READY CAPITAL CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Interest income	$ 232,884	$ 153,671	$ 450,457	$ 278,076
Interest expense	(172,534)	(80,827)	(332,928)	(141,844)
Net interest income before recovery of (provision for) loan losses	**$ 60,350**	**$ 72,844**	**$ 117,529**	**$ 136,232**
Recovery of (provision for) loan losses	(19,427)	4,390	(12,693)	2,848
Net interest income after recovery of (provision for) loan losses	**$ 40,923**	**$ 77,234**	**$ 104,836**	**$ 139,080**
Non-interest income				
Residential mortgage banking activities	9,884	2,947	19,053	11,371
Net realized gain (loss) on financial instruments and real estate owned	23,878	21,114	35,453	29,121
Net unrealized gain (loss) on financial instruments	7,407	(3,253)	(4,321)	42,062
Servicing income, net of amortization and impairment of $2,412 and $4,171 for the three and six months ended June 30, 2023, and $5,660 and $9,005 for the three and six months ended June 30, 2022, respectively	14,432	14,565	28,435	25,093
Income on purchased future receivables, net of allowance for (recovery of) doubtful accounts of $2,638 and $4,232 for the three and six months ended June 30, 2023, and $(565) and $(440) for the three and six months ended June 30, 2022, respectively	86	1,859	626	4,328
Gain on bargain purchase	229,894	—	229,894	—
Income on unconsolidated joint ventures	33	5,200	689	11,763
Other income	18,569	8,334	38,452	14,835
Total non-interest income	**$ 304,183**	**$ 50,766**	**$ 348,281**	**$ 138,573**
Non-interest expense				
Employee compensation and benefits	(27,709)	(26,089)	(52,848)	(54,057)
Allocated employee compensation and benefits from related party	(2,500)	(1,804)	(4,826)	(4,804)
Variable income (expenses) on residential mortgage banking activities	(6,574)	4,532	(12,059)	3,553
Professional fees	(5,656)	(3,851)	(11,373)	(8,977)
Management fees – related party	(5,760)	(5,465)	(10,841)	(8,661)
Incentive fees – related party	(71)	—	(1,791)	—
Loan servicing expense	(13,115)	(10,296)	(23,078)	(19,216)
Transaction related expenses	(13,966)	(1,372)	(14,859)	(7,071)
Other operating expenses	(11,241)	(14,372)	(25,559)	(27,025)
Total non-interest expense	**$ (86,592)**	**$ (58,717)**	**$ (157,234)**	**$ (126,258)**
Income before provision for income taxes	258,514	69,283	295,883	151,395
Income tax provision	(5,141)	(10,318)	(5,532)	(28,167)
Net income	**$ 253,373**	**$ 58,965**	**$ 290,351**	**$ 123,228**
Less: Dividends on preferred stock	2,000	1,999	3,999	3,998
Less: Net income attributable to non-controlling interest	4,490	2,874	6,325	3,649
Net income attributable to Ready Capital Corporation	**$ 246,883**	**$ 54,092**	**$ 280,027**	**$ 115,581**
Earnings per common share - basic	**$ 1.87**	**$ 0.47**	**$ 2.30**	**$ 1.13**
Earnings per common share - diluted	**$ 1.76**	**$ 0.45**	**$ 2.17**	**$ 1.07**
Weighted-average shares outstanding				
Basic	131,651,125	114,359,026	121,219,982	101,106,777
Diluted	141,583,837	125,065,492	131,096,368	111,803,431
Dividends declared per share of common stock	**$ 0.40**	**$ 0.42**	**$ 0.80**	**$ 0.84**

See Notes To Unaudited Consolidated Financial Statements

READY CAPITAL CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2023	2022	2023	2022
Net income	$ 253,373	$ 58,965	$ 290,351	$ 123,228
Other comprehensive income - net change by component				
Net change in hedging derivatives (cash flow hedges)	2,493	351	(1,312)	564
Foreign currency translation adjustment	674	1,567	1,452	2,333
Other comprehensive income	**$ 3,167**	**$ 1,918**	**$ 140**	**$ 2,897**
Comprehensive income	**$ 256,540**	**$ 60,883**	**$ 290,491**	**$ 126,125**
Less: Comprehensive income attributable to non-controlling interests	4,528	2,902	6,322	3,682
Comprehensive income attributable to Ready Capital Corporation	**$ 252,012**	**$ 57,981**	**$ 284,169**	**$ 122,443**

See Notes To Unaudited Consolidated Financial Statements

READY CAPITAL CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands, except share data)	Three Months Ended June 30, 2023									
	Preferred Series E Shares Outstanding	**Common Stock Shares Outstanding**	**Preferred Stock Series E**	**Common Stock Par Value**	**Additional Paid-In Capital**	**Retained Earnings (Deficit)**	**Accumulated Other Comprehensive Loss**	**Total Ready Capital Corporation Equity**	**Non-controlling Interests**	**Total Stockholders' Equity**
Balance at April 1, 2023	**4,600,000**	**110,745,658**	**$ 111,378**	**$ 11**	**$ 1,687,631**	**$ (6,532)**	**$ (12,353)**	**$ 1,780,135**	**$ 100,197**	**$ 1,880,332**
Dividend declared:										
Common stock ($0.40 per share)	—	—	—	—	—	(53,212)	—	(53,212)	—	(53,212)
OP units	—	—	—	—	—	—	—	—	(617)	(617)
$0.390625 per Series C preferred share	—	—	—	—	—	(131)	—	(131)	—	(131)
$0.406250 per Series E preferred share	—	—	—	—	—	(1,869)	—	(1,869)	—	(1,869)
Shares issued pursuant to merger transaction	—	62,229,429	—	6	637,223	—	—	637,229	—	637,229
Offering costs	—	—	—	—	(108)	—	—	(108)	(2)	(110)
Equity component of 2017 convertible note issuance	—	—	—	—	(76)	—	—	(76)	(1)	(77)
Stock-based compensation	—	356,317	—	—	3,689	—	—	3,689	—	3,689
Conversion of OP units into common stock	—	52,742	—	—	567	—	—	567	(567)	—
Share repurchases	—	(1,732,222)	—	—	(18,712)	—	—	(18,712)	—	(18,712)
Reallocation of non-controlling interest	—	—	—	—	3,635	—	(57)	3,578	(3,578)	—
Net income	—	—	—	—	—	248,883	—	248,883	4,490	253,373
Other comprehensive income	—	—	—	—	—	—	3,129	3,129	38	3,167
Balance at June 30, 2023	**4,600,000**	**171,651,924**	**$ 111,378**	**$ 17**	**$ 2,313,849**	**$ 187,139**	**$ (9,281)**	**$ 2,603,102**	**$ 99,960**	**$ 2,703,062**

(in thousands, except share data)	Three Months Ended June 30, 2022									
	Preferred Series E Shares Outstanding	**Common Stock Shares Outstanding**	**Preferred Stock Series E**	**Common Stock Par Value**	**Additional Paid-In Capital**	**Retained Earnings (Deficit)**	**Accumulated Other Comprehensive Loss**	**Total Ready Capital Corporation Equity**	**Non-controlling Interests**	**Total Stockholders' Equity**
Balance at April 1, 2022	**4,600,000**	**114,335,948**	**$ 111,378**	**$ 11**	**$ 1,723,099**	**$ 21,661**	**$ (4,704)**	**$ 1,851,445**	**$ 107,290**	**$ 1,958,735**
Dividend declared:										
Common stock ($0.42 per share)	—	—	—	—	—	(48,455)	—	(48,455)	—	(48,455)
OP units	—	—	—	—	—	—	—	—	(735)	(735)
$0.390625 per Series C preferred share	—	—	—	—	—	(131)	—	(131)	—	(131)
$0.406250 per Series E preferred share	—	—	—	—	—	(1,868)	—	(1,868)	—	(1,868)
Equity issuances	—	23,825	—	—	366	—	—	366	—	366
Offering costs	—	—	—	—	(3)	—	—	(3)	(2)	(5)
Distributions, net	—	—	—	—	—	—	—	—	(6,837)	(6,837)
Equity component of 2017 convertible note issuance	—	—	—	—	(111)	—	—	(111)	(1)	(112)
Stock-based compensation	—	17,516	—	—	257	—	—	257	—	257
Share repurchases	—	(2,219)	—	—	(33)	—	—	(33)	—	(33)
Reallocation of non-controlling interest	—	—	—	—	5	—	(1)	4	(4)	—
Net income	—	—	—	—	—	56,091	—	56,091	2,874	58,965
Other comprehensive income	—	—	—	—	—	—	1,890	1,890	28	1,918
Balance at June 30, 2022	**4,600,000**	**114,375,070**	**$ 111,378**	**$ 11**	**$ 1,723,580**	**$ 27,298**	**$ (2,815)**	**$ 1,859,452**	**$ 102,613**	**$ 1,962,065**

See Notes To Unaudited Consolidated Financial Statements

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(in thousands, except share data)	Preferred Series E Shares Outstanding	Common Stock Shares Outstanding	Series E	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Ready Capital Corporation Equity	Non-controlling Interests	Total Stockholders' Equity
	Six Months Ended June 30, 2023									
Balance at January 1, 2023	**4,600,000**	**110,523,641**	**$111,378**	**$ 11**	**$ 1,684,074**	**$ 4,994**	**$ (9,369)**	**$ 1,791,088**	**$ 99,146**	**$ 1,890,234**
Dividend declared:										
Common stock ($0.80 per share)	—	—	—	—	—	(97,882)	—	(97,882)	—	(97,882)
OP units	—	—	—	—	—	—	—	—	(1,255)	(1,255)
$0.78125 per Series C preferred share	—	—	—	—	—	(262)	—	(262)	—	(262)
$0.81250 per Series E preferred share	—	—	—	—	—	(3,737)	—	(3,737)	—	(3,737)
Distributions, net	—	—	—	—	—	—	—	—	(100)	(100)
Shares issued pursuant to merger transactions	—	62,229,429	—	6	637,223	—	—	637,229	—	637,229
Equity issuances	—	—	—	—	125	—	—	125	—	125
Offering costs	—	—	—	—	(127)	—	—	(127)	(2)	(129)
Equity component of 2017 convertible note issuance	—	—	—	—	(191)	—	—	(191)	(3)	(194)
Stock-based compensation	—	689,787	—	—	8,636	—	—	8,636	—	8,636
Conversion of OP units into common stock	—	52,742	—	—	567	—	—	567	(567)	—
Share repurchases	—	(1,843,675)	—	—	(20,094)	—	—	(20,094)	—	(20,094)
Reallocation of non-controlling interest	—	—	—	—	3,636	—	(55)	3,581	(3,581)	—
Net income	—	—	—	—	—	284,026	—	284,026	6,325	290,351
Other comprehensive income	—	—	—	—	—	—	143	143	(3)	140
Balance at June 30, 2023	**4,600,000**	**171,651,924**	**$111,378**	**$ 17**	**$ 2,313,849**	**$ 187,139**	**$ (9,281)**	**$ 2,603,102**	**$ 99,960**	**$ 2,703,062**

(in thousands, except share data)	Preferred Series E Shares Outstanding	Common Stock Shares Outstanding	Series E	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Ready Capital Corporation Equity	Non-controlling Interests	Total Stockholders' Equity
	Six Months Ended June 30, 2022									
Balance at January 1, 2022	**4,600,000**	**75,838,050**	**$111,378**	**$ 8**	**$ 1,161,853**	**$ 8,598**	**$ (5,733)**	**$ 1,276,104**	**$ 4,494**	**$ 1,280,598**
Dividend declared:										
Common stock ($0.84 per share)	—	—	—	—	—	(96,881)	—	(96,881)	—	(96,881)
OP units	—	—	—	—	—	—	—	—	(1,470)	(1,470)
$0.78125 per Series C preferred share	—	—	—	—	—	(262)	—	(262)	—	(262)
$0.81250 per Series E preferred share	—	—	—	—	—	(3,736)	—	(3,736)	—	(3,736)
Shares issued pursuant to merger transaction	—	30,252,764	—	3	437,308	—	—	437,311	—	437,311
OP units issued pursuant to merger transaction	—	—	—	—	—	—	—	—	20,745	20,745
Non-controlling interest acquired in merger transaction	—	—	—	—	—	—	—	—	82,257	82,257
Equity issuances	—	8,100,926	—	—	124,515			124,515	—	124,515
Offering costs	—	—	—	—	(903)	—	—	(903)	(6)	(909)
Distributions, net	—	—	—	—	—	—	—	—	(8,753)	(8,753)
Equity component of 2017 convertible note issuance	—	—	—	—	(219)	—	—	(219)	(2)	(221)
Stock-based compensation	—	269,776	—	—	4,040	—	—	4,040	—	4,040
Share repurchases	—	(86,446)	—	—	(1,294)	—	—	(1,294)	—	(1,294)
Reallocation of non-controlling interest	—	—	—	—	(1,720)	—	54	(1,666)	1,666	—
Net income	—	—	—	—	—	119,579	—	119,579	3,649	123,228
Other comprehensive income	—	—	—	—	—	—	2,864	2,864	33	2,897
Balance at June 30, 2022	**4,600,000**	**114,375,070**	**$111,378**	**$ 11**	**$ 1,723,580**	**$ 27,298**	**$ (2,815)**	**$ 1,859,452**	**$ 102,613**	**$ 1,962,065**

See Notes To Unaudited Consolidated Financial Statements

READY CAPITAL CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Six Months Ended June 30, 2023	2022
Cash Flows From Operating Activities:		
Net income	$ 290,351	$ 123,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums, discounts, and debt issuance costs, net	17,982	(10,298)
Stock-based compensation	3,915	4,110
Provision for (recovery of) loan losses	12,693	(2,848)
Impairment loss on real estate owned, held for sale	3,418	2,667
Repair and denial reserve	(944)	(3,614)
Allowance for doubtful accounts on purchased future receivables	4,232	440
Loans, held for sale, at fair value, net	39,669	72,329
Net income of unconsolidated joint ventures, net of distributions	472	(8,755)
Realized (gains) losses, net	(49,551)	(28,956)
Unrealized (gains) losses, net	3,881	(46,722)
Gain on bargain purchase	(229,894)	—
Changes in operating assets and liabilities:		
Purchased future receivables, net	(8,903)	(1,272)
Derivative instruments	13,665	1,562
Assets of consolidated VIEs (excluding loans, net), accrued interest and due from servicers	(13,142)	(9,648)
Receivable from third parties	(8,050)	21,801
Other assets	(7,659)	(6,211)
Accounts payable and other accrued liabilities	(34,896)	(28,630)
Net cash provided by operating activities	**$ 37,239**	**$ 79,183**
Cash Flows From Investing Activities:		
Origination of loans	(616,726)	(2,302,054)
Purchase of loans	(1,270)	(649,834)
Proceeds from disposition and principal payment of loans	794,150	672,327
Proceeds from disposition and principal payment of Paycheck Protection Program loans	98,658	514,607
Funding of investments held to maturity	(140)	(1,191)
Proceeds from principal payments of investments held to maturity	—	7,295
Proceeds from sale and principal payment of mortgage-backed securities, at fair value	—	56,167
Funding of real estate, held for sale	(3,968)	(2,160)
Proceeds from sale of real estate, held for sale	34,782	1,518
Investment in unconsolidated joint ventures	(9,387)	(85,634)
Distributions in excess of cumulative earnings from unconsolidated joint ventures	5,052	11,317
Payment of liabilities under participation agreements, net of proceeds received	(6,242)	(20,112)
Net cash provided by business acquisitions	38,710	123,566
Net cash provided by (used for) investing activities	**$ 333,619**	**$ (1,674,188)**
Cash Flows From Financing Activities:		
Proceeds from secured borrowings	4,208,836	6,017,619
Repayment of secured borrowings	(4,662,798)	(5,386,027)
Repayment of the Paycheck Protection Program Liquidity Facility borrowings	(90,173)	(513,746)
Proceeds from issuance of securitized debt obligations of consolidated VIEs	988,837	1,735,344
Repayment of securitized debt obligations of consolidated VIEs	(500,261)	(390,575)
Proceeds from corporate debt	—	122,646
Repayment of guaranteed loan financing	(49,120)	(61,912)
Payment of deferred financing costs	(21,127)	(25,662)
Payment of contingent consideration	(9,000)	(9,000)
Proceeds from issuance of equity, net of issuance costs	108	123,606
Common stock repurchased	(18,102)	—
Settlement of share-based awards in satisfaction of withholding tax requirements	(2,104)	(1,294)
Dividend payments	(123,932)	(85,512)
Distributions to non-controlling interests, net	(100)	(8,753)
Net cash provided by (used for) financing activities	**$ (278,936)**	**$ 1,516,734**
Net decrease in cash, cash equivalents, and restricted cash	91,922	(78,271)
Cash, cash equivalents, and restricted cash beginning balance	297,027	323,328
Cash, cash equivalents, and restricted cash ending balance	**$ 388,949**	**$ 245,057**
Supplemental disclosures:		
Cash paid for interest	$ 311,667	$ 125,411
Cash paid for income taxes	$ 648	$ 13,858
Non-cash investing activities		
Loans transferred from loans, held for sale, at fair value to loans, net	$ —	$ 3,862
Loans transferred from loans, net to loans, held for sale, at fair value	$ 1,635	$ 3,029
Loans transferred to real estate owned	$ 24,388	$ 496
Contingent consideration in connection with acquisitions	$ —	$ 84,348
Non-cash financing activities		
Shares and OP units issued in connection with merger transactions	$ 637,229	$ 458,056
Conversion of operating partnership units to common stock	$ 567	$ —
Cash, cash equivalents, and restricted cash reconciliation		
Cash and cash equivalents	$ 227,504	$ 127,939
Restricted cash	34,534	64,746
Cash, cash equivalents, and restricted cash in assets of consolidated VIEs	126,911	52,372
Cash, cash equivalents, and restricted cash ending balance	**$ 388,949**	**$ 245,057**

See Notes To Unaudited Consolidated Financial Statements

READY CAPITAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Organization

Ready Capital Corporation (the “Company” or “Ready Capital” and together with its subsidiaries “we,” “us” and “our”), is a Maryland corporation. The Company is a multi-strategy real estate finance company that originates, acquires, finances and services small to medium balance commercial (“SBC”) loans, Small Business Administration (“SBA”) loans, residential mortgage loans, construction loans, and to a lesser extent, mortgage-backed securities (“MBS”) collateralized primarily by SBC loans, or other real estate-related investments. SBC loans represent a special category of commercial loans, sharing both commercial and residential loan characteristics. SBC loans are generally secured by first mortgages on commercial properties, but because SBC loans are also often accompanied by collateralization of personal assets and subordinate lien positions, aspects of residential mortgage credit analysis are utilized in the underwriting process.

The Company is externally managed and advised by Waterfall Asset Management, LLC (“Waterfall” or the “Manager”), an investment advisor registered with the United States Securities and Exchange Commission (“SEC”) under the Investment Advisors Act of 1940, as amended.

Sutherland Partners, L.P. (the “operating partnership”) holds substantially all of the Company’s assets and conducts substantially all of the Company’s business. As of June 30, 2023 and December 31, 2022, the Company owned approximately 99.1% and 98.6% of the operating partnership, respectively. The Company, as sole general partner of the operating partnership, has responsibility and discretion in the management and control of the operating partnership, and the limited partners of the operating partnership, in such capacity, have no authority to transact business for, or participate in the management activities of the operating partnership. Therefore, the Company consolidates the operating partnership.

Acquisitions

Broadmark. On May 31, 2023, the Company, Broadmark Realty Capital Inc., a Maryland corporation (“Broadmark”), and RCC Merger Sub, LLC, a Delaware limited liability company and a wholly owned subsidiary of Ready Capital (“RCC Merger Sub”), completed a merger (such transaction, the “Broadmark Merger”), in which Broadmark merged with and into RCC Merger Sub, with RCC Merger Sub remaining as a wholly owned subsidiary of the Company.

At the effective time of the Broadmark Merger (the “Effective Time”), each share of common stock, par value $ 0.001 per share, of Broadmark (the “Broadmark Common Stock”) issued and outstanding immediately prior to the Effective Time (excluding any shares held by the Company, RCC Merger Sub or any of their respective subsidiaries) was automatically cancelled and converted into the right to receive from the Company 0.47233 (the “Exchange Ratio”) shares of its common stock, par value $0.0001 (“Common Stock”). No fractional shares of Common Stock were issued in the Broadmark Merger, and the value of any fractional interests to which a former holder of Broadmark common stock was otherwise entitled was paid in cash. In addition, RCC Merger Sub assumed Broadmark’s outstanding senior unsecured notes.

Each award of performance restricted stock units (each a “Broadmark Performance RSU Award”) granted by Broadmark under its 2019 Stock Incentive Plan (the “Broadmark Equity Plan”), as of the Effective Time, was automatically cancelled in exchange for the right to receive a number of shares of Common Stock equal to the product of (i) the number of shares of Broadmark Common Stock subject to such Broadmark Performance RSU Award based on the achievement of the applicable performance metric measured as of immediately prior to the Effective Time and (ii) the Exchange Ratio (rounded to the nearest whole share).

Each award of restricted stock units that was not a Broadmark Performance RSU Award granted pursuant to the Broadmark Equity Plan (each a “Broadmark RSU Award”) was assumed by the Company and converted into an award of restricted stock units with respect to a number of shares of Common Stock, equal to the product of (i) the total number of shares of Broadmark Common Stock subject to such Broadmark RSU Award as of immediately prior to the Effective Time and (ii) the Exchange Ratio (rounded to the nearest whole share), on the same terms and conditions as were applicable to such Broadmark RSU Award as of immediately prior to the Effective Time.

Each holder of a warrant (whether designated as public warrants, private warrants or otherwise) representing the right to purchase shares of Broadmark Common Stock (each a “Broadmark Warrant”) had the right to exercise such Broadmark

Warrant at any time prior to the Effective Time in exchange for Broadmark Common Stock, in accordance with, and subject to, the terms and conditions of the agreement governing such Broadmark Warrant. Following the Effective Time, each Broadmark Warrant that was outstanding as of the Effective Time was assumed by the Company and entitles each holder thereof to receive, upon exercise of such assumed Broadmark Warrant, a number of shares of Common Stock equal to the product of (i) the total number of shares of Broadmark Common Stock that such holder would have been entitled to receive had such holder exercised such Broadmark Warrant immediately prior to the Effective Time and (ii) the Exchange Ratio. The per share price under each Broadmark Warrant was adjusted by dividing the per share purchase price under such Broadmark Warrant as of immediately prior to the Effective Time by the Exchange Ratio and rounding down to the nearest cent.

As a result of the Broadmark Merger, the number of directors on the Company's Board increased by three members, from nine to twelve, with the three additional directors each having served on the board of directors of Broadmark immediately prior to the Effective Time. The Broadmark Merger further diversified our business by expanding our residential and commercial construction lending platforms. Refer to Note 5 for assets acquired and liabilities assumed in the Broadmark Merger.

Mosaic. On March 16, 2022, pursuant to the terms of the Merger Agreement, dated as of November 3, 2021, as amended on February 7, 2022, the Company acquired, in a series of mergers (collectively, the "Mosaic Mergers"), a group of privately held, real estate structured finance opportunities funds, with a focus on construction lending (collectively, the "Mosaic Funds"), managed by MREC Management, LLC.

As consideration for the Mosaic Mergers, each former investor was entitled to receive an equal number of shares of each of Class B-1 Common Stock, $0.0001 par value per share (the "Class B-1 Common Stock"), Class B-2 Common Stock, $0.0001 par value per share (the "Class B-2 Common Stock") Class B-3 Common Stock, $0.0001 par value per share (the "Class B-3 Common Stock"), and Class B-4 Common Stock, $0.0001 par value per share (the "Class B-4 Common Stock" and, together with the Class B-1 Common Stock, the Class B-2 Common Stock and the Class B-3 Common Stock, the "Class B Common Stock"), of Ready Capital, contingent equity rights ("CERs") representing the potential right to receive shares of common stock as of the end of the three-year period following the closing date of the Mosaic Mergers based upon the performance of the assets acquired by Ready Capital pursuant to the Mosaic Mergers, and cash consideration in lieu of any fractional shares of Class B Common Stock.

The Class B Common Stock ranked equally with the common stock, except that the shares of Class B Common Stock were not listed on the New York Stock Exchange. On May 11, 2022, each issued and outstanding share of Class B Common Stock, pursuant to a Board resolution, automatically converted, on a one-for-one basis, into an equal number of shares of common stock, and as such, no shares of Class B Common Stock remain outstanding.

The CERs are contractual rights and do not represent any equity or ownership interest in Ready Capital or any of its affiliates. If any shares of common stock are issued in settlement of the CERs, each former investor will also be entitled to receive a number of additional shares of common stock equal to (i) the amount of any dividends or other distributions paid with respect to the number of whole shares of common stock received in respect of CERs and having a record date on or after the closing date of the Mergers and a payment date prior to the issuance date of such shares of common stock, divided by (ii) the greater of (a) the average of the volume weighted average prices of one share of common stock over the ten trading days preceding the determination date and (b) the most recently reported book value per share of common stock as of the determination date.

The acquisition further expanded the Company's investment portfolio and origination platform to include a diverse portfolio of construction assets with attractive portfolio yields. Refer to Note 5 for assets acquired and liabilities assumed in the Mosaic Mergers.

REIT Status

The Company qualifies as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), commencing with its first taxable year ended December 31, 2011. To maintain its tax status as a REIT, the Company distributes dividends equal to at least 90% of its taxable income in the form of distributions to shareholders.

Note 2. Basis of Presentation

The unaudited interim consolidated financial statements herein, referred to as the “consolidated financial statements”, as of June 30, 2023 and for the three and six months ended June 30, 2023 and 2022, have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”)—as prescribed by the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) and the rules and regulations of the SEC.

The accompanying consolidated financial statements, including the notes thereto, are unaudited and exclude some of the disclosures required in audited financial statements. Accordingly, certain information and footnote disclosures normally included in consolidated financial statements have been condensed or omitted. In the opinion of management, the accompanying consolidated financial statements contain all normal recurring adjustments necessary for a fair statement of the results for the interim periods presented. Such operating results may not be indicative of the expected results for any other interim period or the entire year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as filed with the SEC.

Note 3. Summary of Significant Accounting Policies

Use of estimates
Preparation of the Company’s consolidated financial statements in conformity with U.S. GAAP requires certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates and assumptions are based on the best available information however, actual results could be materially different.

Basis of consolidation
The accompanying consolidated financial statements of the Company include the accounts and results of operations of the operating partnership and other consolidated subsidiaries and variable interest entities (“VIEs”) in which the Company is the primary beneficiary. The consolidated financial statements are prepared in accordance with ASC 810, *Consolidation* (“ASC 810”)*.* Intercompany balances and transactions have been eliminated.

Reclassifications
Certain amounts reported for the prior periods in the accompanying consolidated financial statements have been reclassified in order to conform to the current period’s presentation.

Cash and cash equivalents
The Company accounts for cash and cash equivalents in accordance with ASC 305, *Cash and Cash Equivalents.* The Company defines cash and cash equivalents as cash, demand deposits, and short-term, highly liquid investments with original maturities of 90 days or less when purchased. Cash and cash equivalents are exposed to concentrations of credit risk. The Company deposits cash with institutions believed to have highly valuable and defensible business franchises, strong financial fundamentals, and predictable and stable operating environments.

Restricted cash
Restricted cash represents cash held by the Company as collateral against its derivatives, borrowings under repurchase agreements, borrowings under credit facilities and other financing agreements with counterparties, construction and mortgage escrows, as well as cash held for remittance on loans serviced for third parties. Restricted cash is not available for general corporate purposes but may be applied against amounts due to counterparties under existing swaps and repurchase agreement borrowings, returned to the Company when the restriction requirements no longer exist or at the maturity of the swap or repurchase agreement.

Loans, net
Loans, net consists of loans, held-for-investment, net of allowance for credit losses, and loans, held at fair value.

Loans, held-for-investment. Loans, held-for-investment are loans acquired from third parties ("acquired loans"), loans originated by the Company that it does not intend to sell, or securitized loans that were previously originated. Securitized loans remain on the Company's balance sheet because the securitization vehicles are consolidated under ASC 810. Acquired loans are recorded at cost at the time they are acquired and are accounted for under ASC 310, *Receivables* ("ASC 310").

The Company uses the interest method to recognize, as a constant effective yield adjustment, the difference between the initial recorded investment in the loan and the principal amount of the loan. The calculation of the constant effective yield necessary to apply the interest method uses the payment terms required by the loan contract, and prepayments of principal are not anticipated to shorten the loan term.

Loans, held at fair value. Loans, held at fair value represent certain loans originated by the Company for which the fair value option has been elected. Interest is recognized as interest income in the consolidated statements of income when earned and deemed collectible. Changes in fair value are recurring and are reported as net unrealized gain (loss) on financial instruments in the consolidated statements of income.

Allowance for credit losses. The allowance for credit losses consists of the allowance for losses on loans and lending commitments accounted for at amortized cost. Such loans and lending commitments are reviewed quarterly considering credit quality indicators, including probable and historical losses, collateral values, loan-to-value ("LTV") ratio and economic conditions. The allowance for credit losses increases through provisions charged to earnings and reduced by charge-offs, net of recoveries.

The Company utilizes loan loss forecasting models for estimating expected life-time credit losses, at the individual loan level, for its loan portfolio. The CECL forecasting methods used by the Company include (i) a probability of default and loss given default method using underlying third-party CMBS/CRE loan databases with historical loan losses and (ii) probability weighted expected cash flow method, depending on the type of loan and the availability of relevant historical market loan loss data. The Company might use other acceptable alternative approaches in the future depending on, among other factors, the type of loan, underlying collateral, and availability of relevant historical market loan loss data.

Significant inputs to the Company's forecasting methods include (i) key loan-specific inputs such as LTV, vintage year, loan-term, underlying property type, occupancy, geographic location, and others, and (ii) a macro-economic forecast, including unemployment rates, interest rates, commercial real estate prices, and others. These estimates may change in future periods based on available future macro-economic data and might result in a material change in the Company's future estimates of expected credit losses for its loan portfolio.

In certain instances, the Company considers relevant loan-specific qualitative factors to certain loans to estimate its CECL expected credit losses. The Company considers loan investments that are both (i) expected to be substantially repaid through the operation or sale of the underlying collateral, and (ii) for which the borrower is experiencing financial difficulty, to be "collateral-dependent" loans. For such loans that the Company determines that foreclosure of the collateral is probable, the Company measures the expected losses based on the difference between the fair value of the collateral (less costs to sell the asset if repayment is expected through the sale of the collateral) and the amortized cost basis of the loan as of the measurement date. For collateral-dependent loans that the Company determines foreclosure is not probable, the Company applies a practical expedient to estimate expected losses using the difference between the collateral's fair value (less costs to sell the asset if repayment is expected through the sale of the collateral) and the amortized cost basis of the loan.

While the Company has a formal methodology to determine the adequate and appropriate level of the allowance for credit losses, estimates of inherent loan losses involve judgment and assumptions as to various factors, including current economic conditions. The Company's determination of adequacy of the allowance for credit losses is based on quarterly evaluations of the above factors. Accordingly, the provision for credit losses will vary from period to period based on management's ongoing assessment of the adequacy of the allowance for credit losses.

Non-accrual loans. A loan is placed on nonaccrual status when it is probable that principal and interest will not be collected under the original contractual terms. At that time, interest income is no longer accrued. Non-accrual loans consist of loans for which principal or interest has been delinquent for 90 days or more and for which specific reserves are recorded, including purchased credit-deteriorated ("PCD") loans. Interest income accrued, but not collected, at the date loans are placed on non-accrual status is reversed, unless the loan is expected to be fully recoverable by the collateral or is in the process of being collected. Interest income is subsequently recognized only to the extent it is received in cash or until the loan qualifies for return to accrual status. However, where there is doubt regarding the ultimate collectability of loan principal, all cash received is applied to reduce the carrying value of such loans. Loans are restored to accrual status only when contractually current and the collection of future payments is reasonably assured.

Loans, held for sale, at fair value

Loans, held for sale, at fair value are loans that are expected to be sold to third parties in the near term. Interest is recognized as interest income in the consolidated statements of income when earned and deemed collectible. For loans originated through the SBC Lending and Acquisitions and Small Business Lending segments, changes in fair value are recurring and are reported as net unrealized gain (loss) on financial instruments in the consolidated statements of income. For originated SBA loans, the guaranteed portion is held for sale, at fair value. For loans originated by GMFS, changes in fair value are reported as residential mortgage banking activities in the consolidated statements of income.

Paycheck Protection Program loans

Paycheck Protection Program ("PPP") loans originated in response to the COVID-19 pandemic are further described in Note 20. The Company has elected the fair value option for the loans originated by the Company for the first round of the program. Interest is recognized in the consolidated statements of income as interest income when earned and deemed collectible. Although PPP includes a 100% guarantee from the federal government and principal forgiveness for borrowers if the funds were used for defined purposes, changes in fair value are recurring and are reported as net unrealized gains (losses) on financial instruments in the consolidated statements of income.

The Company's loan originations in the second round of the program are accounted for as loans, held-for-investment under ASC 310. Loan origination fees and related direct loan origination costs are capitalized into the initial recorded investment in the loan and are deferred over the loan term. The Company recognizes the difference between the initial recorded investment and the principal amount of the loan as interest income using the effective yield method. The effective yield is determined based on the payment terms required by the loan contract as well as with actual and expected prepayments from loan forgiveness by the federal government.

Mortgage-backed securities, at fair value

The Company accounts for MBS as trading securities and carries them at fair value under ASC 320, *Investments-Debt and Equity Securities* ("ASC 320"). The Company's MBS portfolio is comprised of asset-backed securities collateralized by interest in, or obligations backed by, pools of SBC loans, as well as residential Agency MBS, which are guaranteed by the U.S. government, such as the Government National Mortgage Association ("Ginnie Mae"), or guaranteed by federally sponsored enterprises, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Purchases and sales of MBS are recorded as of the trade date. MBS securities pledged as collateral against borrowings under repurchase agreements are included in mortgage-backed securities, at fair value on the consolidated balance sheets.

MBS are recorded at fair value as determined by market prices provided by independent broker dealers or other independent valuation service providers. The fair values assigned to these investments are based upon available information and may not reflect amounts that may be realized. The fair value adjustments on MBS are reported within net unrealized gain (loss) on financial instruments in the consolidated statements of income.

Loans eligible for repurchase from Ginnie Mae

When the Company has the unilateral right to repurchase Ginnie Mae pool loans it has previously sold (generally loans that are more than 90 days past due), the Company then records the right to repurchase the loan as an asset and liability in its consolidated balance sheets. Such amounts reflect the unpaid principal balance of the loans.

Derivative instruments, at fair value

Subject to maintaining qualification as a REIT for U.S. federal income tax purposes, the Company utilizes derivative financial instruments, comprised of credit default swaps ("CDSs"), interest rate swaps, TBA agency securities, FX forwards and interest rate lock commitments ("IRLCs") as part of its risk management strategy. The Company accounts for derivative instruments under ASC 815, *Derivatives and Hedging* ("ASC 815"). All derivatives are reported as either assets or liabilities in the consolidated balance sheets at the estimated fair value with the changes in the fair value recorded in earnings unless hedge accounting is elected. As of June 30, 2023 and December 31, 2022, the Company had offset $42.4 and $41.8 million of cash collateral payable against gross derivative asset positions, respectively.

Interest rate swap agreements. An interest rate swap is an agreement between two counterparties to exchange periodic interest payments where one party to the contract makes a fixed-rate payment in exchange for a floating-rate payment from the other party. The dollar amount each party pays is an agreed-upon periodic interest rate multiplied by a pre-determined dollar principal (notional amount). No principal (notional amount) is exchanged between the two parties at the trade initiation date and only interest payments are exchanged over the life of the contract. Interest rate swaps are classified as Level 2 in the fair value hierarchy. The fair value adjustments are reported within net unrealized gain (loss) on financial instruments, while the related interest income or interest expense, are reported within net realized gain (loss) on financial instruments in the consolidated statements of income.

TBA Agency Securities. TBA Agency Securities are forward contracts for the purchase or sale of Agency Securities at predetermined measures on an agreed-upon future date. The specific Agency Securities delivered pursuant to the contract upon the settlement date are not known at the time of the transaction. The fair value of TBA Agency Securities is priced based on observed quoted prices. The realized and unrealized gains or losses are reported in the consolidated statements of income as residential mortgage banking activities. TBA Agency Securities are classified as Level 2 in the fair value hierarchy.

IRLC. IRLCs are agreements under which GMFS agrees to extend credit to a borrower under certain specified terms and conditions in which the interest rate and the maximum amount of the loan are set prior to funding. Unrealized gains and losses on the IRLCs, reflected as derivative assets and derivative liabilities, respectively, are measured based on the value of the underlying mortgage loan, quoted government-sponsored enterprise (Fannie Mae, Freddie Mac, and Ginnie Mae) or MBS prices, estimates of the fair value of the mortgage servicing rights (“MSRs”) and the probability that the mortgage loan will fund within the terms of the IRLC, net of commission expense and broker fees. The realized and unrealized gains or losses are reported in the consolidated statements of income as residential mortgage banking activities. IRLCs are classified as Level 3 in the fair value hierarchy.

FX forwards. FX forwards are agreements between two counterparties to exchange a pair of currencies at a set rate on a future date. Such contracts are used to convert the foreign currency risk to U.S. dollars to mitigate exposure to fluctuations in FX rates. The fair value adjustments are reported within net unrealized gain (loss) on financial instruments in the consolidated statements of income. FX forwards are classified as Level 2 in the fair value hierarchy.

CDS. CDSs are contracts between two parties, a protection buyer who makes fixed periodic payments, and a protection seller who collects the premium in exchange for making the protection buyer whole in the case of default.

Hedge accounting. As a general rule, hedge accounting is permitted where the Company is exposed to a particular risk, such as interest rate risk, that causes changes in the fair value of an asset or liability or variability in the expected future cash flows of an existing asset, liability, or forecasted transaction that may affect earnings.

To qualify as an accounting hedge under the hedge accounting rules (versus an economic hedge where hedge accounting is not applied), a hedging relationship must be highly effective in offsetting the risk designated as being hedged. Cash flow hedges are used to hedge the exposure to the variability in cash flows from forecasted transactions, including the anticipated issuance of securitized debt obligations. ASC 815 requires that a forecasted transaction be identified as either: 1) a single transaction, or 2) a group of individual transactions that share the same risk exposures for which they are designated as being hedged. Hedges of forecasted transactions are considered cash flow hedges since the price is not fixed, hence involve variability of cash flows.

For qualifying cash flow hedges, the change in the fair value of the derivative (the hedging instrument) is recorded in other comprehensive income (loss) (“OCI”) and is reclassified out of OCI and into the consolidated statements of income when the hedged cash flows affect earnings. These amounts are recognized consistent with the classification of the hedged item, primarily interest expense (for hedges of interest rate risk). If the hedge relationship is terminated, then the value of the derivative recorded in accumulated other comprehensive income (loss) (‘AOCI”) is recognized in earnings when the cash flows that were hedged affect earnings, so long as the forecasted transaction remains probable of occurring.

Hedge accounting is generally terminated at the debt issuance date because the Company is no longer exposed to cash flow variability subsequent to issuance. Accumulated amounts recorded in AOCI at that date are then released to earnings in future periods to reflect the difference in 1) the fixed rates economically locked in at the inception of the hedge and 2) the actual fixed rates established in the debt instrument at issuance. Because of the effects of the time value of money, the actual interest expense reported in earnings will not equal the effective yield locked in at hedge inception multiplied by the par value. Similarly, this hedging strategy does not actually fix the interest payments associated with the forecasted debt issuance.

Servicing rights

Servicing rights initially represent the fair value of expected future cash flows for performing servicing activities for others. The fair value considers estimated future servicing fees and ancillary revenue, offset by estimated costs to service the loans, and generally declines over time as net servicing cash flows are received, effectively amortizing the servicing right asset against contractual servicing and ancillary fee income.

Servicing rights are recognized upon sale of loans, including a securitization of loans accounted for as a sale in accordance with U.S. GAAP, if servicing is retained. For servicing rights, gains related to servicing rights retained is included in net realized gain (loss) in the consolidated statements of income. For residential MSRs, gains on servicing rights retained upon sale of a loan are included in residential mortgage banking activities in the consolidated statements of income.

The Company treats its servicing rights and residential MSRs as two separate classes of servicing assets based on the class of the underlying mortgages and it treats these assets as two separate pools for risk management purposes. Servicing rights relating to the Company's servicing of loans guaranteed by the SBA under its Section 7(a) loan program and multi-family servicing rights are accounted for under ASC 860, *Transfers and Servicing* ("ASC 860"), while the Company's residential MSRs are accounted for under the fair value option under ASC 825, *Financial Instruments* ("ASC 825"). A significant portion of the Company's multi-family servicing rights are under the Freddie Mac program.

Servicing rights – SBA and multi-family portfolio. SBA and multi-family servicing rights are initially recorded at fair value and subsequently carried at amortized cost. Servicing rights are amortized in proportion to and over the expected service period, or term of the loans, and are evaluated for potential impairment quarterly.

For purposes of testing servicing rights for impairment, the Company first determines whether facts and circumstances exist that would suggest the carrying value of the servicing asset is not recoverable. If so, the Company then compares the net present value of servicing cash flow to its carrying value. The estimated net present value of servicing cash flows is determined using discounted cash flow modeling techniques, which require management to make estimates regarding future net servicing cash flows, taking into consideration historical and forecasted loan prepayment rates, delinquency rates and anticipated maturity defaults. If the carrying value of the servicing rights exceeds the net present value of servicing cash flows, the servicing rights are considered impaired, and an impairment loss is recognized in earnings for the amount by which carrying value exceeds the net present value of servicing cash flows.

The Company estimates the fair value of servicing rights by determining the present value of future expected servicing cash flows using modeling techniques that incorporate management's best estimates of key variables including estimates regarding future net servicing cash flows, forecasted loan prepayment rates, delinquency rates, and return requirements commensurate with the risks involved. Cash flow assumptions are modeled using internally forecasted revenue and expenses, and where possible, the reasonableness of assumptions is periodically validated through comparisons to market data. Prepayment speed estimates are determined from historical prepayment rates or obtained from third-party industry data. Return requirement assumptions are determined using data obtained from market participants, where available, or based on current relevant interest rates plus a risk-adjusted spread. The Company also considers other factors that can impact the value of the servicing rights, such as surety provider termination clauses and servicer terminations that could result if the Company failed to materially comply with the covenants or conditions of its servicing agreements and did not remedy the failure. Since many factors can affect the estimate of the fair value of servicing rights, the Company regularly evaluates the major assumptions and modeling techniques used in its estimate and reviews these assumptions against market comparables, if available. The Company monitors the actual performance of its servicing rights by regularly comparing actual cash flow, credit, and prepayment experience to modeled estimates.

Servicing rights - Residential (carried at fair value). The Company's residential MSRs consist of conforming conventional residential loans sold to Fannie Mae and Freddie Mac or loans securitized in Ginnie Mae securities. Government insured loans serviced by the Company are securitized through Ginnie Mae, whereby the Company is insured against loss by the Federal Housing Administration or partially guaranteed against loss by the Department of Veterans Affairs.

The Company has elected to account for its portfolio of residential MSRs at fair value. For these assets, the Company uses a third-party vendor to assist management in estimating the fair value. The third-party vendor uses a discounted cash flow approach which consists of projecting servicing cash flows discounted at a rate that management believes market participants would use in their determinations of fair value. The key assumptions used in the estimation of the fair value of MSRs include prepayment rates, discount rates, and cost of servicing. Residential MSRs are classified as Level 3 in the fair value hierarchy.

Real estate owned, held for sale
Real estate owned, held for sale includes purchased real estate and real estate acquired in full or partial settlement of loan obligations, generally through foreclosure, that is being marketed for sale. Real estate owned, held for sale is recorded at acquisition at the property's estimated fair value less estimated costs to sell.

After acquisition, costs incurred relating to the development and improvement of property are capitalized to the extent they do not cause the recorded value to exceed the net realizable value, whereas costs relating to holding and disposition of the property are expensed as incurred. After acquisition, real estate owned, held for sale is analyzed periodically for changes in fair values and any subsequent write down is charged through impairment.

The Company records a gain or loss from the sale of real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether the collectability of the transaction price is probable. Once these criteria are met, the real estate is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. This adjustment is based on management's estimate of the fair value of the loan extended to the buyer to finance the sale.

Investment in unconsolidated joint ventures
According to ASC 323 *, Equity Method and Joint Ventures*, investors in unincorporated entities such as partnerships and unincorporated joint ventures generally shall account for their investments using the equity method of accounting if the investor has the ability to exercise significant influence over the investee. Under the equity method, the Company recognizes its allocable share of the earnings or losses of the investment monthly in earnings and adjusts the carrying amount for its share of the distributions that exceeds its allocable share of earnings.

Investments held to maturity
The Company accounts for held to maturity investments under ASC 320. Such securities are accounted for at amortized cost and reviewed on a quarterly basis to determine if an allowance for credit losses should be recorded in the consolidated statements of income.

Purchased future receivables
The Company provides working capital advances to small businesses through the purchase of their future revenues. The Company enters into a contract with the business whereby the Company pays the business an upfront amount in return for a specific amount of the business's future revenue receivables, known as payback amounts. The payback amounts are primarily received through daily payments initiated by automated clearing house transactions.

Revenues from purchased future receivables are realized when funds are received under each contract. The allocation of the amount received is determined by apportioning the amount received based upon the factor (discount) rate of the business's contract. Management believes that this methodology best reflects the effective interest method.

The Company has established an allowance for doubtful purchased future receivables. An increase in the allowance for doubtful purchased future receivables results in a charge to income and is reduced when purchased future receivables are charged-off. Purchased future receivables are charged-off after 90 days past due. Management believes that the allowance reflects the risk elements and is adequate to absorb losses inherent in the portfolio. Although management has performed this evaluation, future adjustments may be necessary based on changes in economic conditions or other factors.

Intangible assets
The Company accounts for intangible assets under ASC 350, *Intangibles- Goodwill and Other* ("ASC 350"). The Company's intangible assets include an SBA license, capitalized software, a broker network, trade names, customer relationships and an acquired favorable lease. The Company capitalizes software costs expected to result in long-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality as well as costs related to internally developed software expected to be sold, leased or otherwise marketed under ASC 985-20, *Software- costs of software to be sold, leased, or marketed.* All other costs incurred in connection with internal use software are expensed as incurred. The Company initially records its intangible assets at cost or fair value and will test for impairment if a triggering event occurs. Intangible assets are included within other assets in the consolidated balance sheets. The Company amortizes intangible assets with identified estimated useful lives on a straight-line basis over their estimated useful lives.

Goodwill
Goodwill represents the excess of the consideration transferred over the fair value of net assets, including identifiable intangible assets, at the acquisition date. Goodwill is assessed for impairment annually in the fourth quarter or more frequently if events or changes in circumstances indicate a potential impairment exists.

In assessing goodwill for impairment, the Company follows ASC 350, which permits a qualitative assessment of whether it is more likely than not that the fair value of the reporting unit is less than its carrying value including goodwill. If the qualitative assessment determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill, then no impairment is determined to exist for the reporting unit. However, if the qualitative assessment determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, including goodwill, or the Company chooses not to perform the qualitative assessment, then the Company compares the fair value of that reporting unit with its carrying value, including goodwill, in a quantitative assessment. If the carrying value of a reporting unit exceeds its fair value, goodwill is considered impaired with the impairment loss measured as the excess of the reporting unit's carrying value, including goodwill, over its fair value. The estimated fair value of the reporting unit is derived based on valuation techniques the Company believes market participants would use for each of the reporting units.

The qualitative assessment requires judgment to be applied in evaluating the effects of multiple factors, including actual and projected financial performance of the reporting unit, macroeconomic conditions, industry and market conditions and relevant entity specific events in determining whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. In the second quarter of 2023, as a result of the qualitative assessment, the Company determined that it was more likely than not that the estimated fair value of each of the reporting units exceeded its respective estimated carrying value. Therefore, goodwill for each reporting unit was not impaired and a quantitative test was not required.

Deferred financing costs
Costs incurred in connection with secured borrowings are accounted for under ASC 340, *Other Assets and Deferred Costs*. Deferred costs are capitalized and amortized using the effective interest method over the respective financing term with such amortization reflected on the Company's consolidated statements of income as a component of interest expense. Secured Borrowings may include legal, accounting and other related fees. Unamortized deferred financing costs are expensed when the associated debt is refinanced or repaid before maturity. Unamortized deferred financing costs related to securitizations and note issuances are presented in the consolidated balance sheets as a direct deduction from the associated liability.

Due from servicers
The loan-servicing activities of the Company's SBC Lending and Acquisitions segment are performed primarily by third-party servicers. SBA loans originated by and held at RCL are internally serviced. Residential mortgage loans originated by and held at GMFS are both serviced by third-party servicers and internally serviced. The Company's servicers hold substantially all of the cash owned by the Company related to loan servicing activities. These amounts include principal and interest payments made by borrowers, net of advances and servicing fees. Cash is generally received within thirty days of recording the receivable.

The Company is subject to credit risk to the extent any servicer with whom the Company conducts business is unable to deliver cash balances or process loan-related transactions on the Company's behalf. The Company monitors the financial condition of the servicers with whom the Company conducts business and believes the likelihood of loss under the aforementioned circumstances is remote.

Secured borrowings
Secured borrowings include borrowings under credit facilities and other financing agreements and repurchase agreements.

Borrowings under credit facilities and other financing agreements. Borrowings under credit facilities and other financing agreements are accounted for under ASC 470, *Debt* ("ASC 470"). The Company partially finances its loans, net through credit agreements and other financing agreements with various counterparties. These borrowings are collateralized by loans, held-for-investment, and loans, held for sale, at fair value and have maturity dates within two years from the consolidated balance sheet date. If the fair value (as determined by the applicable counterparty) of the collateral securing these borrowings decreases, the Company may be subject to margin calls during the period the borrowings are outstanding. In instances where margin calls are not satisfied within the required time frame the counterparty may retain the collateral and pursue collection of any outstanding debt. Interest paid and accrued in connection with credit facilities is recorded as interest expense in the consolidated statements of income.

Borrowings under repurchase agreements. Borrowings under repurchase agreements are accounted for under ASC 860. Investment securities financed under repurchase agreements are treated as collateralized borrowings, unless they meet sale treatment or are deemed to be linked transactions. As of the current period ended, the Company had no such repurchase agreements that have been accounted for as components of linked transactions. All securities financed through a repurchase agreement have remained on the Company's consolidated balance sheets as an asset and cash received from the lender has been recorded on the Company's consolidated balance sheets as a liability. Interest paid and accrued in connection with repurchase agreements is recorded as interest expense in the consolidated statements of income.

Paycheck Protection Program Liquidity Facility borrowings
The Paycheck Protection Program Facility ("PPPLF") is a government loan facility created to enable the distribution of funds for PPP whereby the Company may receive advances from the Federal Reserve through the PPPLF. The Company accounts for borrowings under the PPPLF under ASC 470. Interest paid and accrued in connection with PPPLF is recorded as interest expense in the consolidated statements of income.

Securitized debt obligations of consolidated VIEs, net
Since 2011, the Company has engaged in several securitization transactions, which the Company accounts for under ASC 810. Securitization involves transferring assets to a special purpose entity or securitization trust, which typically qualifies as a VIE. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE. The consolidation of the VIE includes the VIE's issuance of senior securities to third parties, which are shown as securitized debt obligations of consolidated VIEs in the consolidated balance sheets.

Debt issuance costs related to securitizations are presented as a direct deduction from the carrying value of the related debt liability. Debt issuance costs are amortized using the effective interest method and are included in interest expense in the consolidated statements of income.

Convertible note, net
ASC 470 requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. ASC 470-20 requires that the initial proceeds from the sale of these notes be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by the Company at such time. The Company measured the estimated fair value of the debt component of its convertible notes as of the issuance date based on its nonconvertible debt borrowing rate. The equity components of the convertible senior notes have been reflected within additional paid-in capital in the Company's consolidated balance sheet, and the resulting debt discount is amortized over the period during which the convertible notes are expected to be outstanding (through the maturity date) as additional non-cash interest expense.

Upon repurchase of convertible debt instruments, ASC 470-20 requires the issuer to allocate total settlement consideration, inclusive of transaction costs, amongst the liability and equity components of the instrument based on the fair value of the liability component immediately prior to repurchase. The difference between the settlement consideration allocated to the liability component and the net carrying value of the liability component, including unamortized debt issuance costs, would be recognized as gain (loss) on extinguishment of debt in the Company's consolidated statements of income. The remaining settlement consideration allocated to the equity component would be recognized as a reduction of additional paid-in capital in the consolidated balance sheets.

Senior secured notes, net
The Company accounts for secured debt offerings under ASC 470 . Pursuant to the adoption of ASU 2015-03, the Company's senior secured notes are presented net of debt issuance costs. These senior secured notes are collateralized by loans, MBS, and retained interests of consolidated VIE's. Interest paid and accrued in connection with senior secured notes is recorded as interest expense in the consolidated statements of income.

Corporate debt, net
The Company accounts for corporate debt offerings under ASC 470. The Company's corporate debt is presented net of debt issuance costs. Interest paid and accrued in connection with corporate debt is recorded as interest expense in the consolidated statements of income.

Guaranteed loan financing
Certain partial loan sales do not qualify for sale accounting under ASC 860 because these sales do not meet the definition of a "participating interest," as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment in the consolidated balance sheets and the proceeds from the portion sold is recorded as guaranteed loan financing in the liabilities section of the consolidated balance sheets. For these partial loan sales, the interest earned on the entire loan balance is recorded as interest income and the interest earned by the buyer in the partial loan sale is recorded within interest expense in the accompanying consolidated statements of income.

Contingent consideration
The Company accounts for certain liabilities recognized in relation to mergers and acquisitions as contingent consideration whereby the fair value of this liability is dependent on certain criteria. Contingent consideration is classified as Level 3 in the fair value hierarchy with fair value adjustments reported within other income (loss) in the consolidated statements of income.

Loan participations sold
The Company accounts for loan participations sold, which represents an interest in a loan receivable sold, as a liability on the consolidated balance sheets as these arrangements do not qualify as a sale under U.S. GAAP. Such liabilities are non-recourse and remain on the consolidated balance sheets until the loan is repaid.

Due to third parties
Due to third parties primarily relates to funds held by the Company to advance certain expenditures necessary to fulfill the Company's obligations under its existing indebtedness or to be released at the Company's discretion upon the occurrence of certain pre-specified events, and to serve as additional collateral for borrowers' loans. While retained, these balances earn interest in accordance with the specific loan terms they are associated with.

Repair and denial reserve
The repair and denial reserve represents the potential liability to the SBA in the event that the Company is required to make the SBA whole for reimbursement of the guaranteed portion of SBA loans. The Company may be responsible for the guaranteed portion of SBA loans if there are lien and collateral issues, unauthorized use of proceeds, liquidation deficiencies, undocumented servicing actions or denial of SBA eligibility. This reserve is calculated using an estimated frequency of a repair and denial event upon default, as well as an estimate of the severity of the repair and denial as a percentage of the guaranteed balance.

Variable interest entities
VIEs are entities that, by design, either (i) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. The entity that is the primary beneficiary is required to consolidate the VIE. An entity is deemed to be the primary beneficiary of a VIE if the entity has

both (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE.

In determining whether the Company is the primary beneficiary of a VIE, both qualitative and quantitative factors are considered regarding the nature, size and form of its involvement with the VIE, such as its role establishing the VIE and ongoing rights and responsibilities, the design of the VIE, its economic interests, servicing fees and servicing responsibilities, and other factors. The Company performs ongoing reassessments to evaluate whether changes in the entity's capital structure or changes in the nature of its involvement with the entity result in a change to the VIE designation or a change to its consolidation conclusion.

Non-controlling interests
Non-controlling interests are presented on the consolidated balance sheets and the consolidated statements of income and represent direct investment in the operating partnership by third parties, including operating partnership units issued to satisfy a portion of the purchase price in connection with the Mosaic Mergers. In addition, the Company has non-controlling interests from investments in consolidated joint ventures whereby, net income or loss is generally based upon relative ownership interests or contractual arrangements.

Fair value option
ASC 825 provides a fair value option election that allows entities to make an election of fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The decision to elect the fair value option is determined on an instrument-by-instrument basis and must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to this guidance are required to be reported separately in the consolidated balance sheets from those instruments using another accounting method.

The Company has elected the fair value option for certain loans held-for-sale originated by the Company that it intends to sell in the near term. The fair value elections for loans, held for sale, at fair value originated by the Company were made due to the short-term nature of these instruments. This includes loans originated in round one of the PPP, loans held-for-sale originated by GMFS that the Company intends to sell in the near term and residential MSRs.

Share repurchase program
The Company accounts for repurchases of its common stock as a reduction in additional paid in capital. The amounts recognized represent the amount paid to repurchase these shares and are categorized on the balance sheet and changes in equity as a reduction in additional paid in capital.

Earnings per share
The Company presents both basic and diluted earnings per share ("EPS") amounts in its consolidated financial statements. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the maximum potential dilution that could occur from the Company's share-based compensation, consisting of unvested restricted stock units ("RSUs"), unvested restricted stock awards ("RSAs"), performance-based equity awards, as well as the dilutive impact of convertible senior notes and convertible preferred stock under the if-converted method and warrants under the treasury stock method. Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

All of the Company's unvested RSUs, unvested RSAs, preferred stock and CERs contain rights to receive non-forfeitable dividends and, thus, are participating securities. Due to the existence of these participating securities, the two-class method of computing EPS is required, unless another method is determined to be more dilutive. Under the two-class method, undistributed earnings are reallocated between shares of common stock and participating securities.

Income taxes
U.S. GAAP establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current period and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's consolidated financial statements or tax returns. The Company assesses the recoverability of deferred tax assets through evaluation of carryback availability, projected taxable income and other factors as applicable. Significant judgment is required in assessing the future tax consequences of events that have been recognized in the consolidated financial statements or tax returns as well as the recoverability of amounts recorded, including deferred tax assets.

The Company provides for exposure in connection with uncertain tax positions, which requires significant judgment by management including determination, based on the weight of the tax law and available evidence, that it is more-likely-than-not that a tax result will be realized. The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense on the consolidated statements of income. As of the date of the consolidated balance sheets, the Company has accrued no taxes, interest or penalties related to uncertain tax positions. In addition, changes in this position in the next 12 months are not anticipated.

Revenue recognition

Under revenue recognition guidance, specifically ASC 606, *Revenue Recognition*, revenue is recognized upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized through the following five-step process:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Most of the Company's revenue streams, such as revenue associated with financial instruments, including interest income, realized or unrealized gains on financial instruments, loan servicing fees, loan origination fees, among other revenue streams, follow specific revenue recognition criteria and therefore the guidance referenced above does not have a material impact on the consolidated financial statements. In addition, revisions to existing accounting rules regarding the determination of whether a company is acting as a principal or agent in an arrangement and accounting for sales of nonfinancial assets where the seller has continuing involvement, did not materially impact the Company. A further description of the revenue recognition criteria is outlined below.

Interest income. Interest income on loans, held-for-investment, loans, held at fair value, loans, held for sale, at fair value, and MBS, at fair value is accrued based on the outstanding principal amount and contractual terms of the instrument. Discounts or premiums associated with the loans and investment securities are amortized or accreted into interest income as a yield adjustment on the effective interest method, based on contractual cash flows through the maturity date of the investment. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to the accrual status of the asset. If the asset has been delinquent for the previous 90 days, the asset status will turn to non-accrual, and recognition of interest income will be suspended until the asset resumes contractual payments for three consecutive months.

Realized gains (losses). Upon the sale or disposition (not including the prepayment of outstanding principal balance) of loans or securities, the excess (or deficiency) of net proceeds over the net carrying value or cost basis of such loans or securities is recognized as a realized gain (loss).

Origination income and expense. Origination income represents fees received for origination of either loans, held at fair value, loans, held for sale, at fair value, or loans, held-for-investment. For loans held, at fair value, and loans, held for sale, at fair value, pursuant to ASC 825 the Company reports origination fee income as revenue and fees charged and costs incurred as expenses. These fees and costs are excluded from the fair value. For originated loans, held-for-investment, under ASC 310 the Company defers these origination fees and costs at origination and amortizes them under the effective interest method over the life of the loan. Origination fees and expenses for loans, held at fair value and loans, held for sale, at fair value, are presented in the consolidated statements of income as components of other income and operating expenses. Origination fees for residential mortgage loans originated by GMFS are presented in the consolidated statements of income in residential mortgage banking activities, while origination expenses are presented within variable expenses on residential mortgage banking activities. The amortization of net origination fees and expenses for loans, held-for-investment are presented in the consolidated statements of income as a component of interest income.

Residential mortgage banking activities

Residential mortgage banking activities reflects revenue within the Company's residential mortgage banking business directly related to loan origination and sale activity. This primarily consists of the realized gains on sales of residential loans held for sale and loan origination fee income, Residential mortgage banking activities also consists of unrealized gains and losses associated with the changes in fair value of the loans held for sale, the fair value of retained MSR additions, and the realized and unrealized gains and losses from derivative instruments.

Gains and losses from the sale of mortgage loans held for sale are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale and is included in residential mortgage banking activities, in the consolidated statements of income. Sales proceeds reflect the cash received from investors from the sale of a loan plus the servicing release premium if the related MSR is sold. Gains and losses also include the unrealized gains and losses associated with the mortgage loans held for sale and the realized and unrealized gains and losses from derivative instruments.

Loan origination fee income represents revenue earned from originating mortgage loans held for sale and are reflected in residential mortgage banking activities, when loans are sold.

Variable expenses on residential mortgage banking activities. Loan expenses include indirect costs related to loan origination activities, such as correspondent fees, and are expensed as incurred and are included within variable expenses on residential mortgage banking activities on the Company's consolidated statements of income. The provision for loan indemnification includes the fair value of the incurred liability for mortgage repurchases and indemnifications recognized at the time of loan sale and any other provisions recorded against the loan indemnification reserve. Loan origination costs directly attributable to the processing, underwriting, and closing of a loan are included in the gain on sale of mortgage loans held for sale when loans are sold.

Foreign currency transactions

Assets and liabilities denominated in non-U.S. currencies are translated into U.S. dollars using foreign currency exchange rates prevailing at the end of the reporting period. Revenue and expenses are translated at the average exchange rates for each reporting period. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are recognized in earnings. Gains or losses on translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included, net of taxes, in the consolidated statements of comprehensive income.

Note 4. Recent accounting pronouncements

Standard	Summary of guidance	Effects on financial statements
ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting *Issued March 2020*	Provides optional expedients and exceptions to GAAP requirements for modifications on debt instruments, leases, derivatives, and other contracts, related to the expected market transition from LIBOR, and certain other floating rate benchmark indices, or collectively, IBORs, to alternative reference rates. The guidance generally considers contract modifications related to reference rate reform to be an event that does not require contract remeasurement at the modification date nor a reassessment of a previous accounting determination.	
	In January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope. The amendments in this update refine the scope for certain optional expedients and exceptions for contract modifications and hedge accounting to apply to derivative contracts and certain hedging relationships affected by the discounting transition. Guidance is optional and may be elected over time, through December 31, 2022 using a prospective application on all eligible contract modifications.	
	In December 2022, the FASB issued ASU No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848. The amendments in this update defers the sunset date of Topic 848 from December 31, 2022 to December 31, 2024, after which relief will no longer be permitted.	The Company has utilized the optional expedients as part of ASU 2020-04 for its hedge accounting practices and begun accounting for applicable modified contracts that incorporate alternative benchmarks as they are not substantially different.
ASU 2022-02, Financial Instruments- Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures *Issued March 2022*	Eliminates the recognition and measurement guidance for TDRs and requires assessment on whether the modification represents a new loan or a continuation of an existing loan. This ASU requires enhanced disclosures about loan modifications for borrowers experiencing financial difficulty and vintage disclosures which show the gross write-offs recorded in the current period by origination year. The ASU is effective in reporting periods beginning after December 15, 2022, under a prospective approach.	The ASU became effective in January 2023. The Company adopted the ASU under a prospective approach. The adoption of this standard does not have a material impact on the Company's consolidated financial statements.

Note 5. Business Combinations

On May 31, 2023, the Company completed a merger with Broadmark, a specialty real estate finance company that specialized in originating and servicing residential and commercial construction loans. See Note 1 for more information about the Broadmark Merger. The consideration transferred was allocated to the assets acquired and liabilities assumed based on their respective fair values. The methodologies used, and key assumptions made, to estimate the fair value of the assets acquired and liabilities assumed are primarily based on future cash flows and discount rates.

The table below summarizes the fair value of assets acquired and liabilities assumed from the merger.

(in thousands)		May 31, 2023
Assets		
Cash and cash equivalents	$	38,710
Loans, net		772,954
Real estate acquired in settlement of loans		158,911
Other assets		17,107
Total assets acquired	**$**	**987,682**
Liabilities		
Corporate debt		98,028
Accounts payable and other accrued liabilities		22,531
Total liabilities assumed	**$**	**120,559**
Net assets acquired	**$**	**867,123**

In a business combination, the initial allocation of the purchase price is considered preliminary and therefore, is subject to change until the end of the measurement period. The final determination must occur within one year of the merger date. Because the measurement period is still open for the Broadmark Merger, certain fair value estimates may change once all information necessary to make a final fair value assessment has been received. The amounts presented in the table above pertained to the preliminary purchase price allocation reported at the time of the Broadmark Merger based on information that was available to management at the time the consolidated financial statements were prepared. The preliminary purchase price allocation is subject to change as the Company completes its analysis of the fair value of the assets acquired and liabilities assumed, which could have an impact on the consolidated financial statements.

The table below illustrates the aggregate consideration transferred, net assets acquired, and the related bargain purchase gain.

(in thousands)		May 31, 2023
Fair value of net assets acquired	**$**	867,123
Consideration transferred based on the value of common stock issued		637,229
Total consideration transferred	**$**	**637,229**
Bargain purchase gain	**$**	**229,894**

In the table above, the bargain purchase gain represents the fair value of the assets acquired and liabilities assumed in the Broadmark Merger which exceeds the fair value of the 62.2 million shares of common stock issued at $ 10.24 per share at the Effective Time. Gain on bargain purchase is recognized in the consolidated statements of income.

On March 16, 2022, the Company acquired the Mosaic Funds, a group of privately held, real estate structured finance opportunities funds, with a focus on construction lending. See Note 1 for more information about the Mosaic Mergers. The consideration transferred was allocated to the assets acquired and liabilities assumed based on their respective fair values. The methodologies used, and key assumptions made, to estimate the fair value of the assets acquired and liabilities assumed are primarily based on future cash flows and discount rates.

The table below summarizes the fair value of assets acquired and liabilities assumed from the acquisition.

(in thousands)		March 16, 2022
Assets		
Cash and cash equivalents	$	100,236
Restricted cash		23,330
Loans, net		412,745
Investments held to maturity		161,567
Real estate owned, held for sale		44,748
Other assets		20,664
Total assets acquired	**$**	**763,290**
Liabilities		
Secured borrowings		66,202
Loan participations sold		73,656
Due to third parties		24,301
Accounts payable and other accrued liabilities		38,781
Total liabilities assumed	**$**	**202,940**
Net assets acquired	**$**	**560,350**
Non-controlling interests		(82,524)
Net assets acquired, net of non-controlling interests	**$**	**477,826**

The table below illustrates the aggregate consideration transferred, net assets acquired, and the related goodwill.

(in thousands)		March 16, 2022
Fair value of net assets acquired	**$**	**477,826**
Consideration transferred based on the value of Class B shares issued		437,311
Consideration transferred based on the value of OP units issued		20,745
Fair value of CERs issued		25,000
Total consideration transferred	**$**	**483,056**
Goodwill	**$**	**(5,230)**

The table above includes contingent consideration in the form of CERs valued at approximately $ 25.0 million or $0.83 per CER. As of June 30, 2023, the CERs were valued at approximately $15.6 million or $0.51 per CER. See Note 7 for more information about the valuation of the CERs.

As of June 30, 2023, the goodwill recorded in connection with the Mosaic Mergers has been allocated to the SBC Lending and Acquisitions segment.

The following pro-forma income and earnings (unaudited) of the combined company are presented as if the Broadmark Merger had occurred on January 1, 2023 and January 1, 2022.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2023	2022	2023	2022
Selected Financial Data				
Interest income	$ 248,126	$ 182,187	$ 489,535	$ 336,465
Interest expense	(175,189)	(82,947)	(337,699)	(146,079)
Recovery of (provision for) loan losses	(22,360)	1,696	(17,327)	(1,593)
Non-interest income	304,931	51,659	349,894	139,710
Non-interest expense	(81,423)	(44,991)	(162,727)	(115,047)
Income before provision for income taxes	**$ 274,085**	**$ 107,604**	**$ 321,676**	**$ 213,456**
Income tax expense	(5,141)	(10,318)	(5,532)	(28,167)
Net income	**$ 268,944**	**$ 97,286**	**$ 316,144**	**$ 185,289**

Non-recurring pro-forma transaction costs directly attributable to the Broadmark Merger were $ 22.4 million and $28.0 million for the three and six months ended June 30, 2023 and 2022, respectively, and have been deducted from the non-interest expense amount above. These costs included legal, accounting, valuation, and other professional or consulting fees directly attributable to the Broadmark Merger.

Note 6. Loans and allowance for credit losses

Loans includes (i) loans held for investment that are accounted for at amortized cost net of allowance for credit losses or (ii) loans held at fair value under the fair value option and (iii) loans held for sale at fair value that are accounted for at the lower of cost or fair value. The classification for a loan is based on product type and management's strategy for the loan.

Loans with the "Other" classification are generally SBC acquired loans that have nonconforming characteristics for the Fixed rate, Bridge, Construction, or Freddie Mac classifications due to loan size, rate type, collateral, or borrower criteria.

Loan portfolio

The table below summarizes the classification, UPB, and carrying value of loans held by the Company including loans of consolidated VIEs.

	June 30, 2023		December 31, 2022	
(in thousands)	Carrying Value	UPB	Carrying Value	UPB
Loans				
Bridge	$ 1,402,220	$ 1,403,510	$ 2,236,333	$ 2,247,173
Fixed rate	183,991	177,774	182,415	175,285
Construction	1,334,225	1,345,230	445,814	448,923
Freddie Mac	9,969	9,861	10,040	9,932
SBA - 7(a)	490,025	509,312	491,532	509,672
Residential	3,932	3,932	4,511	4,511
Other	224,183	228,232	266,702	270,748
Total Loans, before allowance for loan losses	**$ 3,648,545**	**$ 3,677,851**	**$ 3,637,347**	**$ 3,666,244**
Allowance for loan losses	**$ (77,025)**	**$ —**	**$ (61,037)**	**$ —**
Total Loans, net	**$ 3,571,520**	**$ 3,677,851**	**$ 3,576,310**	**$ 3,666,244**
Loans in consolidated VIEs				
Bridge	$ 5,766,352	$ 5,799,191	$ 5,098,539	$ 5,134,790
Fixed rate	816,223	816,566	856,345	856,914
SBA - 7(a)	55,731	60,867	64,226	70,904
Other	286,350	287,197	322,070	322,975
Total Loans, in consolidated VIEs, before allowance for loan losses	**$ 6,924,656**	**$ 6,963,821**	**$ 6,341,180**	**$ 6,385,583**
Allowance for loan losses on loans in consolidated VIEs	**$ (35,129)**	**$ —**	**$ (29,482)**	**$ —**
Total Loans, net, in consolidated VIEs	**$ 6,889,527**	**$ 6,963,821**	**$ 6,311,698**	**$ 6,385,583**
Loans, held for sale, at fair value				
Fixed rate	$ 56,680	$ 68,280	$ 60,551	$ 68,280
Freddie Mac	8,601	8,556	13,791	13,611
SBA - 7(a)	33,881	31,777	44,037	41,674
Residential	134,168	133,655	134,642	133,635
Other	5,334	5,245	5,356	4,414
Total Loans, held for sale, at fair value	**$ 238,664**	**$ 247,513**	**$ 258,377**	**$ 261,614**
Total Loans, net and Loans, held for sale, at fair value	**$ 10,699,711**	**$ 10,889,185**	**$ 10,146,385**	**$ 10,313,441**
Paycheck Protection Program loans				
Paycheck Protection Program loans, held-for-investment	$ 94,439	$ 97,968	$ 186,409	$ 196,222
Paycheck Protection Program loans, held at fair value	172	172	576	576
Total Paycheck Protection Program loans	**$ 94,611**	**$ 98,140**	**$ 186,985**	**$ 196,798**
Total Loan portfolio	**$ 10,794,322**	**$ 10,987,325**	**$ 10,333,370**	**$ 10,510,239**

Loan vintage and credit quality indicators

The Company monitors the credit quality of its loan portfolio based on primary credit quality indicators, such as delinquency rates. Loans that are 30 days or more past due, provide an indication of the borrower's capacity and willingness to meet its financial obligations. In the tables below, Total Loans, net includes Loans, net in consolidated VIEs and a specific allowance for loan losses of $48.5 million, including $27.6 million of reserves of PCD loans as of June 30, 2023, and $32.8 million, including $16.0 million of reserves of PCD loans, as of December 31, 2022.

The tables below summarize the classification, UPB and carrying value of loans by year of origination.

(in thousands)	UPB	Carrying Value by Year of Origination 2023	2022	2021	2020	2019	Pre 2019	Total
June 30, 2023								
Bridge	$ 7,202,701	$ 217,900	$ 2,967,747	$ 3,322,030	$ 323,328	$ 192,187	$ 134,385	$ 7,157,577
Fixed rate	994,340	4,008	96,750	153,782	91,441	330,915	320,163	997,059
Construction	1,345,230	75,999	272,951	282,065	111,473	427,253	136,756	1,306,497
Freddie Mac	9,861	—	—	3,850	6,119	—	—	9,969
SBA - 7(a)	570,179	46,018	106,842	73,208	35,189	68,946	210,144	540,347
Residential	3,932	1,242	2,175	151	—	—	364	3,932
Other	515,429	1,751	5,447	22,340	8,813	44,461	426,521	509,333
Total Loans, before general allowance for loan losses	**$ 10,641,672**	**$ 346,918**	**$ 3,451,912**	**$ 3,857,426**	**$ 576,363**	**$ 1,063,762**	**$ 1,228,333**	**$ 10,524,714**
General allowance for loan losses								**$ (63,667)**
Total Loans, net								**$ 10,461,047**
	UPB	**2022**	**2021**	**2020**	**2019**	**2018**	**Pre 2018**	**Total**
December 31, 2022								
Bridge	$ 7,381,963	$ 2,942,695	$ 3,575,213	$ 355,647	$ 288,957	$ 137,463	$ 27,971	$ 7,327,946
Fixed rate	1,032,199	96,897	154,077	92,080	343,500	134,666	213,406	1,034,626
Construction	448,923	27,532	—	10,000	348,622	42,651	—	428,805
Freddie Mac	9,932	—	3,891	6,149	—	—	—	10,040
SBA - 7(a)	580,576	110,549	79,946	36,853	77,449	89,085	158,378	552,260
Residential	4,511	1,719	725	361	422	678	606	4,511
Other	593,723	5,893	17,015	10,393	74,762	13,832	465,635	587,530
Total Loans, before general allowance for loan losses	**$ 10,051,827**	**$ 3,185,285**	**$ 3,830,867**	**$ 511,483**	**$ 1,133,712**	**$ 418,375**	**$ 865,996**	**$ 9,945,718**
General allowance for loan losses								**$ (57,710)**
Total Loans, net								**$ 9,888,008**

The tables below present delinquency information on loans, net by year of origination.

(in thousands)	UPB	Carrying Value by Year of Origination 2023	2022	2021	2020	2019	Pre 2019	Total
June 30, 2023								
Current and less than 30 days past due	$ 10,075,644	$ 346,523	$ 3,440,511	$ 3,773,221	$ 543,836	$ 901,519	$ 1,001,739	$ 10,007,349
30 - 59 days past due	38,252	60	6,559	30,319	—	1,971	42,050	80,959
60+ days past due	527,776	335	4,842	53,886	32,527	160,272	184,544	436,406
Total Loans, before general allowance for loan losses	**$ 10,641,672**	**$ 346,918**	**$ 3,451,912**	**$ 3,857,426**	**$ 576,363**	**$ 1,063,762**	**$ 1,228,333**	**$ 10,524,714**
General allowance for loan losses								**$ (63,667)**
Total Loans, net								**$ 10,461,047**
	UPB	**2022**	**2021**	**2020**	**2019**	**2018**	**Pre 2018**	**Total**
December 31, 2022								
Current and less than 30 days past due	$ 9,666,328	$ 3,099,822	$ 3,826,140	$ 501,168	$ 1,061,145	$ 298,208	$ 810,322	$ 9,596,805
30 - 59 days past due	111,992	85,403	3,483	1,634	6,654	11,190	1,948	110,312
60+ days past due	273,507	60	1,244	8,681	65,913	108,977	53,726	238,601
Total Loans, before general allowance for loan losses	**$ 10,051,827**	**$ 3,185,285**	**$ 3,830,867**	**$ 511,483**	**$ 1,133,712**	**$ 418,375**	**$ 865,996**	**$ 9,945,718**
General allowance for loan losses								**$ (57,710)**
Total Loans, net								**$ 9,888,008**

The table below presents the gross write-offs recorded in the current period for loans by year of origination.

(in thousands)	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
2023	$ —	$ —
2022	24	147
2021	29	169
2020	—	176
2019	294	294
Pre-2019	1,459	19,242
Total	**$ 1,806**	**$ 20,028**

The table below presents delinquency information on loans, net by portfolio.

(in thousands)		Current		30-59 days past due		60+ days past due		Total		Non-Accrual Loans		90+ days past due and Accruing
June 30, 2023												
Bridge	$	6,948,262	$	28,750	$	180,565	$	7,157,577	$	199,545	$	—
Fixed rate		970,799		5,814		20,446		997,059		16,487		—
Construction		1,059,255		43,200		204,042		1,306,497		252,213		—
Freddie Mac		6,876		—		3,093		9,969		3,093		—
SBA - 7(a)		526,669		148		13,530		540,347		23,596		—
Residential		2,684		324		924		3,932		925		—
Other		492,804		2,723		13,806		509,333		25,532		—
Total Loans, before general allowance for loan losses	**$**	**10,007,349**	**$**	**80,959**	**$**	**436,406**	**$**	**10,524,714**	**$**	**521,391**	**$**	**—**
General allowance for loan losses							**$**	**(63,667)**				
Total Loans, net							**$**	**10,461,047**				
Percentage of loans outstanding		**95.2%**		**0.7%**		**4.1%**		**100%**		**5.0%**		**0.0%**
December 31, 2022												
Bridge	$	7,120,162	$	94,823	$	112,961	$	7,327,946	$	113,360	$	—
Fixed rate		993,832		8,101		32,693		1,034,626		28,719		—
Construction		372,812		—		55,993		428,805		55,993		—
Freddie Mac		6,947		—		3,093		10,040		3,093		—
SBA - 7(a)		541,378		6,690		4,192		552,260		12,790		—
Residential		2,871		—		1,640		4,511		1,306		—
Other		558,803		698		28,029		587,530		27,544		—
Total Loans, before general allowance for loan losses	**$**	**9,596,805**	**$**	**110,312**	**$**	**238,601**	**$**	**9,945,718**	**$**	**242,805**	**$**	**—**
General allowance for loan losses							**$**	**(57,710)**				
Total Loans, net							**$**	**9,888,008**				
Percentage of loans outstanding		**96.5%**		**1.1%**		**2.4%**		**100%**		**2.4%**		**0.0%**

In addition to delinquency rates, the current estimated LTV ratio, geographic distribution of the loan collateral and collateral concentration are primary credit quality indicators that provide insight into a borrower's capacity and willingness to meet its financial obligation. High LTV loans tend to have higher delinquency rates than loans where the borrower has equity in the collateral. The geographic distribution of the loan collateral considers factors such as the regional economy, property price changes and specific events such as natural disasters, which will affect credit quality. The collateral concentration of the loan portfolio considers economic factors or events may have a more pronounced impact on certain sectors or property types.

The table below presents quantitative information on the credit quality of loans, net.

		LTV(1)												
(in thousands)		0.0 – 20.0%		20.1 – 40.0%		40.1 – 60.0%		60.1 – 80.0%		80.1 – 100.0%		Greater than 100.0%		Total
June 30, 2023														
Bridge	$	—	$	69,662	$	638,417	$	6,218,546	$	208,038	$	22,914	$	7,157,577
Fixed rate		7,429		35,778		410,700		514,851		24,556		3,745		997,059
Construction		48,129		113,917		371,327		673,033		58,348		41,743		1,306,497
Freddie Mac		—		—		3,025		6,944		—		—		9,969
SBA - 7(a)		8,042		46,212		86,944		178,858		86,308		133,983		540,347
Residential		—		636		711		1,330		412		843		3,932
Other		138,329		180,380		96,322		64,214		25,134		4,954		509,333
Total Loans, before general allowance for loan losses	**$**	**201,929**	**$**	**446,585**	**$**	**1,607,446**	**$**	**7,657,776**	**$**	**402,796**	**$**	**208,182**	**$**	**10,524,714**
General allowance for loan losses													**$**	**(63,667)**
Total Loans, net													**$**	**10,461,047**
Percentage of loans outstanding		**1.9%**		**4.2%**		**15.3%**		**73.0%**		**3.8%**		**1.8%**		
December 31, 2022														
Bridge	$	717	$	104,606	$	700,835	$	6,331,353	$	167,521	$	22,914	$	7,327,946
Fixed rate		9,102		35,459		386,040		578,456		17,056		8,513		1,034,626
Construction		10,817		12,910		26,387		349,085		24,142		5,464		428,805
Freddie Mac		—		—		3,056		6,984		—		—		10,040
SBA - 7(a)		7,275		45,366		92,592		189,733		78,577		138,717		552,260
Residential		—		934		300		901		1,716		660		4,511
Other		173,720		214,370		115,934		70,124		8,153		5,229		587,530
Total Loans, before general allowance for loan losses	**$**	**201,631**	**$**	**413,645**	**$**	**1,325,144**	**$**	**7,526,636**	**$**	**297,165**	**$**	**181,497**	**$**	**9,945,718**
General allowance for loan losses													**$**	**(57,710)**
Total Loans, net													**$**	**9,888,008**
Percentage of loans outstanding		**2.0%**		**4.2%**		**13.3%**		**75.7%**		**3.0%**		**1.8%**		

(1) LTV is calculated using carrying amount as a percentage of current collateral value

The table below presents the geographic concentration of loans, net, secured by real estate.

Geographic Concentration (% of UPB)	June 30, 2023	December 31, 2022
Texas	19.5 %	20.1 %
California	10.1	11.1
Georgia	6.7	7.6
Florida	6.5	6.3
Arizona	6.1	6.8
Oregon	5.1	4.4
New York	4.8	5.5
North Carolina	4.1	4.2
Illinois	3.8	3.9
Washington	3.4	1.6
Other	29.9	28.5
Total	**100.0 %**	**100.0 %**

The table below presents the collateral type concentration of loans, net.

Collateral Concentration (% of UPB)	June 30, 2023	December 31, 2022
Multi-family	65.1 %	67.0 %
Mixed Use	7.6	8.1
SBA	5.4	5.8
Retail	5.0	5.5
Office	4.6	4.9
Industrial	4.5	5.0
Residential	2.6	0.4
Other	5.2	3.3
Total	**100.0 %**	**100.0 %**

The table below presents the collateral type concentration of SBA loans within loans, net.

Collateral Concentration (% of UPB)	June 30, 2023	December 31, 2022
Lodging	22.6 %	14.6 %
Gasoline Service Stations	7.8	2.5
Offices of Physicians	7.3	7.5
Eating Places	7.3	3.7
Child Day Care Services	6.7	5.7
General Freight Trucking, Local	2.4	2.5
Grocery Stores	1.9	1.6
Veterinarians	1.6	1.6
Funeral Service & Crematories	1.3	1.2
Coin-Operated Laundries and Drycleaners	0.9	0.8
Other	40.2	58.3
Total	**100.0 %**	**100.0 %**

Allowance for credit losses

The allowance for credit losses consists of the allowance for losses on loans and lending commitments accounted for at amortized cost. Such loans and lending commitments are reviewed quarterly considering credit quality indicators, including probable and historical losses, collateral values, LTV ratios, and economic conditions.

The table below presents the allowance for loan losses by loan product and impairment methodology.

(in thousands)	Bridge	Fixed Rate	Construction	SBA - 7(a)	Residential	Other	Total Allowance for loan losses
June 30, 2023							
General	$ 32,862	$ 9,048	$ 8,197	$ 11,400	$ —	$ 2,160	$ 63,667
Specific	10,995	3,156	111	5,409	—	1,199	20,870
PCD	—	—	27,617	—	—		27,617
Ending balance	**$ 43,857**	**$ 12,204**	**$ 35,925**	**$ 16,809**	**$ —**	**$ 3,359**	**$ 112,154**
December 31, 2022							
General	$ 42,979	$ 2,397	$ 325	$ 10,801	$ —	$ 1,208	$ 57,710
Specific	6,926	4,134	1,037	3,498	—	1,242	16,837
PCD	—	—	15,972	—	—	—	15,972
Ending balance	**$ 49,905**	**$ 6,531**	**$ 17,334**	**$ 14,299**	**$ —**	**$ 2,450**	**$ 90,519**

The table below presents a summary of the changes in the allowance for loan losses.

(in thousands)	Bridge	Fixed Rate	Construction	SBA - 7(a)	Residential	Other	Total Allowance for loan losses
Three Months Ended June 30, 2023							
Beginning balance	$ 40,319	$ 9,085	$ 373	$ 15,110	$ —	$ 2,893	$ 67,780
Provision for loan losses	3,538	4,523	7,935	2,012	—	466	18,474
PCD	—	—	27,617	—	—	—	27,617
Charge-offs and sales	—	(1,404)	—	(402)	—	—	(1,806)
Recoveries	—	—	—	89	—	—	89
Ending balance	**$ 43,857**	**$ 12,204**	**$ 35,925**	**$ 16,809**	**$ —**	**$ 3,359**	**$ 112,154**
Three Months Ended June 30, 2022							
Beginning balance	$ 19,878	$ 6,524	$ 5,323	$ 13,233	60	$ 6,226	$ 51,244
Provision for (recoveries of) loan losses	(1,485)	(302)	(201)	219	(3)	(2,956)	(4,728)
Charge-offs and sales	—	—	—	(326)	—	(7)	(333)
Recoveries	—	—	—	—	—	(58)	(58)
Ending balance	**$ 18,393**	**$ 6,222**	**$ 5,122**	**$ 13,126**	**57**	**$ 3,205**	**$ 46,125**
Six Months Ended June 30, 2023							
Beginning balance	$ 49,905	$ 6,531	$ 17,334	$ 14,299	$ —	$ 2,450	$ 90,519
Provision for (recoveries of) loan losses	(5,437)	7,177	7,872	3,407	—	909	13,928
PCD	—	—	27,617	—	—	—	27,617
Charge-offs and sales	(611)	(1,504)	(16,898)	(1,015)	—	—	(20,028)
Recoveries	—	—	—	118	—	—	118
Ending balance	**$ 43,857**	**$ 12,204**	**$ 35,925**	**$ 16,809**	**$ —**	**$ 3,359**	**$ 112,154**
Six Months Ended June 30, 2022							
Beginning balance	$ 19,519	$ 6,861	$ —	$ 12,180	$ 60	$ 6,757	$ 45,377
Provision for (recoveries of) loan losses	(1,126)	(639)	122	1,491	(3)	(3,332)	(3,487)
PCD	—	—	5,000	—		—	5,000
Charge-offs and sales	—	—	—	(499)	—	(7)	(506)
Recoveries	—	—	—	(46)	—	(213)	(259)
Ending balance	**$ 18,393**	**$ 6,222**	**$ 5,122**	**$ 13,126**	**$ 57**	**$ 3,205**	**$ 46,125**

The table above excludes $3.6 million and $0.9 million of allowance for loan losses on unfunded lending commitments as of June 30, 2023 and June 30, 2022, respectively. Refer to Note 3 – Summary of Significant Accounting Policies for more information on accounting policies, methodologies and judgment applied to determine the allowance for loan losses and lending commitments.

Non-accrual loans

A loan is placed on nonaccrual status when it is probable that principal and interest will not be collected under the original contractual terms. At that time, interest income is no longer accrued.

The table below presents information on non-accrual loans.

(in thousands)	June 30, 2023	December 31, 2022
Non-accrual loans		
With an allowance	$ 445,369	$ 197,101
Without an allowance	76,022	45,704
Total recorded carrying value of non-accrual loans	**$ 521,391**	**$ 242,805**
Allowance for loan losses related to non-accrual loans	**$ (48,471)**	**$ (32,809)**
UPB of non-accrual loans	**$ 577,175**	**$ 278,401**

	June 30, 2023	June 30, 2022
Interest income on non-accrual loans for the three months ended	**$ 6,841**	**$ 365**
Interest income on non-accrual loans for the six months ended	**$ 14,689**	**$ 1,773**

PCD loans

On May 31, 2023, the Company acquired PCD loans in connection with the Broadmark Merger. Refer to Note 5 for assets acquired and liabilities assumed in the Merger. The table below presents a reconciliation of the Company’s purchase price with the par value of the purchased loans.

(in thousands)	May 31, 2023
Unpaid principal balance	$ 244,932
Allowance for credit losses	(27,617)
Non-credit discount	(6,035)
Purchase price of loans classified as PCD	**$ 211,280**

Loan modifications made to borrowers experiencing financial difficulty

In certain situations, the Company may provide loan modifications to borrowers experiencing financial difficulty. These modifications may include interest rate reductions, principal forgiveness, term extensions, and other-than-insignificant payment delay intended to minimize the Company's economic loss and to avoid foreclosure or repossession of collateral.

The table below presents loan modifications made to borrowers experiencing financial difficulty.

	Three Months Ended June 30, 2023			
(in thousands)	Carrying Value		% of Total Carrying Value of Loans, net	Financial Effect
SBC loans modified during the period ended				
Term extension	$	381,895	3.65 %	18 months added to the weighted average life of the loans
SBA loans modified during the period ended				
Term extension	$	7	0.00 %	3.0 years added to the weighted average life of the loans
Other-than-insignificant payment delay		126	0.00	9 months of payment deferral

	Six Months Ended June 30, 2023			
	Carrying Value		% of Total Carrying Value of Loans, net	Financial Effect
SBC loans modified during the period ended				
Term extension	$	405,246	3.87 %	18 months added to the weighted average life of the loans
Combination - Term extension and other-than-insignificant payment delay		28,369	0.27	12 months of payment deferral and 1.5 years added to the weighted average life of the loan
SBA loans modified during the period ended				
Term extension	$	17	0.00 %	5.8 years added to the weighted average life of the loans
Other-than-insignificant payment delay		805	0.01	7 months of payment deferral

The Company monitors the performance of loans modified to borrowers experiencing financial difficulty. The table below presents the performance of loans that have been modified in the last 12 months to borrowers experiencing financial difficulty. The Company considers loans that are 30 days past due to be in payment default.

	Three Months Ended June 30, 2023				
(in thousands)		Current	30-59 days past due	60+ days past due	Total
SBC					
Term extension	$	357,384 $	— $	24,511 $	381,895
SBA					
Term extension	$	7 $	— $	— $	7
Other-than-insignificant payment delay		126	—	—	126

	Six Months Ended June 30, 2023				
		Current	30-59 days past due	60+ days past due	Total
SBC					
Term extension	$	380,735 $	— $	24,511 $	405,246
Combination - Term extension and other-than-insignificant payment delay		—	—	28,369	28,369
SBA					
Term extension	$	9 $	— $	8 $	17
Other-than-insignificant payment delay		805	—	—	805

As of June 30, 2023, the Company did not have any lending commitments to borrowers experiencing financial difficulty for which the Company has modified the loan terms.

The Company's allowance for loan losses reflects our estimate of expected life-time loan losses, which considers historical loan losses including losses from modified loans to borrowers experiencing financial difficulty. The Company continues to estimate the allowance for loan losses after modification using loan-specific inputs.

Note 7. Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP has a three-level hierarchy that prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is impacted by a number of factors, including the type of investment, the characteristics specific to the investment, and the state of the marketplace (including the existence and transparency of transactions between market participants). The Company’s valuation techniques for financial instruments use observable and unobservable inputs. Investments with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Investments measured and reported at fair value are classified and disclosed into one of the following categories:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company has the ability to access.

Level 2 — Pricing inputs are other than quoted prices in active markets, including, but not limited to, quoted prices for similar assets and liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.

Level 3 — One or more pricing inputs is significant to the overall valuation and unobservable. Significant unobservable inputs are based on the best information available in the circumstances, to the extent observable inputs are not available, including the Company’s own assumptions used in determining the fair value of financial instruments. Fair value for these investments is determined using valuation methodologies that consider a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment.

Valuation techniques of Level 3 investments vary by instrument type, but are generally based on an income, market or cost-based approach. The income approach predominantly considers discounted cash flows which is the measure of expected future cash flows in a default scenario, implied by the value of the underlying collateral, where applicable, and current performance whereas the market-based approach predominantly considers pull-through rates, industry multiples and the unpaid principal balance. Fair value measurements of loans are sensitive to changes in assumptions regarding prepayments, probability of default, loss severity in the event of default, forecasts of home prices, and significant activity or developments in the real estate market. Fair value measurements of residential MSRs are sensitive to changes in assumptions regarding prepayments, discount rates, and cost of servicing. Fair value measurements of derivative instruments, specifically IRLC’s, are sensitive to changes in assumptions related to origination pull-through rates, servicing fee multiples, and percentages of unpaid principal balances. Origination pull-through rates are also dependent on factors such as market interest rates, type of origination, length of lock, purpose of the loan (purchase or refinance), type of loan (fixed or variable), and the processing status of the loan.

Liabilities recognized in relation to mergers and acquisitions that are accounted for as contingent consideration are classified as Level 3 in the fair value hierarchy with fair value adjustments reported within other income (loss) in the consolidated statements of income. Contingent consideration also consists of CERs. Pursuant to the CER agreement, if, as of the revaluation date, the sum of the updated fair value of the acquired portfolio less all advances made on such assets, plus all principal payments, return of capital and liquidation proceeds received on such assets exceeds the initial discounted fair value of the acquired portfolio, then the Company will issue to the CER holders, with respect to each CER, a number of shares of common stock equal to 90% of the lesser of the valuation excess and the discount amount, divided by the number of initially issued CERs divided by the Company share value, with cash being paid in lieu of any fractional shares of common stock otherwise due to such holder. In addition, each CER holder will be entitled to receive a number of additional shares of common stock equal to (i) the amount of any dividends or other distributions paid with respect to the number of whole shares of common stock received by such CER holder in respect of such holder’s CERs and having a record date on or after the closing of the Mosaic Mergers and a payment date prior to the issuance date of such shares of common stock, divided by (ii) the Company share value. The probability-weighted expected return method ("PWERM") was utilized to estimate the return of capital and liquidation proceeds of the acquired asset portfolio, considering each possible outcome, including the economic and projected performance of each acquired asset, using a probability of 65%-100% return of capital. The discounted cashflow technique was utilized by the Company to assess the updated value of the acquired portfolio as of the revaluation date. The fair value of dividend distributions to the CER holders was determined using a Monte Carlo simulation model which considers various potential results based on the CER payments, volatility of the Company's share value and projected dividend distributions. Refer to Note 5 for further details on assets acquired and liabilities assumed in connection with the Mosaic Mergers.

In certain cases, the inputs used to measure fair value may be categorized into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The table below presents financial instruments carried at fair value on a recurring basis.

(in thousands)	Level 1	Level 2	Level 3	Total
June 30, 2023				
Assets:				
Money market funds [(a)]	$ 94,932	$ —	$ —	$ 94,932
Loans, held for sale, at fair value	—	181,632	57,032	238,664
Loans, net, at fair value	—	—	9,773	9,773
Paycheck Protection Program loans	—	172	—	172
MBS, at fair value	—	33,770	—	33,770
Derivative instruments, at fair value	—	8,039	716	8,755
Residential MSRs, at fair value	—	—	201,471	201,471
Investment in unconsolidated joint ventures	—	—	7,731	7,731
Preferred equity investment [(b)]	—	—	108,423	108,423
Total assets	**$ 94,932**	**$ 223,613**	**$ 385,146**	**$ 703,691**
Liabilities:				
Derivative instruments, at fair value	$ —	$ 2,261	$ —	$ 2,261
Contingent consideration	—	—	15,566	15,566
Total liabilities	**$ —**	**$ 2,261**	**$ 15,566**	**$ 17,827**
December 31, 2022				
Assets:				
Money market funds [(a)]	$ 44,611	$ —	$ —	$ 44,611
Loans, held for sale, at fair value	—	197,453	60,924	258,377
Loans, net, at fair value	—	—	9,786	9,786
Paycheck Protection Program loans	—	576	—	576
MBS, at fair value	—	32,041	—	32,041
Derivative instruments, at fair value	—	12,846	117	12,963
Residential MSRs, at fair value	—	—	192,203	192,203
Investment in unconsolidated joint ventures	—	—	8,094	8,094
Preferred equity investment [(b)]	—	—	108,423	108,423
Total assets	**$ 44,611**	**$ 242,916**	**$ 379,547**	**$ 667,074**
Liabilities:				
Derivative instruments, at fair value	$ —	$ 1,586	$ —	$ 1,586
Contingent consideration	—	—	28,500	28,500
Total liabilities	**$ —**	**$ 1,586**	**$ 28,500**	**$ 30,086**

(a) Money market funds are included in cash and cash equivalents on the consolidated balance sheets
(b) Preferred equity investment held through consolidated joint ventures are included in assets of consolidated VIEs on the consolidated balance sheets

The table below presents the valuation techniques and significant unobservable inputs used to value Level 3 financial instruments, using third party information without adjustment.

(in thousands)	Fair Value	Predominant Valuation Technique (a)	Type	Range	Weighted Average
June 30, 2023					
Residential MSRs, at fair value	$ 201,471	Income Approach	Forward prepayment rate | Discount rate | Servicing expense	(b)	(b)
Investment in unconsolidated joint ventures	$ 7,731	Income Approach	Discount rate	9.0%	9.0%
Derivative instruments, at fair value	$ 716	Market Approach	Origination pull-through rate | Servicing Fee Multiple | Percentage of unpaid principal balance	60.3% - 100% | 0.9 - 16.1% | 0.2 - 3.1%	82.2% | 8.0% | 1.7%
Preferred equity investment	$ 108,423	Income Approach	Discount rate	10.5%	10.5%
Contingent consideration- Mosaic CER dividends	$ (3,692)	Monte Carlo Simulation Model	Equity volatility | Discount rate	30.0% | 11.5%	30.0% | 11.5%
Contingent consideration- Mosaic CER units	$ (11,874)	Income approach and PWERM Model	Revaluation discount rate | Discount rate	12.0% | 11.5%	12.0% | 11.5%
December 31, 2022					
Residential MSRs, at fair value	$ 192,203	Income Approach	Forward prepayment rate | Discount rate | Servicing expense	(b)	(b)
Investment in unconsolidated joint ventures	$ 8,094	Income Approach	Discount rate	9.0%	9.0%
Derivative instruments, at fair value	$ 117	Market Approach	Origination pull-through rate | Servicing Fee Multiple | Percentage of unpaid principal balance	53.9% - 100% | 2.0 - 7.2% | 0.5 - 3.2%	83% | 4.7% | 1.6%
Preferred equity investment	$ 108,423	Income Approach	Discount rate	10.5%	10.5%
Contingent consideration- Mosaic CER dividends	$ (4,587)	Monte Carlo Simulation Model	Equity volatility | Discount rate	35.0% | 11.9%	35.0% | 11.9%
Contingent consideration- Mosaic CER units	$ (14,913)	Income approach and PWERM Model	Revaluation discount rate | Discount rate	12.0% | 11.9%	12.0% | 11.9%

(a) Prices are weighted based on the unpaid principal balance of the loans and securities included in the range for each class.
(b) Refer to Note 9 - Servicing Rights for more information on residential MSRs unobservable inputs.

Included within Level 3 assets of $ 385.1 million as of June 30, 2023 and $ 379.5 million as of December 31, 2022, is $ 66.8 million and $70.7 million, respectively, of quoted or transaction prices in which quantitative unobservable inputs are not developed by the Company when measuring fair value. Included within Level 3 liabilities of $28.5 million as of December 31, 2022, is $9.0 million of quoted or transaction prices in which quantitative unobservable inputs are not developed by the Company when measuring fair value.

The table below presents a summary of changes in fair value for Level 3 assets and liabilities.

(in thousands)	MBS	Derivatives	Loans, net	Loans, held for sale, at fair value	Investments held to maturity	PPP loans	Residential MSRs	Investment in unconsolidated joint ventures	Contingent consideration	Preferred Equity investments	Total
Three Months Ended June 30, 2023											
Beginning Balance	$ —	$ 1,979	$ 9,859	$ 58,330	$ —	$ —	$ 188,985	$ 7,913	$ (16,636)	$ 108,423	$ 358,853
Additions due to loans sold, servicing retained	—	—	—	—	—	—	6,000	—	—	—	6,000
Sales / Principal payments	—	—	—	(11)	—	—	(2,332)	—	—	—	(2,343)
Unrealized gains (losses), net	—	(1,263)	(86)	(1,304)	—	—	8,818	(182)	1,070	—	7,053
Transfer from loans, held for investment	—	—	—	17	—	—	—	—	—	—	17
Ending Balance	**$ —**	**$ 716**	**$ 9,773**	**$ 57,032**	**$ —**	**$ —**	**$ 201,471**	**$ 7,731**	**$ (15,566)**	**$ 108,423**	**$ 369,580**
Six Months Ended June 30, 2023											
Beginning Balance	$ —	$ 117	$ 9,786	$ 60,924	$ —	$ —	$ 192,203	$ 8,094	$ (28,500)	$ 108,423	$ 351,047
Additions due to loans sold, servicing retained	—	—	—	—	—	—	10,593	—	—	—	10,593
Sales / Principal payments	—	—	—	(22)	—	—	(4,050)	—	9,000	—	4,928
Unrealized gains (losses), net	—	599	(13)	(3,887)	—	—	2,725	(363)	3,934	—	2,995
Transfer from loans, held for investment	—	—	—	17	—	—	—	—	—	—	17
Ending Balance	**$ —**	**$ 716**	**$ 9,773**	**$ 57,032**	**$ —**	**$ —**	**$ 201,471**	**$ 7,731**	**$ (15,566)**	**$ 108,423**	**$ 369,580**
Three Months Ended June 30, 2022											
Beginning Balance	$ 7,014	$ (2,616)	$ 10,722	$ 203,958	$ 17,053	$ —	$ 159,834	$ 8,610	$ (92,148)	$ —	$ 312,427
Purchases or Originations	—	—	—	5,900	—	—	—	—	—	—	5,900
Additions due to loans sold, servicing retained	—	—	—	—	—	—	12,448	—	—	—	12,448
Sales / Principal payments	(1,352)	—	—	(115)	(7,296)	—	(3,614)	—	—	—	(12,377)
Realized gains (losses), net	(1,449)	—	—	(1)	(156)	—	—	—	—	—	(1,606)
Unrealized gains (losses), net	2,661	5,015	(766)	(5,014)	—	—	(15)	(171)	(400)	—	1,310
Accreted discount, net	1	—	—	—	—	—	—	—	—	—	1
Transfer to loans, held for investment	—	—	—	(3,862)	—	—	—	—	—	—	(3,862)
Transfer from Level 3	(5,209)	—	—	(3)	—	—	—	—	—	—	(5,212)
Ending Balance	**$ 1,666**	**$ 2,399**	**$ 9,956**	**$ 200,863**	**$ 9,601**	**$ —**	**$ 168,653**	**$ 8,439**	**$ (92,548)**	**$ —**	**$ 309,029**
Six Months Ended June 30, 2022											
Beginning Balance	$ 1,581	$ 2,339	$ 10,766	$ 231,865	$ —	$ 3,243	$ 120,142	$ 8,894	$ (16,400)	$ —	$ 362,430
Purchases or Originations	—	—	—	23,470	—	—	—	—	—	—	23,470
Additions due to loans sold, servicing retained	—	—	—	—	—	—	22,954	—	—	—	22,954
Sales / Principal payments	(1,352)	—	—	(32,709)	(7,296)	(1,400)	(7,026)	—	9,000	—	(40,783)
Realized gains (losses), net	(1,449)	—	—	(787)	(156)	—	—	—	—	—	(2,392)
Unrealized gains (losses), net	2,705	60	(810)	(15,774)	—	—	32,583	(455)	(800)	—	17,509
Accreted discount, net	1	—	—	—	—	—	—	—	—	—	1
Merger	—	—	—	—	17,053	—		—	(84,348)	—	(67,295)
Transfer to loans, held for investment	—	—	—	(3,862)	—	—		—	—	—	(3,862)
Transfer to (from) Level 3	180	—	—	(1,340)	—	(1,843)	—	—	—	—	(3,003)
Ending Balance	**$ 1,666**	**$ 2,399**	**$ 9,956**	**$ 200,863**	**$ 9,601**	**$ —**	**$ 168,653**	**$ 8,439**	**$ (92,548)**	**$ —**	**$ 309,029**

The Company’s policy is to recognize transfers in and transfers out as of the end of the period of the event or the date of the change in circumstances that caused the transfer. Transfers between Level 2 and Level 3 generally relate to whether there were changes in the significant relevant observable and unobservable inputs that are available for the fair value measurements of such financial instruments.

Financial instruments not carried at fair value

The table below presents the carrying value and estimated fair value of financial instruments that are not carried at fair value and are classified as Level 3.

	June 30, 2023		December 31, 2022	
(in thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Loans, net	$ 10,451,274	$ 10,243,959	$ 9,878,222	$ 9,610,412
Paycheck Protection Program loans	94,439	94,439	186,409	196,222
Investments held to maturity	3,446	3,448	3,306	3,306
Purchased future receivables, net	12,917	12,917	8,246	8,246
Servicing rights	94,893	101,596	87,117	91,698
Total assets	**$ 10,656,969**	**$ 10,456,359**	**$ 10,163,300**	**$ 9,909,884**
Liabilities:				
Secured borrowings	$ 2,395,687	$ 2,395,687	$ 2,846,293	$ 2,846,293
Paycheck Protection Program Liquidity Facility borrowings	110,838	110,838	201,011	201,011
Securitized debt obligations of consolidated VIEs, net	5,395,361	5,233,332	4,903,350	4,748,291
Senior secured note, net	344,241	306,546	343,355	312,975
Guaranteed loan financing	226,084	235,773	264,889	275,316
Convertible notes, net	114,942	115,319	114,397	113,823
Corporate debt, net	762,668	716,825	662,665	614,744
Total liabilities	**$ 9,349,821**	**$ 9,114,320**	**$ 9,335,960**	**$ 9,112,453**

Note 8. Investments held to maturity

The table below presents information about investments held to maturity as of June 30, 2023 and December 31, 2022.

(in thousands)	Weighted Average Interest Rate (a)	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
June 30, 2023					
Less than one year	12.0 %	$ 446	$ 446	$ —	$ —
Construction preferred equities	**12.0 %**	**$ 446**	**$ 446**	**$ —**	**$ —**
One to five years	10.0 %	$ 3,000	$ 3,000	$ —	$ —
Multi-family preferred equities	**10.0 %**	**$ 3,000**	**$ 3,000**	**$ —**	**$ —**
Total investments held to maturity	**10.3 %**	**$ 3,446**	**$ 3,446**	**$ —**	**$ —**
December 31, 2022					
Less than one year	12.0 %	$ 306	$ 306	$ —	$ —
Construction preferred equities	**12.0 %**	**$ 306**	**$ 306**	**$ —**	**$ —**
One to five years	10.0 %	$ 3,000	$ 3,000	$ —	$ —
Multi-family preferred equities	**10.0 %**	**$ 3,000**	**$ 3,000**	**$ —**	**$ —**
Total investments held to maturity	**10.3 %**	**$ 3,306**	**$ 3,306**	**$ —**	**$ —**

(a) Weighted based on current principal balance

Provision for credit losses on held to maturity securities was not material for the three and six months ended June 30, 2023 or June 30, 2022.

Note 9. Servicing rights

The Company performs servicing activities for third parties, which primarily include collecting principal, interest and other payments from borrowers, remitting the corresponding payments to investors and monitoring delinquencies. The Company's servicing fees are specified by pooling and servicing agreements.

The table below presents information about servicing rights.

(in thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
SBA servicing rights, at amortized cost				
Beginning net carrying amount	$ 22,040	$ 22,891	$ 19,756	$ 22,157
Additions due to loans sold, servicing retained	2,043	2,045	3,555	3,779
Amortization	(921)	(1,000)	(1,756)	(1,949)
Recovery (impairment)	1,166	(2,266)	2,773	(2,317)
Ending net carrying amount	**$ 24,328**	**$ 21,670**	**$ 24,328**	**$ 21,670**
Multi-family servicing rights, at amortized cost				
Beginning net carrying amount	$ 67,911	$ 61,418	$ 67,361	$ 62,300
Additions due to loans sold, servicing retained	5,311	4,164	8,392	5,627
Amortization	(2,657)	(2,394)	(5,188)	(4,739)
Ending net carrying amount	**$ 70,565**	**$ 63,188**	**$ 70,565**	**$ 63,188**
Total servicing rights, at amortized cost	**$ 94,893**	**$ 84,858**	**$ 94,893**	**$ 84,858**
Residential MSRs, at fair value				
Beginning net carrying amount	$ 188,985	$ 159,834	$ 192,203	$ 120,142
Additions due to loans sold, servicing retained	6,000	12,448	10,593	22,954
Loan pay-offs	(2,332)	(3,614)	(4,050)	(7,026)
Unrealized gains (losses)	8,818	(15)	2,725	32,583
Ending fair value amount	**$ 201,471**	**$ 168,653**	**$ 201,471**	**$ 168,653**
Total servicing rights	**$ 296,364**	**$ 253,511**	**$ 296,364**	**$ 253,511**

Servicing rights – SBA and multi-family portfolio. The Company's SBA and multi-family servicing rights are carried at amortized cost and evaluated quarterly for impairment. The Company estimates the fair value of these servicing rights by using a combination of internal models and data provided by third-party valuation experts. The assumptions used in the Company's internal models include forward prepayment rates, forward default rates, discount rates, and servicing expenses.

The Company's models calculate the present value of expected future cash flows utilizing assumptions that it believes are used by market participants. Forward prepayment rates, forward default rates and discount rates are derived from historical experiences adjusted for prevailing market conditions. Components of the estimated future cash flows include servicing fees, late fees, other ancillary fees and cost of servicing.

The table below presents additional information about SBA and multi-family servicing rights.

(in thousands)	As of June 30, 2023 UPB	As of June 30, 2023 Carrying Value	As of December 31, 2022 UPB	As of December 31, 2022 Carrying Value
SBA	$ 1,100,239	$ 24,328	$ 1,019,770	$ 19,756
Multi-family	5,264,796	70,565	4,839,028	67,361
Total	**$ 6,365,035**	**$ 94,893**	**$ 5,858,798**	**$ 87,117**

The table below presents significant assumptions used in the estimated valuation of SBA and multi-family servicing rights carried at amortized cost.

	June 30, 2023 Range of input values	June 30, 2023 Weighted Average	December 31, 2022 Range of input values	December 31, 2022 Weighted Average
SBA servicing rights				
Forward prepayment rate	9.9 - 21.9 %	10.2 %	10.2 - 21.6 %	10.6 %
Forward default rate	0.0 - 10.0 %	9.4 %	0.0 - 10.0 %	9.2 %
Discount rate	13.6 - 22.5 %	14.0 %	18.0 - 31.4 %	18.7 %
Servicing expense	0.4 - 0.4 %	0.4 %	0.4 - 0.4 %	0.4 %
Multi-family servicing rights				
Forward prepayment rate	0.0 - 7.5 %	3.6 %	0.0 - 7.2 %	3.5 %
Forward default rate	0.0 - 1.1 %	0.8 %	0.0 - 1.1 %	0.8 %
Discount rate	6.0 - 6.0 %	6.0 %	6.0 - 6.0 %	6.0 %
Servicing expense	0.0 - 0.8 %	0.1 %	0.0 - 0.8 %	0.1 %

Assumptions can change between and at each reporting period as market conditions and projected interest rates change. The table below presents the possible impact of 10% and 20% adverse changes to key assumptions on SBA and multi-family servicing rights.

(in thousands)	June 30, 2023	December 31, 2022
SBA servicing rights		
Forward prepayment rate		
Impact of 10% adverse change	$ (782)	$ (578)
Impact of 20% adverse change	$ (1,518)	$ (1,125)
Default rate		
Impact of 10% adverse change	$ (169)	$ (125)
Impact of 20% adverse change	$ (336)	$ (249)
Discount rate		
Impact of 10% adverse change	$ (949)	$ (861)
Impact of 20% adverse change	$ (1,822)	$ (1,642)
Servicing expense		
Impact of 10% adverse change	$ (1,533)	$ (1,228)
Impact of 20% adverse change	$ (3,067)	$ (2,455)
Multi-family servicing rights		
Forward prepayment rate		
Impact of 10% adverse change	$ (267)	$ (271)
Impact of 20% adverse change	$ (528)	$ (537)
Default rate		
Impact of 10% adverse change	$ (20)	$ (22)
Impact of 20% adverse change	$ (41)	$ (44)
Discount rate		
Impact of 10% adverse change	$ (2,220)	$ (2,057)
Impact of 20% adverse change	$ (4,327)	$ (4,012)
Servicing expense		
Impact of 10% adverse change	$ (2,643)	$ (2,685)
Impact of 20% adverse change	$ (5,286)	$ (5,370)

The table below presents estimated future amortization expense for SBA and multi-family servicing rights.

(in thousands)	June 30, 2023
2023	$ 7,692
2024	13,208
2025	11,881
2026	10,518
2027	9,333
Thereafter	42,261
Total	**$ 94,893**

Residential MSRs. The Company's residential MSRs consist of conforming conventional loans sold to Fannie Mae and Freddie Mac or loans securitized in Ginnie Mae securities. Similarly, the government loans serviced by the Company are securitized through Ginnie Mae, whereby the Company is insured against loss by the Federal Housing Administration or partially guaranteed against loss by the Department of Veteran Affairs.

The table below presents additional information about residential MSRs carried at fair value.

	June 30, 2023		December 31, 2022	
(in thousands)	UPB	Fair Value	UPB	Fair Value
Fannie Mae	$ 4,542,637	$ 67,532	$ 4,492,990	$ 64,914
Freddie Mac	4,570,335	71,327	4,499,992	68,208
Ginnie Mae	3,154,566	62,612	3,085,038	59,081
Total	**$ 12,267,538**	**$ 201,471**	**$ 12,078,020**	**$ 192,203**

The table below presents significant assumptions used in the valuation of residential MSRs carried at fair value.

	June 30, 2023		December 31, 2022	
	Range of input values	Weighted Average	Range of input values	Weighted Average
Residential MSRs				
Forward prepayment rate	5.5 - 16.9 %	6.8 %	6.0 - 21.5 %	6.3 %
Discount rate	9.5 - 13.8 %	10.1 %	9.5 - 12.0 %	10.1 %
Servicing expense	$70 - $95	$74	$70 - $85	$74

Assumptions can change between and at each reporting period as market conditions and projected interest rates change.

The table below presents the possible impact of 10% and 20% adverse changes to key assumptions on the fair value of residential MSRs.

(in thousands)	June 30, 2023	December 31, 2022
Residential MSRs		
Prepayment rate		
Impact of 10% adverse change	$ (5,810)	$ (5,620)
Impact of 20% adverse change	$ (11,312)	$ (10,948)
Discount rate		
Impact of 10% adverse change	$ (9,306)	$ (8,906)
Impact of 20% adverse change	$ (17,834)	$ (17,066)
Servicing expense		
Impact of 10% adverse change	$ (2,732)	$ (2,689)
Impact of 20% adverse change	$ (5,465)	$ (5,378)

Note 10. Residential mortgage banking activities and variable expenses on residential mortgage banking activities

Residential mortgage banking activities reflects revenue within the Company's residential mortgage banking business directly related to loan origination and sale activity. This primarily consists of the realized gains on sales of residential loans held for sale and loan origination fee income. Residential mortgage banking activities also consists of unrealized gains and losses associated with the changes in fair value of the loans held for sale, the fair value of retained MSR additions, and the realized and unrealized gains and losses from derivative instruments. Variable expenses include correspondent fee expenses and other direct expenses relating to these loans, which vary based on loan origination volumes.

The table below presents the components of residential mortgage banking activities and associated variable expenses.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2023	2022	2023	2022
Realized and unrealized gain (loss) of residential mortgage loans held for sale, at fair value	$ 2,084	$ (7,886)	$ 4,975	$ (12,973)
Creation of new MSRs, net of payoffs	3,668	8,834	6,543	15,928
Loan origination fee income on residential mortgage loans	3,911	4,749	6,437	8,859
Unrealized gain (loss) on IRLCs and other derivatives	221	(2,750)	1,098	(443)
Residential mortgage banking activities	**$ 9,884**	**$ 2,947**	**$ 19,053**	**$ 11,371**
Variable income (expenses) on residential mortgage banking activities	**$ (6,574)**	**$ 4,532**	**$ (12,059)**	**$ 3,553**

Note 11. Secured borrowings

The table below presents certain characteristics of secured borrowings.

Lenders (1)	Asset Class	Current Maturity (2)	Pricing (3)	Facility Size	Pledged Assets Carrying Value	Carrying Value at June 30, 2023	Carrying Value at December 31, 2022
3	SBA loans	October 2023 - March 2025	SOFR + 2.86% Prime - 0.82%	$ 250,000	$ 276,395	$ 191,763	$ 160,903
2	SBC loans - USD	February 2024 – December 2024	SOFR + 6.82%	360,000	365,985	138,267	111,966
1	SBC loans - Non-USD (4)	June 2026	SONIA + 3.25%	127,030	56,284	37,395	61,596
5	Residential loans	October 2023 – August 2024	Variable Pricing	390,000	134,354	131,015	132,658
1	Residential MSRs	February 2026	SOFR + 3.00%	120,000	138,859	97,881	49,900
1	Purchased future receivables	October 2025	SOFR + 4.50%	50,000	12,917	7,000	—
Total borrowings under credit facilities and other financing agreements				**$ 1,297,030**	**$ 984,794**	**$ 603,321**	**$ 517,023**
8	SBC loans	November 2023 – June 2026	1 MT + 2.00% SOFR + 2.67%	$ 4,420,500	$ 1,852,685	$ 1,384,451	$ 1,905,358
1	SBC loans - Non-USD (4)	January 2024	EURIBOR + 3.00%	218,180	54,499	40,846	—
6	MBS	July 2023 - January 2024	7.30%	367,069	751,311	367,069	423,912
Total borrowings under repurchase agreements				**$ 5,005,749**	**$ 2,658,495**	**$ 1,792,366**	**$ 2,329,270**
Total secured borrowings				**$ 6,302,779**	**$ 3,643,289**	**$ 2,395,687**	**$ 2,846,293**

(1) Represents the total number of facility lenders.
(2) Current maturity does not reflect extension options available beyond original commitment terms.
(3) Asset class pricing is determined using an index rate plus a weighted average spread.
(4) Non-USD denominated credit facilities and repurchase agreements have been converted into USD for purposes of this disclosure.

In the table above, the agreements governing secured borrowings require maintenance of certain financial and debt covenants. As of both June 30, 2023 and December 31, 2022, certain financing counterparties covenants calculations were amended to exclude the PPPLF from certain covenant calculations. As of both June 30, 2023 and December 31, 2022 the Company was in compliance with all debt and financial covenants.

The table below presents the carrying value of collateral pledged with respect to secured borrowings outstanding.

	Pledged Assets Carrying Value	
(in thousands)	June 30, 2023	December 31, 2022
Collateral pledged - borrowings under credit facilities and other financing agreements		
Loans, held for sale, at fair value	$ 149,009	$ 146,721
Loans, net	684,009	630,910
MSRs	138,859	133,122
Purchased future receivables	12,917	—
Total	**$ 984,794**	**$ 910,753**
Collateral pledged - borrowings under repurchase agreements		
Loans, net	$ 1,839,239	$ 2,496,880
MBS	27,129	27,015
Retained interest in assets of consolidated VIEs	724,182	753,099
Loans, held for sale, at fair value	56,681	60,551
Loans, held at fair value	9,773	3,974
Real estate acquired in settlement of loans	1,491	1,491
Total	**$ 2,658,495**	**$ 3,343,010**
Total collateral pledged on secured borrowings	**$ 3,643,289**	**$ 4,253,763**

Note 12. Senior secured notes, convertible notes, and corporate debt, net

Senior secured notes, net

ReadyCap Holdings, LLC ("ReadyCap Holdings") 4.50% senior secured notes due 2026. On October 20, 2021, ReadyCap Holdings, an indirect subsidiary of the Company, completed the offer and sale of $350.0 million of its 4.50% Senior Secured Notes due 2026 (the "Senior Secured Notes"). The Senior Secured Notes are fully and unconditionally guaranteed by the Company, each direct parent entity of ReadyCap Holdings, and other direct or indirect subsidiaries of the Company from time to time that is a direct parent entity of Sutherland Asset III, LLC or otherwise pledges collateral to secure the Senior Secured Notes (collectively, the "Guarantors").

ReadyCap Holdings' and the Guarantors' respective obligations under the Senior Secured Notes are secured by a perfected first-priority lien on certain capital stock and assets (collectively, the "SSN Collateral") owned by certain subsidiaries of the Company.

The Senior Secured Notes are redeemable by ReadyCap Holdings' following a non-call period, through the payment of the outstanding principal balance of the Senior Secured Notes plus a "make-whole" or other premium that decreases the closer the Senior Secured Notes are to maturity. ReadyCap Holdings is required to offer to repurchase the Senior Secured Notes at 101% of the principal balance of the Senior Secured Notes in the event of a change in control and a downgrade of the rating on the Senior Secured Notes in connection therewith, as set forth more fully in the note purchase agreement.

The Senior Secured Notes were issued pursuant to a note purchase agreement, which contains certain customary negative covenants and requirements relating to the collateral and our company, including maintenance of minimum liquidity, minimum tangible net worth, maximum debt to net worth ratio and limitations on transactions with affiliates.

As of June 30, 2023, the Company was in compliance with all covenants with respect to the Senior Secured Notes.

Convertible notes, net

On August 9, 2017, the Company closed an underwritten public sale of $ 115.0 million aggregate principal amount of its 7.00% convertible senior notes due 2023 ("Convertible Notes"). As of June 30, 2023, the conversion rate was 1.6548 shares of common stock per $25 principal amount of the Convertible Notes, which is equivalent to a conversion price of approximately $15.11 per share of common stock. Upon conversion, holders will receive, at the Company's discretion, cash, shares of the Company's common stock or a combination thereof.

The Company may redeem all or any portion of the Convertible Notes on or after August 15, 2021, if the last reported sale price of the Company's common stock has been at least 120% of the conversion price in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption, at a redemption price payable in cash equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest. Additionally, upon the occurrence of certain corporate transactions, holders may require the Company to purchase the

Convertible Notes for cash at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest.

The Convertible Notes will be convertible only upon satisfaction of one or more of the following conditions: (1) the closing market price of the Company's common stock is greater than or equal to 120% of the conversion price of the respective Convertible Notes for at least 20 out of 30 days prior to the end of the preceding fiscal quarter, (2) the trading price of the Convertible Notes is less than 98% of the product of (i) the conversion rate and (ii) the closing price of the Company's common stock during any five consecutive trading day period, (3) the Company issues certain equity instruments at less than the 10 day average closing market price of its common stock or the per-share value of certain distributions exceeds the market price of the Company's common stock by more than 10%, or (4) certain other specified corporate events (significant consolidation, sale, merger share exchange, etc.) occur.

At issuance, the Company allocated $112.7 million and $2.3 million of the carrying value of the Convertible Notes to its debt and equity components, respectively, before the allocation of deferred financing costs.

As of June 30, 2023, the Company was in compliance with all covenants with respect to the Convertible Notes.

Corporate debt, net

The Company issues senior unsecured notes in public and private transactions. The notes are governed by a base indenture and supplemental indentures. Often, the notes are redeemable by us following a non-call period, through the payment of the outstanding principal balance plus a "make-whole" or other premium that typically decreases the closer the notes are to maturity. The Company often is required to offer to repurchase the notes, in some cases at 101% of the principal balance of the notes, in the event of a change in control or fundamental change pertaining to our company, as defined in the applicable supplemental indentures. The notes rank equal in right of payment to any of its existing and future unsecured and unsubordinated indebtedness; effectively junior in right of payment to any of its existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness, other liabilities (including trade payables) and (to the extent not held by us) preferred stock, if any, of our subsidiaries. The supplemental indentures governing the notes often contain customary negative covenants and financial covenants relating to maintenance of minimum liquidity, minimum tangible net worth, maximum debt to net worth ratio and limitations on transactions with affiliates.

In addition, in connection with the Broadmark Merger, RCC Merger Sub, a wholly owned subsidiary of the Company, assumed Broadmark's obligations on certain senior unsecured notes. The note purchase agreement governing these notes contain financial covenants that require compliance with leverage and coverage ratios and maintenance of minimum tangible net worth, as well as other customary affirmative and negative covenants.

As of June 30, 2023, the Company was in compliance with all covenants with respect to Corporate debt.

The Debt ATM Agreement

On May 20, 2021, the Company entered into an At Market Issuance Sales Agreement (the "Sales Agreement") with B. Riley Securities, Inc. (the "Agent"), pursuant to which it may offer and sell, from time to time, up to $100.0 million of the 6.20% 2026 Notes and the 5.75% 2026 Notes. Sales of the 6.20% 2026 Notes and the 5.75% 2026 Notes pursuant to the Sales Agreement, if any, may be made in transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act (the "Debt ATM Program"). The Agent is not required to sell any specific number of the notes, but the Agent will make all sales using commercially reasonable efforts consistent with its normal trading and sales practices on mutually agreed terms between the Agent and the Company. No such sales through the Debt ATM Program were made during the three or six months ended June 30, 2023.

The table below presents information about senior secured notes, convertible notes and corporate debt.

(in thousands)	Coupon Rate	Maturity Date	June 30, 2023
Senior secured notes principal amount [1]	4.50 %	10/20/2026	$ 350,000
Unamortized deferred financing costs - Senior secured notes			(5,759)
Total Senior secured notes, net			**$ 344,241**
Convertible notes principal amount [2]	7.00 %	8/15/2023	115,000
Unamortized deferred financing costs - Convertible notes			(58)
Total Convertible notes, net			**$ 114,942**
Corporate debt principal amount [3]	5.50 %	12/30/2028	110,000
Corporate debt principal amount [4]	6.20 %	7/30/2026	104,613
Corporate debt principal amount [4]	5.75 %	2/15/2026	206,270
Corporate debt principal amount [5]	6.125 %	4/30/2025	120,000
Corporate debt principal amount [6]	7.375 %	7/31/2027	100,000
Corporate debt principal amount [7]	5.00 %	11/15/2026	100,000
Unamortized discount - corporate debt			(8,500)
Unamortized deferred financing costs - corporate debt			(5,965)
Junior subordinated notes principal amount [8]	SOFR + 3.10 %	3/30/2035	15,000
Junior subordinated notes principal amount [9]	SOFR + 3.10 %	4/30/2035	21,250
Total corporate debt, net			**$ 762,668**
Total carrying amount of debt			**$ 1,221,851**

(1) Interest on the senior secured notes is payable semiannually on April 20 and October 20 of each year.
(2) Interest on the convertible notes is payable quarterly on February 15, May 15, August 15, and November 15 of each year.
(3) Interest on the corporate debt is payable semiannually on June 30 and December 30 of each year.
(4) Interest on the corporate debt is payable quarterly on January 30, April 30, July 30, and October 30 of each year.
(5) Interest on the corporate debt is payable semiannually on April 30 and October 30 of each year.
(6) Interest on the corporate debt is payable semiannually on January 31 and July 31 of each year.
(7) Interest on the corporate debt is payable semiannually on May 15 and November 15 of each year; assumed as part of Broadmark Merger.
(8) Interest on the Junior subordinated notes I-A is payable quarterly on March 30, June 30, September 30, and December 30 of each year.
(9) Interest on the Junior subordinated notes I-B is payable quarterly on January 30, April 30, July 30, and October 30 of each year.

The table below presents the contractual maturities for senior secured notes, convertible notes, and corporate debt.

(in thousands)	June 30, 2023
2023	$ 115,000
2024	—
2025	120,000
2026	760,883
2027	100,000
Thereafter	146,250
Total contractual amounts	**$ 1,242,133**
Unamortized deferred financing costs, discounts, and premiums, net	(20,282)
Total carrying amount of debt	**$ 1,221,851**

Note 13. Guaranteed loan financing

Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment in the consolidated balance sheets and the portion sold is recorded as guaranteed loan financing in the liabilities section of the consolidated balance sheets. For these partial loan sales, the interest earned on the entire loan balance is recorded as interest income and the interest earned by the buyer in the partial loan sale is recorded within interest expense in the accompanying consolidated statements of income. Guaranteed loan financings are secured by loans of $226.7 million and $265.6 million as of June 30, 2023 and December 31, 2022, respectively.

The table below presents guaranteed loan financing and the related interest rates and maturity dates.

(in thousands)	Weighted Average Interest Rate	Range of Interest Rates	Range of Maturities (Years)	Ending Balance
June 30, 2023	8.36 %	1.45-9.75 %	2023-2046	$ 226,084
December 31, 2022	6.68 %	1.45-8.50 %	2023-2046	$ 264,889

The table below presents the contractual maturities of guaranteed loan financing.

(in thousands)	June 30, 2023
2023	$ 75
2024	596
2025	1,023
2026	3,379
2027	10,730
Thereafter	210,281
Total	**$ 226,084**

Note 14. Variable interest entities and securitization activities

In the normal course of business, the Company enters into certain types of transactions with entities that are considered to be VIEs. The Company's primary involvement with VIEs has been related to its securitization transactions in which it transfers assets to securitization vehicles, most notably trusts. The Company primarily securitizes its acquired and originated loans, which provides a source of funding and has enabled it to transfer a certain portion of economic risk on loans or related debt securities to third parties. The Company also transfers originated loans to securitization trusts sponsored by third parties, most notably Freddie Mac. Third-party securitizations are securitization entities in which it maintains an economic interest but does not sponsor. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE. The majority of the VIE activity in which the Company is involved in are consolidated within its financial statements. Refer to Note 3 – Summary of Significant Accounting Policies for a discussion of accounting policies applied to the consolidation of the VIE and transfer of the loans in connection with the securitization.

Securitization-related VIEs

Company sponsored securitizations. In a securitization transaction, assets are transferred to a trust, which generally meets the definition of a VIE. The Company's primary securitization activity is in the form of SBC and SBA loan securitizations, conducted through securitization trusts, which are typically consolidated, as the company is the primary beneficiary.

As a result of the consolidation, the securitization is viewed as a loan financing to enable the creation of the senior security and ultimately, sale to a third-party investor. As such, the senior security is presented in the consolidated balance sheets as securitized debt obligations of consolidated VIEs. The third-party beneficial interest holders in the VIE have no recourse against the Company, with the exception of an obligation to repurchase assets from the VIE in the event that certain representations and warranties in relation to the loans sold to the VIE are breached. In the absence of such a breach, the Company has no obligation to provide any other explicit or implicit support to any VIE.

The securitization trust receives principal and interest on the underlying loans and distributes those payments to the certificate holders. The assets and other instruments held by the securitization trust are restricted in that they can only be used to fulfill the obligations of the securitization trust. The risks associated with the Company's involvement with the VIE is limited to the risks and rights as a certificate holder of the securities retained by the Company.

The consolidation of securitization transactions includes the senior securities issued to third parties which are shown as securitized debt obligations of consolidated VIEs in the consolidated balance sheets.

The table below presents additional information on the Company's securitized debt obligations.

	June 30, 2023			December 31, 2022		
(in thousands)	Current Principal Balance	Carrying value	Weighted Average Interest Rate	Current Principal Balance	Carrying value	Weighted Average Interest Rate
ReadyCap Lending Small Business Trust 2019-2	$ 37,916	$ 37,469	7.2 %	$ 49,031	$ 48,518	4.0 %
Sutherland Commercial Mortgage Trust 2017-SBC6	4,421	4,356	5.0	7,386	7,273	4.3
Sutherland Commercial Mortgage Trust 2019-SBC8	113,085	111,398	2.9	120,916	119,072	2.9
Sutherland Commercial Mortgage Trust 2021-SBC10	96,136	94,696	1.6	109,622	107,969	1.6
ReadyCap Commercial Mortgage Trust 2015-2	2,070	1,872	5.1	2,726	2,442	5.1
ReadyCap Commercial Mortgage Trust 2016-3	8,966	8,870	5.2	11,950	11,787	5.1
ReadyCap Commercial Mortgage Trust 2018-4	52,967	52,079	4.6	58,838	57,857	4.3
ReadyCap Commercial Mortgage Trust 2019-5	98,803	96,788	4.7	111,184	108,859	4.5
ReadyCap Commercial Mortgage Trust 2019-6	202,604	200,437	3.4	209,930	207,464	3.3
ReadyCap Commercial Mortgage Trust 2022-7	192,537	189,788	4.2	197,498	194,456	4.2
Ready Capital Mortgage Financing 2019-FL3	49,387	49,387	7.1	59,508	59,508	3.5
Ready Capital Mortgage Financing 2020-FL4	—	—	—	192,419	192,213	4.8
Ready Capital Mortgage Financing 2021-FL5	342,100	341,140	6.3	415,166	413,101	3.1
Ready Capital Mortgage Financing 2021-FL6	449,854	447,084	6.0	502,220	497,891	2.9
Ready Capital Mortgage Financing 2021-FL7	698,848	695,062	6.3	743,848	738,246	3.2
Ready Capital Mortgage Financing 2022-FL8	883,675	878,364	6.6	913,675	906,307	3.7
Ready Capital Mortgage Financing 2022-FL9	568,241	562,483	7.8	587,722	579,823	5.9
Ready Capital Mortgage Financing 2022-FL10	652,364	645,335	7.6	651,460	642,578	7.9
Ready Capital Mortgage Financing 2023-FL11	482,449	475,888	7.9	—	—	—
Ready Capital Mortgage Financing 2023-FL12	506,570	499,616	7.9	—	—	—
Total	**$ 5,442,993**	**$ 5,392,112**	**6.6 %**	**$ 4,945,099**	**$ 4,895,364**	**4.3 %**

The table above excludes non-company sponsored securitized debt obligations of $ 3.2 million and $8.0 million that are consolidated in the consolidated balance sheets as of June 30, 2023 and December 31, 2022, respectively.

Repayment of securitized debt will be dependent upon the cash flows generated by the loans in the securitization trust that collateralize such debt. The actual cash flows from the securitized loans are comprised of coupon interest, scheduled principal payments, prepayments and liquidations of the underlying loans. The actual term of the securitized debt may differ significantly from the Company's estimate given that actual interest collections, mortgage prepayments and/or losses on liquidation of mortgages may differ significantly from those expected.

Third-party sponsored securitizations. For most third-party sponsored securitizations, the Company determined that it is not the primary beneficiary because it does not have the power to direct the activities that most significantly impact the economic performance of these entities. Specifically, the Company does not manage these entities or otherwise solely hold decision making powers that are significant, which include special servicing decisions. As a result of this assessment, the Company does not consolidate any of the underlying assets and liabilities of these trusts and only accounts for its specific interests in them.

Joint Venture Investments- VIEs

Unconsolidated VIEs. The Company does not consolidate variable interests held in an acquired joint venture investment accounted for as an equity method investment as it does not have the power to direct the activities that most significantly impact their economic performance and therefore, the Company only accounts for its specific interest in them.

Consolidated VIEs. The Company consolidates variable interests held in an acquired joint venture investment for which it is the primary beneficiary. The equity held by the remaining owners and their portions of net income (loss) are reflected in stockholders' equity on the consolidated balance sheets as Non-controlling interests and in the consolidated statements of income as Net income attributable to noncontrolling interests, respectively. As of June 30, 2023, the Company's financial results on joint venture investments identified as consolidated VIEs were not material.

Assets and liabilities of consolidated VIEs

The table below presents assets and liabilities of consolidated VIEs.

(in thousands)	June 30, 2023	December 31, 2022
Assets:		
Cash and cash equivalents	$ 345	$ 997
Restricted cash	126,566	77,062
Loans, net	6,889,527	6,311,698
Preferred equity investment	108,423	108,423
Other assets	82,565	54,580
Total assets	**$ 7,207,426**	**$ 6,552,760**
Liabilities:		
Securitized debt obligations of consolidated VIEs, net	5,395,361	4,903,350
Due to third parties	2,970	3,727
Total liabilities	**$ 5,398,331**	**$ 4,907,077**

Assets of unconsolidated VIEs

The table below reflects variable interests in identified VIEs for which the Company is not the primary beneficiary.

	Carrying Amount		Maximum Exposure to Loss (1)	
(in thousands)	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
MBS, at fair value (2)	$ 24,731	$ 24,408	$ 24,731	$ 24,408
Investment in unconsolidated joint ventures	122,504	118,641	122,504	118,641
Total assets in unconsolidated VIEs	**$ 147,235**	**$ 143,049**	**$ 147,235**	**$ 143,049**

(1) Maximum exposure to loss is limited to the greater of the fair value or carrying value of the assets as of the consolidated balance sheet date.
(2) Retained interest in other third party sponsored securitizations.

Note 15. Interest income and interest expense

Interest income and expense are recorded in the consolidated statements of income and classified based on the nature of the underlying asset or liability. The table below presents the components of interest income and expense.

(in thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Interest income				
Loans				
Bridge	$ 165,788	$ 82,499	$ 326,219	$ 147,479
Fixed rate	12,164	14,468	25,192	28,939
Construction	22,337	7,243	34,503	9,000
SBA - 7(a)	15,335	9,742	30,256	19,121
PPP	3,435	19,282	6,442	36,140
Residential	72	31	112	50
Other	7,857	10,055	16,232	20,291
Total loans (1)	**$ 226,988**	**$ 143,320**	**$ 438,956**	**$ 261,020**
Held for sale, at fair value, loans				
Fixed rate	$ 701	$ 2,236	$ 1,436	$ 4,293
Residential	1,808	2,198	3,373	4,298
Other	24	331	31	545
Total loans, held for sale, at fair value (1)	**$ 2,533**	**$ 4,765**	**$ 4,840**	**$ 9,136**
Investments held to maturity	**$ 12**	**$ 3,612**	**$ 20**	**$ 4,219**
Preferred equity investment (1)	**$ 2,193**	**$ —**	**$ 4,361**	**$ —**
MBS, at fair value	**$ 1,158**	**$ 1,974**	**$ 2,280**	**$ 3,701**
Total interest income	**$ 232,884**	**$ 153,671**	**$ 450,457**	**$ 278,076**
Interest expense				
Secured borrowings	$ (49,595)	$ (28,147)	$ (96,341)	$ (47,770)
Paycheck Protection Program Liquidity Facility borrowings	(124)	(459)	(288)	(1,147)
Securitized debt obligations of consolidated VIEs	(99,558)	(33,804)	(190,159)	(58,055)
Guaranteed loan financing	(4,693)	(3,186)	(9,565)	(6,271)
Senior secured note	(4,397)	(4,380)	(8,778)	(8,737)
Convertible note	(2,188)	(2,188)	(4,376)	(4,376)
Corporate debt	(11,979)	(8,663)	(23,421)	(15,488)
Total interest expense	**$ (172,534)**	**$ (80,827)**	**$ (332,928)**	**$ (141,844)**
Net interest income before provision for loan losses	**$ 60,350**	**$ 72,844**	**$ 117,529**	**$ 136,232**

(1) Includes interest income on assets in consolidated VIEs.

Note 16. Derivative instruments

The Company is exposed to changing interest rates and market conditions, which affect cash flows associated with borrowings. The Company uses derivative instruments to manage interest rate risk and conditions in the commercial mortgage market and, as such, views them as economic hedges. Interest rate swaps are used to mitigate the exposure to changes in interest rates and involve the receipt of variable-rate interest amounts from a counterparty in exchange for making payments based on a fixed interest rate over the life of the swap contract. IRLCs are entered into with customers who have applied for residential mortgage loans and meet certain underwriting criteria. These commitments expose GMFS to market risk if interest rates change and if the loan is not economically hedged or committed to an investor.

For derivative instruments where the Company has not elected hedge accounting, fair value adjustments are recorded in earnings. The fair value adjustments for interest rate swaps, along with the related interest income, interest expense and gains (losses) on termination of such instruments, are reported as a net realized gain on financial instruments in the consolidated statements of income. The fair value adjustments for IRLCs and TBAs, along with the related interest income, interest expense and gains (losses) on termination of such instruments, are reported in residential mortgage banking activities in the consolidated statements of income. As described in Note 3, for qualifying cash flow hedges, the change in the fair value of derivatives is recorded in OCI and not recognized in the consolidated statements of income. Derivative movements impacting earnings are recognized on a consistent basis with the classification of the hedged item, primarily interest expense. The ineffective portions of the cash flow hedges are immediately recognized in earnings.

The table below presents average notional derivative amounts, as this is the most relevant measure of volume, and derivative assets and liabilities by type.

(in thousands)	Primary Underlying Risk	June 30, 2023 Notional Amount	June 30, 2023 Derivative Asset	June 30, 2023 Derivative Liability	December 31, 2022 Notional Amount	December 31, 2022 Derivative Asset	December 31, 2022 Derivative Liability
IRLCs	Interest rate risk	$ 152,220	$ 716	$ —	$ 205,204	$ 117	$ —
Interest Rate Swaps - not designated as hedges(1)	Interest rate risk	217,931	18,078	—	216,381	19,366	—
Interest Rate Swaps - designated as hedges(1)	Interest rate risk	416,139	31,611	—	266,139	33,863	—
TBA Agency Securities(1)	Market risk	161,500	586	(39)	134,150	796	(749)
FX forwards	Foreign exchange rate risk	47,387	238	(2,261)	47,834	1,123	(1,319)
Total		**$ 995,177**	**$ 51,229**	**$ (2,300)**	**$ 869,708**	**$ 55,265**	**$ (2,068)**

(1) Refer to Note 23 – Offsetting Assets and Liabilities for further details.

The table below presents gains and losses on derivatives.

(in thousands)	Three Months Ended June 30, 2023 Net Realized Gain (Loss)	Three Months Ended June 30, 2023 Net Unrealized Gain (Loss)	Six Months Ended June 30, 2023 Net Realized Gain (Loss)	Six Months Ended June 30, 2023 Net Unrealized Gain (Loss)
Interest rate swaps	$ 9,682	$ 3,853	$ 13,368	$ (4,606)
TBA Agency Securities	—	1,485	—	500
IRLCs	—	(1,263)	—	599
FX forwards	745	(1,364)	745	(1,826)
Total	**$ 10,427**	**$ 2,711**	**$ 14,113**	**$ (5,333)**

	Three Months Ended June 30, 2022 Net Realized Gain (Loss)	Three Months Ended June 30, 2022 Net Unrealized Gain (Loss)	Six Months Ended June 30, 2022 Net Realized Gain (Loss)	Six Months Ended June 30, 2022 Net Unrealized Gain (Loss)
Interest rate swaps	$ (688)	$ 13,873	$ (2,493)	$ 40,575
TBA Agency Securities	—	(7,765)	—	(501)
IRLCs	—	5,016	—	59
FX forwards	1,546	81	2,226	312
Total	**$ 858**	**$ 11,205**	**$ (267)**	**$ 40,445**

In the table above:
- Gains (losses) on interest rate swaps and FX forwards are recorded in net unrealized gain (loss) on financial instruments or net realized gain (loss) on financial instruments in the consolidated statements of income.
- For qualifying hedges of interest rate risk on interest rate swaps, the effective portion relating to the unrealized gain (loss) on derivatives are recorded in AOCI.
- Gains (losses) on residential mortgage banking activity TBAs and IRLCs are recorded in residential mortgage banking activities in the consolidated statements of income.

The table below summarizes the gains and losses on derivatives which have qualified for hedge accounting.

(in thousands)	Derivatives - effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income	Total income statement impact	Derivatives - effective portion recorded in OCI	Total change in OCI for period
Interest rate hedges - forecasted transactions:					
Three Months Ended June 30, 2023	**$ (294)**	**$ —**	**$ (294)**	**$ 2,199**	**$ 2,493**
Three Months Ended June 30, 2022	**$ (438)**	**$ —**	**$ (438)**	**$ (87)**	**$ 351**
Six Months Ended June 30, 2023	**$ (592)**	**$ —**	**$ (592)**	**$ (1,904)**	**$ (1,312)**
Six Months Ended June 30, 2022	**$ (692)**	**$ —**	**$ (692)**	**$ (128)**	**$ 564**

In the table above:
- Forecasted transactions on interest rates consists of benchmark interest rate hedges of SOFR and LIBOR-indexed floating-rate liabilities.
- Hedge ineffectiveness is the amount by which the cumulative gain or loss on the designated derivative instrument exceeds the present value of the cumulative expected change in cash flows on the hedged item attributable to the hedged risk.
- Amounts recorded in OCI for the period represents after tax amounts.

Note 17. Real estate owned, held for sale

The table below presents details on the real estate owned, held for sale portfolio.

(in thousands)	June 30, 2023	December 31, 2022
Acquired Portfolio:		
Mixed Use	$ 2,205	$ 35,361
Multi-family	41,119	48,768
Lodging	9,764	—
Residential	70,219	—
Services	375	—
Office	22,303	—
Land	71,286	—
Total Acquired REO	**$ 217,271 (1)**	**$ 84,129**
Other REO held for sale:		
Single Family	$ 24,345	$ 24,300
Retail	1,853	1,853
Office	7,856	6,816
Total Other REO	**$ 34,054**	**$ 32,969**
Total real estate owned, held for sale	**$ 251,325**	**$ 117,098**

(1) Refer to Note 5 for further details on assets acquired and liabilities assumed in connection with the Broadmark Merger.

In the table above, Other REO excludes $15.9 million and $1.0 million as of June 30, 2023 and December 31, 2022, respectively, of real estate owned, held for sale within consolidated VIEs.

Note 18. Agreements and transactions with related parties

Management Agreement

The Company has entered into a management agreement with its Manager (the "Management Agreement"), which describes the services to be provided to the Company by its Manager and compensation for such services. The Company's Manager is responsible for managing the Company's day-to-day operations, subject to the direction and oversight of the Company's board of directors.

Management fee. Pursuant to the terms of the Management Agreement, the Manager is paid a management fee calculated and payable quarterly in arrears equal to 1.5% per annum of the Company's stockholders' equity (as defined in the Management Agreement) up to $500 million and 1.00% per annum of stockholders' equity in excess of $ 500 million.

The table below presents the management fee payable to the Manager.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Management fee - total	$ 5.8 million	$ 5.5 million	$ 10.9 million	$ 8.7 million
Management fee - amount unpaid	$ 10.9 million	$ 5.3 million	$ 10.9 million	$ 5.3 million

Incentive distribution. The Manager is entitled to an incentive distribution in an amount equal to the product of (i) 15% and (ii) the excess of (a) distributable earnings (which is referred to as core earnings in the partnership agreement of the operating partnership) on a rolling four-quarter basis over (b) an amount equal to 8.00% per annum multiplied by the weighted average of the issue price per share of the common stock or OP units multiplied by the weighted average number of shares of common stock outstanding, provided that distributable earnings over the prior twelve calendar quarters is greater than zero. For purposes of determining the incentive distribution payable to the Manager, distributable earnings is defined under the partnership agreement of the operating partnership in a manner that is similar to the definition of Distributable Earnings described below under Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" included in this quarterly report on Form 10-Q but with the following additional adjustments which (i) further exclude: (a) the incentive distribution, (b) non-cash equity compensation expense, if any, (c) unrealized gains or losses on SBC loans (not just MBS and MSRs), (d) depreciation and amortization (to the extent the Company forecloses on any property), and (e) one-time events pursuant to changes in U.S. GAAP and certain other non-cash charges after discussions between the Manager and the Company's independent directors and after approval by a majority of the independent directors and (ii) add back any realized gains or losses on the sales of MBS and on discontinued operations which were excluded from the definition of distributable earnings described under "Non-GAAP Financial Measures".

The table below presents the incentive fee payable to the Manager.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Incentive fee distribution - total	$ 0.1 million	$ —	$ 1.8 million	$ —
Incentive fee distribution - amount unpaid	$ 1.8 million	$ —	$ 1.8 million	$ —

The Management Agreement may be terminated upon the affirmative vote of at least two-thirds of the Company's independent directors or the holders of a majority of the outstanding common stock (excluding shares held by employees and affiliates of the Manager), based upon (1) unsatisfactory performance by the Manager that is materially detrimental to the Company or (2) a determination that the management fee payable to the Manager is not fair, subject to the Manager's right to prevent such a termination based on unfair fees by accepting a mutually acceptable reduction of management fees agreed to by at least two-thirds of the Company's independent directors. The Manager must be provided with written notice of any such termination at least 180 days prior to the expiration of the then existing term. Additionally, upon such a termination by the Company without cause (or upon termination by the Manager due to the Company's material breach), the management agreement provides that the Company will pay the Manager a termination fee equal to three times the average annual base management fee earned by the Manager during the prior 24 month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination, except upon an internalization. Additionally, if the management agreement is terminated under circumstances in which the Company is obligated to make a termination payment to the Manager, the operating partnership shall repurchase, concurrently with such termination, the Class A special unit for an amount equal to three times the average annual amount of the incentive distribution paid or payable in respect of the Class A special unit during the 24 month period immediately preceding such termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

The current term of the Management Agreement will expire on October 31, 2023, and is automatically renewed for successive one-year terms on each anniversary thereafter; provided, however, that either the Company, under the certain limited circumstances described above that would require the Company and the operating partnership to make the payments described above, or the Manager may terminate the Management Agreement annually upon 180 days prior notice.

Expense reimbursement. In addition to the management fees and incentive distribution described above, the Company is also responsible for reimbursing the Manager for certain expenses paid by the Manager on behalf of the Company and for certain services provided by the Manager to the Company. Expenses incurred by the Manager and reimbursed by the Company are typically included in salaries and benefits or general and administrative expense in the consolidated statements of income.

The table below presents reimbursable expenses payable to the Manager.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Reimbursable expenses payable to Manager - total	$ 2.8 million	$ 2.3 million	$ 5.7 million	$ 5.8 million
Reimbursable expenses payable to Manager - amount unpaid	$ 2.8 million	$ 4.9 million	$ 2.8 million	$ 4.9 million

Co-Investment with Manager

On July 15, 2022, the Company closed on a $125.0 million commitment to invest into a parallel vehicle, Waterfall Atlas Anchor Feeder, LLC (the “Fund”), a fund managed by the Manager, in exchange for interests in the Fund. In exchange for the Company’s commitment, the Company is entitled to 15% of any carried interest distributions received by the general partner of the Fund such that over the life of the Fund, the Company receives an internal rate of return of 1.5% over the internal rate of return of the Fund. The Fund focuses on commercial real estate equity through the acquisition of distressed and value-add real estate across property types with local operating partners. As of June 30, 2023, the Company has contributed $45.8 million of cash into the Fund for a remaining commitment of $ 79.2 million.

Note 19. Other assets and other liabilities

The table below presents the composition of other assets and other liabilities.

(in thousands)	June 30, 2023	December 31, 2022
Other assets:		
Goodwill	$ 37,818	$ 37,818
Deferred loan exit fees	34,814	36,669
Accrued interest	42,193	34,951
Due from servicers	31,874	24,078
Intangible assets	17,520	16,308
Receivable from third party	23,164	15,114
Deferred financing costs	7,436	5,176
Deferred tax asset	977	977
Right-of-use lease asset	5,540	1,687
Other assets	19,355	16,991
Other assets	**$ 220,691**	**$ 189,769**
Accounts payable and other accrued liabilities:		
Accrued salaries, wages and commissions	$ 33,741	$ 38,245
Accrued interest payable	28,596	34,785
Servicing principal and interest payable	11,424	13,163
Deferred tax liability	30,886	30,885
Repair and denial reserve	9,902	10,846
Payable to related parties	12,713	7,815
Accrued PPP related costs	145	4,016
Accrued professional fees	2,187	2,804
Lease payable	9,282	1,778
Other liabilities	20,775	32,183
Total accounts payable and other accrued liabilities	**$ 159,651**	**$ 176,520**

Goodwill

The table below presents the carrying value of goodwill by reportable segment.

(in thousands)	June 30, 2023	December 31, 2022
SBC Lending and Acquisitions	$ 26,612	$ 26,612
Small Business Lending	11,206	11,206
Total	**$ 37,818**	**$ 37,818**

Intangible assets

The table below presents information on intangible assets.

(in thousands)	June 30, 2023	December 31, 2022	Estimated Useful Life
Customer Relationships - Red Stone	$ 6,114	$ 6,293	19 years
Internally developed software to be sold, leased, or marketed	5,104	3,092	5 years
Trade name - Red Stone	2,500	2,500	Indefinite life
Internally developed software - Knight Capital	1,478	1,794	6 years
SBA license	1,000	1,000	Indefinite life
Favorable lease	465	520	12 years
Trade name - Knight Capital	342	416	6 years
Trade name - GMFS	295	337	15 years
Broker network - Knight Capital	222	356	4.5 years
Total intangible assets	**$ 17,520**	**$ 16,308**	

The amortization expense related to intangible assets was $ 0.4 million and $0.8 million for the three and six months ended June 30, 2023 and $0.4 million and $0.8 million for the three and six months ended June 30, 2022. Such amounts are recorded as other operating expenses in the consolidated statements of income.

The table below presents accumulated amortization for finite-lived intangible assets.

(in thousands)	June 30, 2023
Internally developed software - Knight Capital	$ 2,322
Favorable lease	1,015
Trade name - GMFS	928
Broker network - Knight Capital	977
Trade name - Knight Capital	537
Internally developed software to be sold, leased, or marketed	579
Customer Relationship - Red Stone	685
Total accumulated amortization	**$ 7,043**

The table below presents amortization expense related to finite-lived intangible assets for the subsequent five years.

(in thousands)		June 30, 2023
2023	$	1,368
2024		2,527
2025		2,281
2026		1,614
2027		1,479
Thereafter		4,751
Total	**$**	**14,020**

Loan indemnification reserve

A liability has been established for potential losses related to representations and warranties made by GMFS for loans sold with a corresponding provision recorded for loan indemnification losses. The liability is included in accounts payable and other accrued liabilities in the Company's consolidated balance sheets and the provision for loan indemnification losses is included in variable expenses on residential mortgage banking activities, in the Company's consolidated statements of income. In assessing the adequacy of the liability, management evaluates various factors including historical repurchases and indemnifications, historical loss experience, known delinquent and other problem loans, outstanding repurchase demand, historical rescission rates and economic trends and conditions in the industry. Actual losses incurred are reflected as a reduction of the reserve liability. As of June 30, 2023 and December 31, 2022, the loan indemnification reserve was $2.3 million and $2.9 million, respectively.

Due to the uncertainty in the various estimates underlying the loan indemnification reserve, there is a range of losses in excess of the recorded loan indemnification reserve that is reasonably possible. The estimate of the range of possible losses for representations and warranties does not represent a probable loss, and is based on current available information, significant judgment, and a number of assumptions that are subject to change. As of June 30, 2023 and December 31, 2022, the reasonably possible loss above the recorded loan indemnification reserve was not material.

Note 20. Other income and operating expenses

Paycheck Protection Program

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act” or “Round 1”), signed into law on March 27, 2020, and the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the “Economic Aid Act” or “Round 2”), signed into law on December 27, 2020, established and extended the PPP, respectively. Both the CARES Act and the Economic Aid Act, among other things, provide certain measures to support individuals and businesses in maintaining solvency through monetary relief in the form of financing and loan forgiveness and/or forbearance. The primary catalyst of small business stimulus is the PPP, an SBA loan that temporarily supports businesses to retain their workforce and cover certain operating expenses during the COVID-19 pandemic. Furthermore, the PPP includes a 100% guarantee from the federal government and principal forgiveness for borrowers if the funds are used for defined purposes.

The Company has participated in the PPP as both direct lender and service provider. Under the CARES Act, the Company originated $109.5 million of PPP loans and was a Lender Service Provider (“LSP”) for $ 2.5 billion of PPP loans. For the Company’s originations as direct lender, it elected the fair value option and thus, classified the loans as held at fair value on the consolidated balance sheets. Fees totaling $5.2 million were recognized in the period of origination. For loans processed under the LSP, the Company was obligated to perform certain services including: 1) assistance and services to the third-party in the underwriting, marketing, processing and funding of loans, 2) processing forgiveness of the loans with the SBA and 3) servicing and management of subsequently resulting PPP loan portfolios. Such loans are not carried on the consolidated balance sheet and fees totaling $43.3 million were recognized as services were performed. Unrecognized fees as of June 30, 2023 were $0.1 million. Expenses related to PPP loans under the CARES Act are recognized in the period in which they are incurred.

The table below presents details about the Company’s assets and liabilities related to its PPP activities.

(in thousands)	June 30, 2023	December 31, 2022
Assets		
Paycheck Protection Program loans	$ 94,439	$ 186,409
Paycheck Protection Program loans, at fair value	172	576
PPP fee receivable	290	328
Accrued interest receivable	1,594	3,196
Total PPP related assets	**$ 96,495**	**$ 190,509**
Liabilities		
Paycheck Protection Program Liquidity Facility borrowings	$ 110,838	$ 201,011
Interest payable	836	1,176
Deferred LSP revenue	65	122
Accrued PPP related costs	145	4,016
Payable to third parties	256	277
Repair and denial reserve	3,517	4,878
Total PPP related liabilities	**$ 115,657**	**$ 211,480**

In the table above,

- Originations of PPP loans under the Economic Aid Act were $2.2 billion. These loans are classified as held-for-investment and are accounted for under ASC 310.
- Total net fees of $123.7 million are deferred over the expected life of the loans and will be recognized as interest income.
- As of June 30, 2023, PPPLF borrowings exceed PPP loans on the balance sheet due to net fees of $3.5 million. In addition, PPP loans are forgiven before the related PPPLF borrowings are repaid. These proceeds are unrestricted and held in cash and cash equivalents on the consolidated balance sheet.

The table below presents details about the Company’s income and expenses related to its pre-tax PPP activities.

	Three Months Ended June 30,		Six Months Ended June 30,		Financial statement account
(in thousands)	2023	2022	2023	2022	
Income					
LSP fee income	$ 32	$ 5,273	$ 57	$ 5,310	Servicing income
Interest income	3,435	19,282	6,442	36,140	Interest income
Repair and denial reserve	1,799	2,156	1,518	4,400	Other income - change in repair and denial reserve
Total PPP related income	**$ 5,266**	**$ 26,711**	**$ 8,017**	**$ 45,850**	
Expense					
Direct operating expenses	$ 115	$ 191	$ 233	$ 341	Other operating expenses - origination costs
Interest expense	124	459	288	1,147	Interest expense
Total PPP related expenses	**$ 239**	**$ 650**	**$ 521**	**$ 1,488**	
Net PPP related income	**$ 5,027**	**$ 26,061**	**$ 7,496**	**$ 44,362**	

Other income and expenses

The table below presents the composition of other income and operating expenses.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2023	2022	2023	2022
Other income:				
Origination income	$ 6,316	$ 2,725	$ 10,928	$ 4,379
Change in repair and denial reserve	527	1,305	328	3,498
Employee retention credit consulting income	8,481	303	18,156	303
Other	3,245	4,001	9,040	6,655
Total other income	**$ 18,569**	**$ 8,334**	**$ 38,452**	**$ 14,835**
Other operating expenses:				
Origination costs	$ 1,744	$ 2,168	$ 3,399	$ 7,102
Technology expense	2,156	2,376	4,270	4,416
Impairment on real estate	—	840	3,418	2,667
Rent and property tax expense	1,381	1,564	2,781	2,659
Recruiting, training and travel expense	875	524	1,623	826
Marketing expense	459	596	1,016	924
Other	4,626	6,304	9,052	8,431
Total other operating expenses	**$ 11,241**	**$ 14,372**	**$ 25,559**	**$ 27,025**

Note 21. Redeemable Preferred Stock and Stockholders' Equity

Common stock dividends

The table below presents dividends declared by the board of directors on common stock during the last twelve months.

Declaration Date	Record Date	Payment Date	Dividend per Share	
June 15, 2022	June 30, 2022	July 29, 2022	$	0.42
September 15, 2022	September 30, 2022	October 31, 2022	$	0.42
December 15, 2022	December 30, 2022	January 31, 2023	$	0.40
March 15, 2023	March 31, 2023	April 28, 2023	$	0.40
May 15, 2023	May 30, 2023	June 15, 2023	$	0.26
May 15, 2023	June 30, 2023	July 31, 2023	$	0.14

Stock incentive plan

The Company currently maintains the Equity Incentive Plan which authorizes the Compensation Committee to approve grants of equity-based awards to its officers, directors, and employees of the Manager and its affiliates. The Equity Incentive Plan provides for grants of equity-based awards up to an aggregate of 5% of the shares of the Company's common stock issued and outstanding from time to time on a fully diluted basis.

The Company currently settles stock-based incentive awards with newly issued shares. The fair value of the RSUs and RSAs granted, which is determined based upon the stock price on the grant date, is recorded as compensation expense on a straight-line basis over the vesting periods for the awards, with an offsetting increase in stockholders' equity.

In 2023, 2022, and 2021, the Company granted 413,852, 327,692, and 287,787, respectively, of time-based RSAs to certain key employees. These awards generally vest ratably in equal annual installments over a three-year period based solely on continued employment or service. Additionally, the 2021 RSAs as noted above include the 128,533 shares of common stock issued to Red Stone executives as part of the Red Stone acquisition. The Company further granted in these years 72,795, 45,162, and 36,968, respectively, of time-based RSAs and RSUs to directors of the Company, which vest ratably in equal installments quarterly over a one-year period. Directors have the option to defer receipt of shares and receive as RSUs at a later settlement date of their choosing. Dividends are paid on all above-mentioned time-based awards, vested and non-vested. Additionally, as part of the Broadmark Merger, the Company assumed the Broadmark RSU awards and converted them into 736,666 Company RSUs after applying the Exchange Ratio. The Broadmark RSUs have the same terms and conditions as were applicable to them prior to the Broadmark Merger and, accordingly, are not dividend eligible.

The table below summarizes RSU and RSA activity.

	Restricted Stock Units/Awards			
(in thousands, except share data)	Number of Shares		Grant date fair value	Weighted-average grant date fair value (per share)
Outstanding, December 31, 2022	827,163	$	12,258 $	14.82
Granted	441,296		5,728	12.98
Vested	(333,470)		(4,946)	14.83
Forfeited	(4,536)		(61)	13.62
Outstanding, March 31, 2023	**930,453**	**$**	**12,979 $**	**13.95**
Granted	782,017		8,005	10.24
Vested	(356,317)		(3,689)	10.35
Forfeited	(8,074)		(108)	13.44
Outstanding. June 30, 2023	**1,348,079**	**$**	**17,187 $**	**12.75**

The Company recognized $2.0 million and $3.9 million for the three and six months ended June 30, 2023, respectively, and $2.1 million and $4.1 million for the three and six months ended June 30, 2022, respectively, of non-cash compensation expense related to its stock-based incentive plan in the consolidated statements of income. As of June 30, 2023 and December 31, 2022, approximately $13.8 million and $12.3 million, respectively, of non-cash compensation expense related to unvested awards had not yet been charged to net income. These costs are expected to be amortized into compensation expense ratably over the course of the remaining vesting periods.

Performance-based equity awards

2023 performance-based equity awards. In June 2023, the Company granted to certain key employees 222,552 shares of performance-based equity awards based on the achievement of performance metrics by the end of 2024 in relation to the Broadmark Merger. The awards are allocated 30% to awards that vest based on cost savings in 2024 as a percentage of the pre-merger Broadmark expense run rate, 15% to awards that vest based on the volume of Broadmark product originated from the time of the merger through the end of 2024, 30% to awards that vest based on the generation of incremental liquidity from asset level financing, portfolio run-off, sales or corporate re-levering through the end of 2024, and 25% to awards that vest based on distributable return on equity ("ROE") for 2024. Subject to the level of achievement of these metrics during the vesting period, the actual number of shares that the key employees receive may range from 0% to 200% of the target shares granted. The fair value of the performance-based equity awards granted is recorded as compensation expense over the vesting period and will vest 2/3rds on December 31, 2024, and 1/3rd on December 31, 2025, with an offsetting increase in stockholders' equity. Any awards earned on December 31, 2024 based on achievement of the applicable performance metrics but vesting on December 31, 2025 will convert into RSAs that are eligible to vest on December 31, 2025 based on the key employee's continued employment or service through that date.

In February 2023, the Company granted to certain key employees 92,451 shares of performance-based equity awards which are allocated 50% to awards that vest based on distributable return on equity ("ROE") for the three-year forward-looking period ending December 31, 2025 and 50% to awards that vest based on relative total shareholder return ("TSR") for such three-year forward-looking performance period relative to the performance of a designated peer group. Subject to the distributable ROE metric and relative TSR achieved during the vesting period, the actual number of shares that the key employees receive at the end of the period may range from 0% to 200% of the target shares granted. The fair value of the performance-based equity awards granted is recorded as compensation expense over the vesting period and will cliff vest at the end of a three year vesting period, with an offsetting increase in stockholders' equity.

2022 performance-based equity awards. In February 2022, the Company granted to certain key employees 84,566 shares of performance-based equity awards which are allocated 50% to awards that vest based on distributable ROE for the three-year forward-looking period ending December 31, 2024 and 50% to awards that vest based on relative TSR for such three-year forward-looking performance period relative to the performance of a designated peer group. Subject to the distributable ROE metric and relative TSR achieved during the vesting period, the actual number of shares that the key employees receive at the end of the period may range from 0% to 200% of the target shares granted. The fair value of the performance-based equity awards granted is recorded as compensation expense over the vesting period and will cliff vest at the end of a three year vesting period, with an offsetting increase in stockholders' equity.

2021 performance-based equity awards. In February 2021, the Company granted to certain key employees, 43,327 shares of performance-based equity awards which are allocated 50% to awards that vest based on absolute TSR for the three-year forward-looking period ending December 31, 2023 and 50% to awards that vest based on TSR for such three-year forward-looking performance period relative to the performance of a designated peer group. Subject to the absolute and relative TSR achieved during the vesting period, the actual number of shares that the key employees receive at the end of the period may range from 0% to 300% of the target shares granted. The fair value of the performance-based equity awards granted is recorded as compensation expense over the vesting period and will cliff vest at the end of a three year vesting period, with an offsetting increase in stockholders' equity.

Preferred Stock

In the event of a liquidation or dissolution of the Company, any outstanding preferred stock ranks senior to the outstanding common stock with respect to payment of dividends and the distribution of assets.

The Company classifies Series C Cumulative Convertible Preferred Stock, or Series C Preferred Stock, on the balance sheets using the guidance in ASC 480-10-S99. The Series C Preferred Stock contains certain fundamental change provisions that allow the holder to redeem the preferred stock for cash only if certain events occur, such as a change in control. As of June 30, 2023, the conversion rate was 1.3156 shares of common stock per $25 principal amount of the Series C Preferred Stock, which is equivalent to a conversion price of approximately $19.00 per share of common stock. As redemption under these circumstances is not solely within the Company's control, the Series C Preferred Stock has been classified as temporary equity. The Company has analyzed whether the conversion features should be bifurcated under the guidance in ASC 815-10 and has determined that bifurcation is not necessary.
The table below presents details on preferred equity by series.

			Preferential Cash Dividends			Carrying Value (in thousands)
Series	Shares Issued and Outstanding (in thousands)	Par Value	Liquidation Preference	Rate per Annum	Annual Dividend (per share)	June 30, 2023
C	335	0.0001	$ 25.00	6.25%	$ 1.56	$ 8,361
E	4,600	0.0001	$ 25.00	6.50%	$ 1.63	$ 111,378

In the table above,

- Shareholders are entitled to receive dividends, when and as authorized by the Company's Board, out of funds legally available for the payment of dividends. Dividends for Series C Preferred Stock are payable quarterly on the 15th day of January, April, July and October of each year or if not a business day, the next succeeding business day. Dividends for Series E preferred stock are payable quarterly on or about the last day of each January, April, July and October of each year. Any dividend payable on the preferred stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable in arrears to holders of record as they appear on the Company's records at the close of business on the last day of each of March, June, September and December, as the case may be, immediately preceding the applicable dividend payment date.

- The Company declared dividends of $0.1 million and $1.9 million of its Series C Preferred Stock and Series E Preferred Stock during the three months ended June 30, 2023. The dividends were paid on July 14, 2023 for Series C Preferred Stock and on July 31, 2023 for Series E Preferred Stock to the holders of record as of the close of business on June 30, 2023.

- The Company may, at its option, redeem the Series E Preferred Stock, in whole or in part, at any time and from time to time, for cash at a redemption price equal to 100% of the liquidation preference of $25.00 per share, plus accrued and unpaid dividends, if any, to the redemption date. Series E Preferred Stock is not redeemable prior to June 10, 2026, except under certain conditions.

Public and Private Warrants

As part of the Broadmark Merger, the Company assumed public and private placement warrants that represented the right to purchase shares of Broadmark Common Stock. As of June 30, 2023, there were 41.7 million public warrants outstanding, each representing the right to purchase 0.1180825 shares of our common stock, and 5.2 million private placement warrants outstanding, each representing the right to purchase 0.47233 shares of common stock. In the aggregate, the Company has outstanding warrants to purchase approximately 7.4 million shares of common stock at a price of $24.34 per whole share. Settlement of outstanding warrants will be in shares of common stock, unless the Company elects (solely in the Company's discretion) to settle warrants the Company has called for redemption in cash, and subject to customary adjustment in the event of business combinations and certain tender offers. Unless earlier redeemed, the public warrants will expire on November 19, 2024.

The liability for the private placement warrants was less than $ 0.1 million as of June 30, 2023 and is included in accounts payable and other accrued liabilities in the consolidated balance sheets.

Equity ATM Program

On July 9, 2021, the Company entered into an Equity Distribution Agreement, as amended on March 8, 2022 (the "Equity Distribution Agreement"), with JMP Securities LLC (the "Sales Agent"), pursuant to which the Company may sell, from time to time, shares of the Company's common stock, par value $0.0001 per share, having an aggregate offering price of up to $150 million, through the Sales Agent either as agent or principal (the "Equity ATM Program"). The Company made no such sales through the Equity ATM Program during the three and six months ended June 30, 2023. As of June 30, 2023, shares representing approximately $78.4 million remain available for sale under the Equity ATM Program.

Other

On January 14, 2022, the Company completed a public offering of 7 million shares of common stock, par value $0.0001 per share, at a price of $15.30 per share. The Company received aggregate net proceeds of approximately $106.6 million, after deducting offering expenses.

Note 22. Earnings per Share of Common Stock

The table below provides information on the basic and diluted EPS computations, including the number of shares of common stock used for purposes of these computations.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except for share and per share amounts)	2023	2022	2023	2022
Basic Earnings				
Net income	$ 253,373	$ 58,965	$ 290,351	$ 123,228
Less: Income attributable to non-controlling interest	4,490	2,874	6,325	3,649
Less: Income attributable to participating shares	2,373	2,412	4,744	4,824
Basic earnings	**$ 246,510**	**$ 53,679**	**$ 279,282**	**$ 114,755**
Diluted Earnings				
Net income	$ 253,373	$ 58,965	$ 290,351	$ 123,228
Less: Income attributable to non-controlling interest	4,490	2,874	6,325	3,649
Less: Income attributable to participating shares	2,373	2,412	4,744	4,824
Add: Expenses attributable to dilutive instruments	2,319	2,319	4,638	4,638
Diluted earnings	**$ 248,829**	**$ 55,998**	**$ 283,920**	**$ 119,393**
Number of Shares				
Basic — Average shares outstanding	131,651,125	114,359,026	121,219,982	101,106,777
Effect of dilutive securities — Unvested participating shares	9,932,712	10,706,466	9,876,386	10,696,654
Diluted — Average shares outstanding	**141,583,837**	**125,065,492**	**131,096,368**	**111,803,431**
EPS Attributable to RC Common Stockholders:				
Basic	$ 1.87	$ 0.47	$ 2.30	$ 1.13
Diluted	$ 1.76	$ 0.45	$ 2.17	$ 1.07

In the table above, participating unvested RSUs were excluded from the computation of diluted shares as their effect was already considered under the more dilutive two-class method used above.

The Company adopted ASU 2020-06, *Debt – Debt with Conversion and other Options and Derivatives and Hedging-Contracts in Entity's Own Equity*, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance eliminates the treasury stock method to calculate diluted EPS for convertible instruments and requires the use of the if-converted method.

Certain investors own OP units in the operating partnership. An OP unit and a share of common stock of the Company have substantially the same economic characteristics in as much as they effectively share equally in the net income or loss of the operating partnership. OP unit holders have the right to redeem their OP units, subject to certain restrictions. The redemption is required to be satisfied in shares of common stock or cash at the Company's option, calculated as follows: one share of the Company's common stock, or cash equal to the fair value of a share of the Company's common stock at the time of redemption, for each OP unit. When an OP unit holder redeems an OP unit, non-controlling interests in the operating partnership is reduced and the Company's equity is increased. As of June 30, 2023 and December 31, 2022, the non-controlling interest OP unit holders owned 1,541,241 and 1,593,983 OP units, respectively.

Note 23. Offsetting assets and liabilities

In order to better define its contractual rights and to secure rights that will help the Company mitigate its counterparty risk, the Company may enter into an International Swaps and Derivatives Association ("ISDA") Master Agreement with multiple derivative counterparties. An ISDA Master Agreement, published by ISDA, is a bilateral trading agreement between two parties that allow both parties to enter into over-the-counter ("OTC"), derivative contracts. The ISDA Master Agreement contains a Schedule to the Master Agreement and a Credit Support Annex, which governs the maintenance, reporting, collateral management and default process (netting provisions in the event of a default and/or a termination event). Under an ISDA Master Agreement, the Company may, under certain circumstances, offset with the counterparty certain derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment. The provisions of the ISDA Master Agreement typically permit a single net payment in the event of default, including the bankruptcy or insolvency of the counterparty. However, bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against the right of offset in bankruptcy, insolvency or other events. In addition, certain ISDA Master Agreements allow counterparties to terminate derivative contracts prior to maturity in the event the Company's stockholders' equity declines by a stated percentage or the Company fails to meet the terms of its ISDA Master Agreements, which would cause the Company to accelerate payment of any net liability owed to the counterparty. As of June 30, 2023 and December 31, 2022, the Company was in good standing on all of its ISDA Master Agreements or similar arrangements with its counterparties.

For derivatives traded under an ISDA Master Agreement, the collateral requirements are listed under the Credit Support Annex, which is the sum of the mark to market for each derivative contract, the independent amount due to the derivative counterparty and any thresholds, if any. Collateral may be in the form of cash or any eligible securities, as defined in the respective ISDA agreements. Cash collateral pledged to and by the Company with the counterparty, if any, is reported separately in the consolidated balance sheets as restricted cash. All margin call amounts must be made before the notification time and must exceed a minimum transfer amount threshold before a transfer is required. All margin calls must be responded to and completed by the close of business on the same day of the margin call, unless otherwise specified. Any margin calls after the notification time must be completed by the next business day. Typically, the Company and its counterparties are not permitted to sell, rehypothecate or use the collateral posted. To the extent amounts due to the Company from its counterparties are not fully collateralized, the Company bears exposure and the risk of loss from a defaulting counterparty. The Company attempts to mitigate counterparty risk by establishing ISDA agreements with only high-grade counterparties that have the financial health to honor their obligations and diversification by entering into agreements with multiple counterparties.

In accordance with ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, the Company is required to disclose the impact of offsetting of assets and liabilities represented in the consolidated balance sheets to enable users of the consolidated financial statements to evaluate the effect or potential effect of netting arrangements on its financial position for recognized assets and liabilities. These recognized assets and liabilities are financial instruments and derivative instruments that are either subject to enforceable master netting arrangements or ISDA Master Agreements or meet the following right of setoff criteria: (a) the amounts owed by the Company to another party are determinable, (b) the Company has the right to set off the amounts owed with the amounts owed by the counterparty, (c) the Company intends to offset, and (d) the Company's right of offset is enforceable at law. As of June 30, 2023 and December 31, 2022, the Company has elected to offset assets and liabilities associated with its OTC derivative contracts in the consolidated balances sheets.

The table below presents the gross fair value of derivative contracts by product type, Paycheck Protection Program Liquidity Facility borrowings and secured borrowings, the amount of netting reflected in the consolidated balance sheets, as well as the amount not offset in the consolidated balance sheets as they do not meet the enforceable credit support criteria for netting under U.S. GAAP.

				Gross amounts not offset in the Consolidated Balance Sheets (1)		
(in thousands)	Gross amounts of Assets / Liabilities	Gross amounts offset	Balance in Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received / Paid	Net Amount
June 30, 2023						
Assets						
IRLCs	$ 716	$ —	$ 716	$ —	$ —	$ 716
FX forwards	238	—	238	—	—	238
TBA Agency Securities	586	39	547	—	—	547
Interest rate swaps	49,689	42,435	7,254	—	—	7,254
Total	**$ 51,229**	**$ 42,474**	**$ 8,755**	**$ —**	**$ —**	**$ 8,755**
Liabilities						
TBA Agency Securities	$ 39	$ 39	$ —	$ —	$ —	$ —
FX forwards	2,261	—	2,261	—	—	2,261
Secured borrowings	2,395,687	—	2,395,687	2,395,687	—	—
Paycheck Protection Program Liquidity Facility	110,838	—	110,838	93,754	—	17,084
Total	**$ 2,508,825**	**$ 39**	**$ 2,508,786**	**$ 2,489,441**	**$ —**	**$ 19,345**
December 31, 2022						
Assets						
IRLCs	$ 117	$ —	$ 117	$ —	$ —	$ 117
FX forwards	1,123	—	1,123	—	—	1,123
TBA Agency Securities	796	482	314	—	—	314
Interest rate swaps	53,229	41,820	11,409	—	—	11,409
Total	**$ 55,265**	**$ 42,302**	**$ 12,963**	**$ —**	**$ —**	**$ 12,963**
Liabilities						
TBA Agency Securities	$ 749	$ 482	$ 267	$ —	$ —	$ 267
FX forwards	1,319	—	1,319	—	—	1,319
Secured borrowings	2,846,293	—	2,846,293	2,846,293	—	—
Paycheck Protection Program Liquidity Facility	201,011	—	201,011	186,985	—	14,026
Total	**$ 3,049,372**	**$ 482**	**$ 3,048,890**	**$ 3,033,278**	**$ —**	**$ 15,612**

(1) Amounts presented in these columns are limited in total to the net amount of assets or liabilities presented in the prior column by instrument. In certain cases, there is excess cash collateral or financial assets the Company has pledged to a counterparty that exceed the financial liabilities subject to a master netting repurchase arrangement or similar agreement. Additionally, in certain cases, counterparties may have pledged excess cash collateral to the Company that exceeds the Company's corresponding financial assets. In each case, any of these excess amounts are excluded from the table although they are separately reported in the Company's consolidated balance sheets as assets or liabilities, respectively.

Note 24. Financial instruments with off-balance sheet risk, credit risk, and certain other risks

In the normal course of business, the Company enters into transactions in various financial instruments that expose us to various types of risk, both on and off-balance sheet. Such risks are associated with financial instruments and markets in which the Company invests. These financial instruments expose us to varying degrees of market risk, credit risk, interest rate risk, liquidity risk, off-balance sheet risk and prepayment risk.

Market Risk — Market risk is the potential adverse changes in the values of the financial instrument due to unfavorable changes in the level or volatility of interest rates, foreign currency exchange rates, or market values of the underlying financial instruments. The Company attempts to mitigate its exposure to market risk by entering into offsetting transactions, which may include purchase or sale of interest-bearing securities and equity securities.

Credit Risk — The Company is subject to credit risk in connection with its investments in SBC loans and SBC MBS and other target assets it may acquire in the future. The credit risk related to these investments pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is granted or renewed and periodically reviewed throughout the loan or security term. The Company believes that loan credit quality is primarily determined by the borrowers' credit profiles and loan characteristics and seeks to mitigate this risk by seeking to acquire assets at appropriate prices given anticipated and unanticipated losses and by deploying a value−driven approach to underwriting and diligence, consistent with its historical investment strategy, with a focus on projected cash flows and potential risks to cash flow. The Company further mitigates its risk of potential losses while managing and servicing loans by performing various workout and loss mitigation strategies with delinquent borrowers. Nevertheless, unanticipated credit losses could occur, which could adversely impact operating results.

The Company is also subject to credit risk with respect to the counterparties to derivative contracts. If a counterparty becomes bankrupt or otherwise fails to perform its obligation under a derivative contract due to financial difficulties, the Company may experience significant delays in obtaining any recovery under the derivative contract in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If the Company is owed this fair market value in the termination of the derivative transaction and its claim is unsecured, it will be treated as a general creditor of such counterparty and will not have any claim with respect to the underlying security. The Company may obtain only a limited recovery or may obtain no recovery in such circumstances. In addition, the business failure of a counterparty with whom it enters a hedging transaction will most likely result in its default, which may result in the loss of potential future value and the loss of our hedge and force the Company to cover its commitments, if any, at the then current market price.

Counterparty credit risk is the risk that counterparties may fail to fulfill their obligations, including their inability to post additional collateral in circumstances where their pledged collateral value becomes inadequate. The Company attempts to manage its exposure to counterparty risk through diversification, use of financial instruments and monitoring the creditworthiness of counterparties.

The Company finances the acquisition of a significant portion of its loans and investments with repurchase agreements and borrowings under credit facilities and other financing agreements. In connection with these financing arrangements, the Company pledges its loans, securities and cash as collateral to secure the borrowings. The amount of collateral pledged will typically exceed the amount of the borrowings (i.e., the haircut) such that the borrowings will be over-collateralized. As a result, the Company is exposed to the counterparty if, during the term of the repurchase agreement financing, a lender should default on its obligation and the Company is not able to recover its pledged assets. The amount of this exposure is the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged by the Company to the lender including accrued interest receivable on such collateral.

GMFS sells loans to investors without recourse. As such, the investors have assumed the risk of loss or default by the borrower. However, GMFS is usually required by these investors to make certain standard representations and warranties relating to credit information, loan documentation and collateral. To the extent that GMFS does not comply with such representations, or there are early payment defaults, GMFS may be required to repurchase the loans or indemnify these investors for any losses from borrower defaults. In addition, if loans pay-off within a specified time frame, GMFS may be required to refund a portion of the sales proceeds to the investors.

The Company is exposed to changing interest rates and market conditions, which affects cash flows associated with borrowings. The Company enters into derivative instruments, such as interest rate swaps, to mitigate these risks. Interest rate swaps are used to mitigate the exposure to changes in interest rates and involve the receipt of variable-rate interest amounts from a counterparty in exchange for making payments based on a fixed interest rate over the life of the swap contract.

Certain subsidiaries have entered into OTC interest rate swap agreements to hedge risks associated with movements in interest rates. Because certain interest rate swaps were not cleared through a central counterparty, the Company remains exposed to the counterparty's ability to perform its obligations under each such swap and cannot look to the creditworthiness of a central counterparty for performance. As a result, if an OTC swap counterparty cannot perform under the terms of an interest rate swap, the Company’s subsidiary would not receive payments due under that agreement, the Company may lose any unrealized gain associated with the interest rate swap and the hedged liability would cease to be hedged by the interest rate swap. While the Company would seek to terminate the relevant OTC swap transaction and may have a claim against the defaulting counterparty for any losses, including unrealized gains, there is no assurance that the Company would be able to recover such amounts or to replace the relevant swap on economically viable terms or at all. In such case, the Company could be forced to cover its unhedged liabilities at the then current market price. The Company may also be at risk for any pledged collateral to secure its obligations under the OTC interest rate swap if the counterparty becomes insolvent or files for bankruptcy. Therefore, upon a default by an interest rate swap agreement counterparty, the interest rate swap would no longer mitigate the impact of changes in interest rates as intended.

Liquidity Risk — Liquidity risk arises from investments and the general financing of the Company’s investing activities. It includes the risk of not being able to fund acquisition and origination activities at settlement dates and/or liquidate positions in a timely manner at reasonable prices, in addition to potential increases in collateral requirements during times of heightened market volatility. If the Company was forced to dispose of an illiquid investment at an inopportune time, it might be forced to do so at a substantial discount to the market value, resulting in a realized loss. The Company attempts to mitigate its liquidity risk by regularly monitoring the liquidity of its investments in SBC loans, MBS and other financial instruments. Factors such as expected exit strategy for, the bid to offer spread of, and the number of broker dealers making an active market in a particular strategy and the availability of long-term funding, are considered in analyzing liquidity risk. To reduce any perceived disparity between the liquidity and the terms of the debt instruments in which the Company invests, it attempts to minimize its reliance on short-term financing arrangements. While the Company may finance certain investments in security positions using traditional margin arrangements and reverse repurchase agreements, other financial instruments such as collateralized debt obligations, and other longer term financing vehicles may be utilized to provide it with sources of long-term financing.

Off-Balance Sheet Risk —The Company has undrawn commitments on outstanding loans which are disclosed in Note 25.

Interest Rate — Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company’s control.

The Company’s operating results will depend, in part, on differences between the income from its investments and financing costs. Generally, debt financing is based on a floating rate of interest calculated on a fixed spread over the relevant index, subject to a floor, as determined by the particular financing arrangement. In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us, which could materially and adversely affect the Company’s business, financial condition, liquidity, results of operations and prospects. Furthermore, such defaults could have an adverse effect on the spread between the Company’s interest-earning assets and interest-bearing liabilities.

Additionally, non-performing SBC loans are not as interest rate sensitive as performing loans, as earnings on non-performing loans are often generated from restructuring the assets through loss mitigation strategies and opportunistically disposing of them. Because non-performing SBC loans are short-term assets, the discount rates used for valuation are based on short-term market interest rates, which may not move in tandem with long-term market interest rates.

Prepayment Risk — As the Company receives prepayments of principal on its assets, any premiums paid on such assets are amortized against interest income. In general, an increase in prepayment rates accelerates the amortization of purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates accelerates the accretion of purchase discounts, thereby increasing the interest income earned on the assets.

Note 25. Commitments, contingencies and indemnifications

Litigation
The Company may be subject to litigation and administrative proceedings arising in the ordinary course of its business and as such, has entered into agreements which provide for indemnifications against losses, costs, claims, and liabilities arising from the performance of individual obligations under such agreements. The Company has had no prior claims or payments pursuant to these agreements and the individual maximum exposure is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on history and experience, the risk of loss is expected to be remote. Management is not aware of any other contingencies that would require accrual or disclosure in the consolidated financial statements.

Unfunded Loan Commitments
The table below presents unfunded loan commitments.

(in thousands)	June 30, 2023	December 31, 2022
Loans, net	$ 1,035,373	$ 881,519
Loans, held for sale at fair value	$ 15,112	$ 20,546
Preferred equity investment	$ 436	$ 1,147

Commitments to Originate Loans
GMFS enters into IRLCs with customers who have applied for residential mortgage loans and meet certain credit and underwriting criteria. These commitments expose GMFS to market risk if interest rates change, and the loan is not economically hedged or committed to an investor. GMFS is also exposed to credit loss if the loan is originated and not sold to an investor and the borrower does not perform. Commitments to originate loans do not necessarily reflect future cash requirements as some commitments are expected to expire without being drawn upon.

The table below presents commitments to originate residential agency loans.

(in thousands)	June 30, 2023	December 31, 2022
Commitments to originate residential agency loans	$ 153,324	$ 112,319

Note 26. Income Taxes

The Company is a REIT pursuant to Internal Revenue Code Section 856. Qualification as a REIT depends on the Company’s ability to meet various requirements imposed by the Internal Revenue Code, which relate to its organizational structure, diversity of stock ownership and certain requirements with regard to the nature of its assets and the sources of its income. As a REIT, the Company generally must distribute annually dividends equal to at least 90% of its net taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income tax not to apply to earnings that are distributed. To the extent the Company satisfies this distribution requirement but distributes less than 100% of its net taxable income, it will be subject to U.S. federal income tax on its undistributed taxable income. In addition, the Company will be subject to a 4% nondeductible excise tax if the actual amount paid to stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. Even if the Company qualifies as a REIT, it may be subject to certain U.S. federal income and excise taxes and state and local taxes on its income and assets. If the Company fails to maintain its qualification as a REIT for any taxable year, it may be subject to material penalties as well as federal, state and local income tax on its taxable income at regular corporate rates and it would not be able to qualify as a REIT for the subsequent four taxable years. As of June 30, 2023 and December 31, 2022, the Company was in compliance with all REIT requirements.

Certain subsidiaries have elected to be treated as taxable REIT subsidiaries (“TRSs”). TRSs permit the Company to participate in certain activities that would not be qualifying income if earned directly by the parent REIT, as long as these activities meet specific criteria, are conducted within the parameters of certain limitations established by the Internal Revenue Code and are conducted in entities which elect to be treated as taxable subsidiaries under the Internal Revenue Code. To the extent these criteria are met, the Company will continue to maintain our qualification as a REIT. The Company’s TRSs engage in various real estate - related operations, including originating and securitizing commercial and residential mortgage loans, and investments in real property. Such TRSs are not consolidated for federal income tax purposes but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred income taxes is established for the portion of earnings recognized by the Company with respect to its interest in TRSs.

Note 27. Segment reporting

The Company reports its results of operations through the following three business segments: i) *SBC Lending and Acquisitions*, ii) *Small Business Lending* and iii) *Residential Mortgage Banking*. The Company's organizational structure is based on a number of factors that the Chief Operating Decision Maker ("CODM"), the Chief Executive Officer, uses to evaluate, view, and run its business operations, which includes customer base and nature of loan program types. The segments are based on this organizational structure and the information reviewed by the CODM and management to evaluate segment results.

SBC Lending and Acquisitions
The Company originates SBC loans across the full life-cycle of an SBC property including construction, bridge, stabilized and agency channels. As part of this segment, the Company originates and services multi-family loan products under the Freddie Mac SBL program. SBC originations include construction and permanent financing activities for the preservation and construction of affordable housing, primarily utilizing tax-exempt bonds, through Red Stone. This segment also reflects the impact of SBC securitization activities. The Company acquires performing and non-performing SBC loans and intends to continue to acquire these loans as part of the Company's business strategy.

Small Business Lending
The Company acquires, originates and services loans guaranteed by the SBA under the SBA Section 7(a) Program. This segment also reflects the impact of SBA securitization activities. The Company also acquires purchased future receivables through Knight Capital.

Residential mortgage banking
The Company originates residential mortgage loans eligible to be purchased, guaranteed or insured by Fannie Mae, Freddie Mac, FHA, USDA and VA through retail, correspondent and broker channels.

Corporate- Other
Corporate - Other consists primarily of unallocated activities including interest expense relating to senior secured and convertible notes, allocated employee compensation from the Manager, management and incentive fees paid to the Manager and other general corporate overhead expenses.

Results of business segments and all other. The tables below present reportable business segments, along with remaining unallocated amounts recorded within Corporate- Other.

(in thousands)	SBC Lending and Acquisitions	Small Business Lending	Residential Mortgage Banking	Corporate-Other	Consolidated
	Three Months Ended June 30, 2023				
Interest income	$ 212,233	$ 18,771	$ 1,880	$ —	$ 232,884
Interest expense	(160,504)	(9,718)	(2,312)	—	(172,534)
Net interest income before provision for loan losses	**$ 51,729**	**$ 9,053**	**$ (432)**	**$ —**	**$ 60,350**
Provision for loan losses	(17,415)	(2,012)	—	—	(19,427)
Net interest income after provision for loan losses	**$ 34,314**	**$ 7,041**	**$ (432)**	**$ —**	**$ 40,923**
Non-interest income					
Residential mortgage banking activities	$ —	$ —	$ 9,884	$ —	$ 9,884
Net realized gain (loss) on financial instruments and real estate owned	15,356	8,522	—	—	23,878
Net unrealized gain (loss) on financial instruments	(677)	(734)	8,818	—	7,407
Servicing income, net	1,890	3,149	9,393	—	14,432
Income on purchased future receivables, net	—	86	—	—	86
Gain on bargain purchase	—	—	—	229,894	229,894
Income on unconsolidated joint ventures	33	—	—	—	33
Other income	8,166	10,099	24	280	18,569
Total non-interest income	**$ 24,768**	**$ 21,122**	**$ 28,119**	**$ 230,174**	**$ 304,183**
Non-interest expense					
Employee compensation and benefits	$ (8,723)	$ (11,614)	$ (5,296)	$ (2,076)	$ (27,709)
Allocated employee compensation and benefits from related party	(250)	—	—	(2,250)	(2,500)
Variable expenses on residential mortgage banking activities	—	—	(6,574)	—	(6,574)
Professional fees	(1,135)	(2,782)	(123)	(1,616)	(5,656)
Management fees – related party	—	—	—	(5,760)	(5,760)
Incentive fees – related party	—	—	—	(71)	(71)
Loan servicing expense	(10,746)	(148)	(2,221)	—	(13,115)
Transaction related expenses	—	—	—	(13,966)	(13,966)
Other operating expenses	(3,598)	(4,687)	(1,684)	(1,272)	(11,241)
Total non-interest expense	**$ (24,452)**	**$ (19,231)**	**$ (15,898)**	**$ (27,011)**	**$ (86,592)**
Income before provision for income taxes	**$ 34,630**	**$ 8,932**	**$ 11,789**	**$ 203,163**	**$ 258,514**
Total assets	**$ 10,969,193**	**$ 739,391**	**$ 422,103**	**$ 252,359**	**$ 12,383,046**

(in thousands)	SBC Lending and Acquisitions	Small Business Lending	Residential Mortgage Banking	Corporate-Other	Consolidated
	Six Months Ended June 30, 2023				
Interest income	$ 410,272	$ 36,700	$ 3,485	$ —	$ 450,457
Interest expense	(309,998)	(19,092)	(3,838)	—	(332,928)
Net interest income before provision for loan losses	**$ 100,274**	**$ 17,608**	**$ (353)**	**$ —**	**$ 117,529**
Provision for loan losses	(9,286)	(3,407)	—	—	(12,693)
Net interest income after provision for loan losses	**$ 90,988**	**$ 14,201**	**$ (353)**	**$ —**	**$ 104,836**
Non-interest income					
Residential mortgage banking activities	$ —	$ —	$ 19,053	$ —	$ 19,053
Net realized gain (loss) on financial instruments and real estate owned	20,181	15,272	—	—	35,453
Net unrealized gain (loss) on financial instruments	(6,788)	(258)	2,725	—	(4,321)
Servicing income, net	2,983	6,698	18,754	—	28,435
Income on purchased future receivables, net	—	626	—	—	626
Gain on bargain purchase	—	—	—	229,894	229,894
Income on unconsolidated joint ventures	689	—	—	—	689
Other income	17,259	20,527	55	611	38,452
Total non-interest income	**$ 34,324**	**$ 42,865**	**$ 40,587**	**$ 230,505**	**$ 348,281**
Non-interest expense					
Employee compensation and benefits	$ (14,929)	$ (22,889)	$ (10,708)	$ (4,322)	$ (52,848)
Allocated employee compensation and benefits from related party	(482)	—	—	(4,344)	(4,826)
Variable expenses on residential mortgage banking activities	—	—	(12,059)	—	(12,059)
Professional fees	(2,116)	(4,407)	(297)	(4,553)	(11,373)
Management fees – related party	—	—	—	(10,841)	(10,841)
Incentive fees – related party	—	—	—	(1,791)	(1,791)
Loan servicing expense	(18,804)	(245)	(4,029)	—	(23,078)
Transaction related expenses	—	—	—	(14,859)	(14,859)
Other operating expenses	(10,331)	(8,781)	(3,393)	(3,054)	(25,559)
Total non-interest expense	**$ (46,662)**	**$ (36,322)**	**$ (30,486)**	**$ (43,764)**	**$ (157,234)**
Income before provision for income taxes	**$ 78,650**	**$ 20,744**	**$ 9,748**	**$ 186,741**	**$ 295,883**
Total assets	**$ 10,969,193**	**$ 739,391**	**$ 422,103**	**$ 252,359**	**$ 12,383,046**

(in thousands)	Three Months Ended June 30, 2022 SBC Lending and Acquisitions	Small Business Lending	Residential Mortgage Banking	Corporate-Other	Consolidated
Interest income	$ 122,427	$ 29,024	$ 2,220	$ —	$ 153,671
Interest expense	(72,685)	(5,916)	(2,226)	—	(80,827)
Net interest income before recovery of (provision for) loan losses	**$ 49,742**	**$ 23,108**	**$ (6)**	**$ —**	**$ 72,844**
Recovery of (provision for) loan losses	4,609	(219)	—	—	4,390
Net interest income after recovery of (provision for) loan losses	**$ 54,351**	**$ 22,889**	**$ (6)**	**$ —**	**$ 77,234**
Non-interest income					
Residential mortgage banking activities	$ —	$ —	$ 2,947	$ —	$ 2,947
Net realized gain (loss) on financial instruments and real estate owned	12,034	9,080	—	—	21,114
Net unrealized gain (loss) on financial instruments	(2,517)	(721)	(15)	—	(3,253)
Servicing income, net	1,431	4,558	8,576	—	14,565
Income on purchased future receivables, net	—	1,859	—	—	1,859
Income on unconsolidated joint ventures	5,200	—	—	—	5,200
Other income	6,338	1,950	21	25	8,334
Total non-interest income	**$ 22,486**	**$ 16,726**	**$ 11,529**	**$ 25**	**$ 50,766**
Non-interest expense					
Employee compensation and benefits	$ (7,903)	$ (10,217)	$ (6,906)	$ (1,063)	$ (26,089)
Allocated employee compensation and benefits from related party	(180)	—	—	(1,624)	(1,804)
Variable income (expenses) on residential mortgage banking activities	—	—	4,532	—	4,532
Professional fees	(1,097)	(1,619)	(217)	(918)	(3,851)
Management fees – related party	—	—	—	(5,465)	(5,465)
Loan servicing expense	(7,912)	74	(2,458)	—	(10,296)
Transaction related expenses	—	—	—	(1,372)	(1,372)
Other operating expenses	(6,457)	(4,314)	(2,175)	(1,426)	(14,372)
Total non-interest expense	**$ (23,549)**	**$ (16,076)**	**$ (7,224)**	**$ (11,868)**	**$ (58,717)**
Income (loss) before provision for income taxes	**$ 53,288**	**$ 23,539**	**$ 4,299**	**$ (11,843)**	**$ 69,283**
Total assets	**$ 10,296,900**	**$ 1,049,763**	**$ 454,556**	**$ 136,096**	**$ 11,937,315**

(in thousands)	Six Months Ended June 30, 2022 SBC Lending and Acquisitions	Small Business Lending	Residential Mortgage Banking	Corporate-Other	Consolidated
Interest income	$ 218,770	$ 55,261	$ 4,045	$ —	$ 278,076
Interest expense	(125,778)	(11,606)	(4,184)	(276)	(141,844)
Net interest income before recovery of (provision for) loan losses	**$ 92,992**	**$ 43,655**	**$ (139)**	**$ (276)**	**$ 136,232**
Recovery of (provision for) loan losses	4,339	(1,491)	—	—	2,848
Net interest income after recovery of (provision for) loan losses	**$ 97,331**	**$ 42,164**	**$ (139)**	**$ (276)**	**$ 139,080**
Non-interest income					
Residential mortgage banking activities	$ —	$ —	$ 11,371	$ —	$ 11,371
Net realized gain (loss) on financial instruments and real estate owned	12,916	16,205	—	—	29,121
Net unrealized gain (loss) on financial instruments	9,912	(433)	32,583	—	42,062
Servicing income, net	2,351	6,051	16,691	—	25,093
Income on purchased future receivables, net	—	4,328	—	—	4,328
Income on unconsolidated joint ventures	11,763	—	—	—	11,763
Other income	9,352	4,821	45	617	14,835
Total non-interest income	**$ 46,294**	**$ 30,972**	**$ 60,690**	**$ 617**	**$ 138,573**
Non-interest expense					
Employee compensation and benefits	$ (18,063)	$ (19,735)	$ (14,440)	$ (1,819)	$ (54,057)
Allocated employee compensation and benefits from related party	(480)	—	—	(4,324)	(4,804)
Variable income (expenses) on residential mortgage banking activities	—	—	3,553	—	3,553
Professional fees	(3,498)	(3,087)	(481)	(1,911)	(8,977)
Management fees – related party	—	—	—	(8,661)	(8,661)
Loan servicing expense	(13,787)	(428)	(5,001)	—	(19,216)
Transaction related expenses	—	—	—	(7,071)	(7,071)
Other operating expenses	(11,833)	(8,101)	(4,199)	(2,892)	(27,025)
Total non-interest expense	**$ (47,661)**	**$ (31,351)**	**$ (20,568)**	**$ (26,678)**	**$ (126,258)**
Income (loss) before provision for income taxes	**$ 95,964**	**$ 41,785**	**$ 39,983**	**$ (26,337)**	**$ 151,395**
Total assets	**$ 10,296,900**	**$ 1,049,763**	**$ 454,556**	**$ 136,096**	**$ 11,937,315**

Note 28. Subsequent events

The Company has evaluated subsequent events through the issuance date of the consolidated financial statements and determined that no additional disclosure is necessary.

Item 1A. Forward-Looking Statements

Except where the context suggests otherwise, the terms "Company," "we," "us" and "our" refer to Ready Capital Corporation and its subsidiaries. We make forward-looking statements in this quarterly report on Form 10-Q within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend such statements to be covered by the safe harbor provisions for forward-looking statements contained therein. Forward-looking statements contained in this quarterly report reflect our current views about future events and are inherently subject to substantial risks and uncertainties, many of which are difficult to predict and beyond our control, that may cause our actual results to materially differ. These forward-looking statements include information about possible or assumed future results of our operations, financial condition, liquidity, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "could," "would," "may," "potential" or other comparable terminology, we intend to identify forward-looking statements, although not all forward-looking statements may contain such words. Statements regarding the following subjects, among others, may be forward-looking, and the occurrence of events impacting these subjects, or otherwise impacting our business, may cause our financial condition, liquidity and consolidated results of operations to vary materially from those expressed in, or implied by, any such forward-looking statements:

- the severity and duration of the novel coronavirus ("COVID-19") pandemic and its impact on our business and operations, financial condition, results of operations, liquidity and capital resources;
- the impact of the COVID-19 pandemic on our borrowers, the real estate industry and global markets;
- our investment objectives and business strategy;
- our ability to borrow funds or otherwise raise capital on favorable terms;
- our expected leverage;
- our expected investments;
- estimates or statements relating to, and our ability to make, future distributions;
- projected capital and operating expenditures;
- availability of qualified personnel;
- prepayment rates;
- projected default rates;
- increased rates of default and/or decreased recovery rates on our investments;
- changes in interest rates, interest rate spreads, the yield curve or prepayment rates;
- the impact of inflation on our business;
- changes in prepayments of our assets;
- our ability to achieve the expected synergies, cost savings and other benefits from the acquisition of a group of privately-held real estate structured finance opportunities funds with a focus on construction lending (collectively, the "Mosaic Funds");
- our ability to achieve the expected synergies, cost savings and other benefits from the acquisition of Broadmark Realty Capital Inc. ("Broadmark"), a specialty real estate finance company that specialized in originating and servicing residential and commercial construction loans;

- risks associated with achieving expected synergies, cost savings and other benefits from acquisitions and our increased scale;
- risks related to integrating a construction lending platform into our existing operations and the origination and ownership of construction loans, which are subject to additional risks as compared to loans secured by existing structures or land, following the Broadmark Merger and the acquisition of the Mosaic Funds;
- market, industry and economic trends;
- our ability to compete in the marketplace;
- the availability of attractive risk-adjusted investment opportunities in small to medium balance commercial loans ("SBC loans"), loans guaranteed by the U.S. Small Business Administration (the "SBA") under its Section 7(a) loan program (the "SBA Section 7(a) Program"), mortgage backed securities ("MBS"), residential mortgage loans and other real estate-related investments that satisfy our investment objectives and strategies;
- general volatility of the capital markets;
- changes in our investment objectives and business strategy;
- the availability, terms and deployment of capital;
- the availability of suitable investment opportunities;
- recent market developments and actions taken and to be taken by the U.S. Government, the U.S. Department of the Treasury ("Treasury") and the Board of Governors of the Federal Reserve System, the Federal Depositary Insurance Corporation, the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Government National Mortgage Association ("Ginnie Mae"), Federal Housing Administration ("FHA") Mortgagee, U.S. Department of Agriculture ("USDA"), U.S. Department of Veterans Affairs ("VA") and the U.S. Securities and Exchange Commission ("SEC");
- applicable regulatory changes;
- changes in our assets, interest rates or the general economy;
- mortgage loan modification programs and future legislative actions;
- our ability to maintain our qualification as a real estate investment trust ("REIT") and limitations on our business as a result of our qualifications as a REIT;
- our ability to maintain our exemption from qualification under the Investment Company Act of 1940, as amended (the "1940 Act");
- factors described in the annual report on Form 10-K, including those set forth under the captions "Risk Factors" and "Business";
- our dependence on our external advisor, Waterfall Asset Management, LLC ("Waterfall" or the "Manager"), and our ability to find a suitable replacement if we or Waterfall were to terminate the management agreement we have entered into with Waterfall (the "management agreement"); and
- the degree and nature of our competition, including competition for SBC loans, MBS, residential mortgage loans and other real estate-related investments that satisfy our investment objectives and strategies.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements, and we caution readers not to place undue reliance on any forward-looking statements. These forward-looking statements apply only as of the date of this quarterly report on Form 10-Q. We are not obligated, and do not intend, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law. See Item 1A. "Risk Factors" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's annual report on Form 10-K.

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

Introduction

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in five main sections:

- Overview
- Results of Operations
- Liquidity and Capital Resources
- Contractual Obligations and Off-Balance Sheet Arrangements
- Critical Accounting Estimates

The following discussion should be read in conjunction with our unaudited interim consolidated financial statements and accompanying Notes included in Part I, Item 1, "Financial Statements," of this quarterly report on Form 10-Q and with Items 6, 7, 8, and 9A of our annual report on Form 10-K. See "Forward-Looking Statements" in this quarterly report on Form 10-Q and in our annual report on Form 10-K and "Critical Accounting Estimates" in our annual report on Form 10-K for certain other factors that may cause actual results to differ, materially, from those anticipated in the forward-looking statements included in this quarterly report on Form 10-Q.

Overview

Our Business

We are a multi-strategy real estate finance company that originates, acquires, finances, and services SBC loans, SBA loans, residential mortgage loans, construction loans, and to a lesser extent, MBS collateralized primarily by SBC loans, or other real estate-related investments. Our loans generally range in original principal amounts up to $40 million and are used by businesses to purchase real estate used in their operations or by investors seeking to acquire multi-family, office, retail, mixed use or warehouse properties. Our objective is to provide attractive risk-adjusted returns to our stockholders, primarily through dividends as well as through capital appreciation. In order to achieve this objective, we continue to grow our investment portfolio and believe that the breadth of our full service real estate finance platform will allow us to adapt to market conditions and deploy capital in our asset classes and segments with the most attractive risk-adjusted returns. We report our activities in the following three operating segments:

- ***SBC Lending and Acquisitions***. We originate SBC loans across the full life-cycle of an SBC property including construction, bridge, stabilized and agency loan origination channels through our wholly-owned subsidiary, ReadyCap Commercial. These originated loans are generally held-for-investment or placed into securitization structures. As part of this segment, we originate and service multi-family loan products under the Freddie Mac SBL program. These originated loans are held for sale, then sold to Freddie Mac. We provide construction and permanent financing for the preservation and construction of affordable housing, primarily utilizing tax-exempt bonds through Red Stone, a wholly owned subsidiary. In addition, we acquire small balance commercial loans as part of our business strategy. We hold performing SBC loans to term and seek to maximize the value of the non-performing SBC loans acquired by us through borrower-based resolution strategies. We typically acquire non-performing loans at a discount to their unpaid principal balance when we believe that resolution of the loans will provide attractive risk-adjusted returns.

- ***Small Business Lending*****.** We acquire, originate and service owner-occupied loans guaranteed by the SBA under the SBA Section 7(a) Program through our wholly-owned subsidiary, ReadyCap Lending. We hold an SBA license as one of only 14 non-bank SBLCs and have been granted preferred lender status by the SBA. These originated loans are either held-for-investment, placed into securitization structures, or sold. We also acquire purchased future receivables through Knight Capital, which is a technology-driven platform that provides working capital to small and medium sized businesses across the U.S.

- ***Residential Mortgage Banking***. We operate our residential mortgage loan origination segment through our wholly-owned subsidiary, GMFS. GMFS originates residential mortgage loans eligible to be purchased, guaranteed or insured by Fannie Mae, Freddie Mac, FHA, USDA and VA through retail, correspondent and broker channels. These originated loans are then sold to third parties, primarily agency lending programs.

We are organized and conduct our operations to qualify as a REIT under the Code. So long as we qualify as a REIT, we are generally not subject to U.S. federal income tax on our net taxable income to the extent that we annually distribute substantially all of our net taxable income to stockholders. We are organized in a traditional UpREIT format pursuant to which we serve as the general partner of, and conduct substantially all of our business through, our operating partnership. We also intend to operate our business in a manner that will permit us to be excluded from registration as an investment company under the 1940 Act.

For additional information on our business, refer to Part I, Item 1, “Business” in the Company’s Annual Report on Form 10-K.

Acquisitions

Broadmark. On May 31, 2023, the Company, Broadmark Realty Capital Inc., a Maryland corporation (“Broadmark”), and RCC Merger Sub, LLC, a Delaware limited liability company and a wholly owned subsidiary of Ready Capital (“RCC Merger Sub”), completed a merger (such transaction, the “Broadmark Merger”), in which Broadmark merged with and into RCC Merger Sub, with RCC Merger Sub remaining as a wholly owned subsidiary of the Company .

At the effective time of the Broadmark Merger (the “Effective Time”), each share of common stock, par value $0.001 per share, of Broadmark (the “Broadmark Common Stock”) issued and outstanding immediately prior to the Effective Time (excluding any shares held by the Company, RCC Merger Sub or any of their respective subsidiaries) was automatically cancelled and converted into the right to receive from the Company 0.47233 shares of its common stock, par value $0.0001 (“Common Stock”), (the “Exchange Ratio”). No fractional shares of Common Stock were issued in the Broadmark Merger, and the value of any fractional interests to which a former holder of Broadmark common stock was otherwise entitled was paid in cash. In addition, RCC Merger Sub assumed Broadmark’s outstanding senior unsecured notes.

Each award of performance restricted stock units (each a “Broadmark Performance RSU Award”) granted by Broadmark under its 2019 Stock Incentive Plan (the “Broadmark Equity Plan”), as of the Effective Time, was automatically cancelled in exchange for the right to receive a number of shares of Common Stock equal to the product of (i) the number of shares of Broadmark Common Stock subject to such Broadmark Performance RSU Award based on the achievement of the applicable performance metric measured as of immediately prior to the Effective Time and (ii) the Exchange Ratio.

Each award of restricted stock units that was not a Broadmark Performance RSU Award granted pursuant to the Broadmark Equity Plan (each a “Broadmark RSU Award”) was assumed by the Company and converted into an award of restricted stock units with respect to a number of shares of Common Stock, equal to the product of (i) the total number of shares of Broadmark Common Stock subject to such Broadmark RSU Award as of immediately prior to the Effective Time and (ii) the Exchange Ratio (rounded to the nearest whole share), on the same terms and conditions as were applicable to such Broadmark RSU Award as of immediately prior to the Effective Time.

Each holder of a warrant (whether designated as public warrants, private warrants or otherwise) representing the right to purchase shares of Broadmark Common Stock (each a “Broadmark Warrant”) had the right to exercise such Broadmark Warrant at any time prior to the Effective Time in exchange for Broadmark Common Stock, in accordance with, and subject to, the terms and conditions of the agreement governing such Broadmark Warrant. Following the Effective Time, each Broadmark Warrant that was outstanding as of the Effective Time was assumed by the Company and entitles each holder thereof to receive, upon exercise of such assumed Broadmark Warrant, a number of shares of Common Stock equal to the product of (i) the total number of shares of Broadmark Common Stock that such holder would have been entitled to receive had such holder exercised such Broadmark Warrant immediately prior to the Effective Time and (ii) the Exchange Ratio (rounded to the nearest whole share).

As a result of the Broadmark Merger, the number of directors on the Company's Board increased by three members, from nine to twelve, with the three additional directors each having served on the board of directors of Broadmark immediately prior to the Effective Time. The Broadmark Merger further diversified our business by expanding on our residential and commercial construction lending platforms. Refer to Note 5, included in Part I, Item 1, “Financial Statements,” of this quarterly report on Form 10-Q, for assets acquired and liabilities assumed as a result of the Broadmark Merger.

Mosaic. On March 16, 2022, pursuant to the terms of that certain Merger Agreement, dated as of November 3, 2021, as amended on February 7, 2022, the Company acquired, in a series of mergers (collectively, the “Mosaic Mergers”), a group of privately held, real estate structured finance opportunities funds, with a focus on construction lending (collectively, the “Mosaic Funds”), managed by MREC Management, LLC (“the “Mosaic Manager”).

As consideration for the Mosaic Mergers, each former investor was entitled to receive an equal number of shares of each of Class B-1 Common Stock, $0.0001 par value per share (the “Class B-1 Common Stock”), Class B-2 Common Stock, $0.0001 par value per share (the “Class B-2 Common Stock”) Class B-3 Common Stock, $0.0001 par value per share (the “Class B-3 Common Stock”), and Class B-4 Common Stock, $0.0001 par value per share (the “Class B-4 Common Stock” and, together with the Class B-1 Common Stock, the Class B-2 Common Stock and the Class B-3 Common Stock, the “Class B Common Stock”), of Ready Capital, contingent equity rights (“CERs”) representing the potential right to receive shares of common stock as of the end of the three-year period following the closing date of the Mosaic Mergers based upon the performance of the assets acquired by Ready Capital pursuant to the Mosaic Mergers, and cash consideration in lieu of any fractional shares of Class B Common Stock.

The Class B Common Stock ranked equally with the common stock, except that the shares of Class B Common Stock were not listed on the New York Stock Exchange. On May 11, 2022, each issued and outstanding share of Class B Common Stock, pursuant to a Board resolution, automatically converted, on a one-for-one basis, into an equal number of shares of common stock, and as such, no shares of Class B Common Stock remain outstanding.

The CERs are contractual rights and do not represent any equity or ownership interest in Ready Capital or any of its affiliates. If any shares of common stock are issued in settlement of the CERs, each former investor will also be entitled to receive a number of additional shares of common stock equal to (i) the amount of any dividends or other distributions paid with respect to the number of whole shares of common stock received in respect of CERs and having a record date on or after the closing date of the Mosaic Mergers and a payment date prior to the issuance date of such shares of common stock, divided by (ii) the greater of (a) the average of the volume weighted average prices of one share of common stock over the ten trading days preceding the determination date and (b) the most recently reported book value per share of common stock as of the determination date.

The acquisition further expanded the Company’s investment portfolio and origination platform to include a diverse portfolio of construction assets with attractive portfolio yields. Refer to Note 5, included in Part I, Item 1, “Financial Statements,” of this quarterly report on Form 10-Q, for assets acquired and liabilities assumed in the Mosaic Mergers.

Factors Impacting Operating Results

We expect that our results of operations will be affected by a number of factors and will primarily depend on the level of interest income from our assets, the market value of our assets and the supply of, and demand for, SBC loans, SBA loans, residential loans, construction loans, MBS and other assets we may acquire in the future, demand for housing, population trends, construction costs, the availability of alternative real estate financing from other lenders and the financing and other costs associated with our business. These factors may have an impact on our ability to originate new loans or the performance of our existing loan portfolio. Our net investment income, which includes the amortization of purchase premiums and accretion of purchase discounts, varies primarily as a result of changes in market interest rates, the rate at which our distressed assets are liquidated and the prepayment speed of our performing assets. Interest rates and prepayment speeds vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. Our operating results may also be impacted by our available borrowing capacity, conditions in the financial markets, credit losses in excess of initial estimates or unanticipated credit events experienced by borrowers whose loans are held directly by us or are included in our MBS. Difficult market conditions as well as inflation, energy costs, geopolitical issues, health epidemics and outbreaks of contagious diseases, such as the outbreak of COVID-19 and the emergence and severity of variants, unemployment and the availability and cost of credit are factors which could also impact our operating results.

Changes in Market Interest Rates. We own and expect to acquire or originate fixed rate mortgages and floating rate mortgages with maturities ranging from two to 30 years. Our loans typically have amortization periods of 15 to 30 years or balloon payments due in two to 10 years. Fixed rate mortgage loans bear interest that is fixed for the term of the loan and we typically utilize derivative financial and hedging instruments in an effort to hedge the interest rate risk associated with such fixed rate mortgages. As of June 30, 2023, 72% of fixed rate loans are match funded in securitization. Floating rate mortgage loans generally have an adjustable interest rate equal to the sum of a fixed spread plus an index rate, such as the Secured Overnight Financing Rate ("SOFR"), which typically resets monthly. As of June 30, 2023, approximately 79% of the loans in our portfolio were floating rate mortgages, and 21% were fixed rate mortgages, based on UPB.

With respect to our business operations, increases in interest rates may generally over time cause the interest expense associated with our variable-rate borrowings to increase, the value of fixed-rate loans, MBS and other real estate-related assets to decline, coupons on variable-rate loans and MBS to reset to higher interest rates, and prepayments on loans and MBS to slowdown. Conversely, decreases in interest rates generally tend to have the opposite effect.

Non-performing loans are not as interest rate sensitive as performing loans, as earnings on non-performing loans are often generated from restructuring the assets through loss mitigation strategies and opportunistically disposing of them. Because non-performing loans are short-term assets, the discount rates used for valuation are based on short-term market interest rates, which may not move in tandem with long-term market interest rates.

Changes in Fair Value of Our Assets . Certain originated loans, MBS, and servicing rights are carried at fair value, while future assets may also be carried at fair value. Accordingly, changes in the fair value of our assets may impact the results of our operations in the period such changes occur. The expectation of changes in real estate prices is a key determinant for the value of loans and ABS. This factor is beyond our control.

Prepayment Speeds. Prepayment speeds on loans vary according to interest rates, the type of investment, conditions in the financial markets, competition, foreclosures and other factors that cannot be predicted with any certainty. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their mortgage loans and, as a result, prepayment speeds tend to decrease. This can extend the period over which we earn interest income and servicing fee income. When interest rates fall, prepayment speeds increase on loans, thereby decreasing the period over which we earn interest income or servicing fee income. Additionally, other factors such as the credit rating of the borrower, the rate of property value appreciation or depreciation, financial market conditions, foreclosures and lender competition, none of which can be predicted with any certainty, may affect prepayment speeds on loans.

Credit Spreads. Our investment portfolio may be subject to changes in credit spreads. Credit spreads measure the yield demanded on loans and securities by the market based on their credit relative to a specific benchmark and is a measure of the perceived risk of the investment. Fixed rate loans and securities are valued based on a market credit spread over the rate payable on fixed rate swaps or fixed rate U.S. Treasuries of similar maturity. Floating rate securities are typically valued based on a market credit spread over SOFR (or another floating rate index) and are affected similarly by changes in SOFR spreads. Excessive supply of these loans and securities, or reduced demand, may cause the market to require a higher yield on these securities, resulting in the use of a higher, or "wider," spread over the benchmark rate to value such assets. Under such conditions, the value of our portfolios would tend to decline. Conversely, if the spread used to value such assets were to decrease, or "tighten," the value of our loans and securities would tend to increase. Such changes in the market value of these assets may affect our net equity, net income or cash flow directly through their impact on unrealized gains or losses.

The spread between the yield on our assets and our funding costs is an important factor in the performance of this aspect 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 generally 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 our stated book value. Tighter spreads generally have a positive impact on asset prices. In this case, we may be able to reduce the amount of collateral required to secure borrowings.

Loan and ABS Extension Risk. The Company estimates the projected weighted-average life of our investments based on assumptions regarding the rate at which the borrowers will prepay the underlying mortgages and/or the speed at which we are able to liquidate an asset. If the timeline to resolve non-performing assets extends, this could have a negative impact on our results of operations, as carrying costs may therefore be higher than initially anticipated. This situation may also cause the fair market value of our investment to decline if real estate values decline over the extended period. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Credit Risk. We are subject to credit risk in connection with our investments in loans and ABS and other target assets we may acquire in the future. Increases in defaults and delinquencies will adversely impact our operating results, while declines in rates of default and delinquencies will improve our operating results from this aspect of our business. Default rates are influenced by a wide variety of factors, including, property performance, property management, supply and demand factors, construction trends, consumer behavior, regional economics, interest rates, the strength of the United States economy and other factors beyond our control. All loans are subject to the possibility of default. We seek to mitigate this inherent risk by seeking to acquire assets at appropriate prices given anticipated and unanticipated losses and by deploying a value-driven approach to underwriting and diligence, consistent with our historical investment strategy, with a focus on projected cash flows and potential risks to cash flow. We further mitigate our risk of potential losses while managing and servicing our loans by performing various workout and loss mitigation strategies with delinquent borrowers. Nevertheless, unanticipated credit losses could occur which could adversely impact operating results.

Current market conditions. The second quarter occurred in an environment of some market volatility, characterized by easing inflationary pressures countered by persisting macroeconomic concerns and geopolitical tensions. In an effort to restore price stability, the U.S. Federal Reserve has recently raised interest rates and has suggested that there will be further rate hikes later this year. Although the full impact of recent changes remains uncertain and difficult to predict, there has been a shift towards a less aggressive monetary policy amid easing inflation. In addition, the persistence of COVID-19 and its impact on us and our borrowers will largely depend on future developments beyond our control including, but not limited to the emergence and severity of variants, the efficacy of vaccinations and booster programs, the impact and reactions on the U.S. and global economies, the effectiveness of governmental responses thereto and the timing and speed of economic recovery. Concerns and uncertainties about the economic outlook may adversely impact our financial condition, results of operations and cash flows.

Results of Operations

Key Financial Measures and Indicators

As a real estate finance company, we believe the key financial measures and indicators for our business are earnings per share, dividends declared per share, distributable earnings, and net book value per share. As further described below, distributable earnings is a measure that is not prepared in accordance with GAAP. We use distributable earnings to evaluate our performance and determine dividends, excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current loan activity and operations. See "—Non-GAAP Financial Measures" below for a reconciliation of net income to distributable earnings.

The table below sets forth certain information on our operating results.

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands, except share data)	2023	2022	2023	2022
Net Income	$ 253,373	$ 58,965	$ 290,351	$ 123,228
Earnings per common share - basic	$ 1.87	$ 0.47	$ 2.30	$ 1.13
Earnings per common share - diluted	$ 1.76	$ 0.45	$ 2.17	$ 1.07
Distributable earnings	$ 51,283	$ 60,102	$ 89,432	$ 108,965
Distributable earnings per common share - basic	$ 0.36	$ 0.48	$ 0.67	$ 1.00
Distributable earnings per common share - diluted	$ 0.35	$ 0.46	$ 0.65	$ 0.94
Dividends declared per common share	$ 0.40	$ 0.42	$ 0.80	$ 0.84
Dividend yield	14.2 %	14.1 %	14.2 %	14.1 %
Return on equity	47.7 %	12.8 %	29.6 %	15.4 %
Distributable return on equity	9.3 %	13.1 %	8.8 %	13.6 %
Book value per common share	$ 14.52	$ 15.28	$ 14.52	$ 15.28
Adjusted net book value per common share	$ 14.52	$ 15.28	$ 14.52	$ 15.28

In the table above,

- Dividend yield is based on the respective period end closing share price.
- Adjusted net book value per common share excludes the equity component of our 2017 convertible note issuance.

Our Loan Pipeline

We have a large and active pipeline of potential acquisition and origination opportunities that are in various stages of our investment process. We refer to assets as being part of our acquisition or origination pipeline if (i) an asset or portfolio opportunity has been presented to us and we have determined, after a preliminary analysis, that the assets fit within our investment strategy and exhibit the appropriate risk/reward characteristics (ii) in the case of acquired loans, we have executed a non-disclosure agreement ("NDA") or an exclusivity agreement and commenced the due diligence process or we have executed more definitive documentation, such as a letter of intent ("LOI"); and (iii) in the case of originated loans, we have issued an LOI, and the borrower has paid a deposit.

We operate in a competitive market for investment opportunities and competition may limit our ability to originate or acquire the potential investments in the pipeline. The consummation of any of the potential loans in the pipeline depends upon, among other things, one or more of the following: available capital and liquidity, our Manager's allocation policy, satisfactory completion of our due diligence investigation and investment process, approval of our Manager's Investment Committee, market conditions, our agreement with the seller on the terms and structure of such potential loan, and the execution and delivery of satisfactory transaction documentation. Historically, we have acquired less than a majority of the assets in our pipeline at any one time and there can be no assurance the assets currently in our pipeline will be acquired or originated by us in the future.

The table below presents information on our investment portfolio originations and acquisitions (based on fully committed amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2023**	**2022**	**2023**	**2022**
Loan originations:				
SBC loans	$ 511,603	$ 1,218,083	$ 922,119	$ 3,412,968
SBA loans	120,839	128,752	213,135	229,708
Residential agency mortgage loans	423,621	746,414	749,603	1,515,547
Total loan originations	**$ 1,056,063**	**$ 2,093,249**	**$ 1,884,857**	**$ 5,158,223**
Total loan acquisitions	**$ —**	**$ 1,501**	**$ —**	**$ 6,754**
Total loan investment activity	**$ 1,056,063**	**$ 2,094,750**	**$ 1,884,857**	**$ 5,164,977**

Balance Sheet Analysis and Metrics

(in thousands)	June 30, 2023	December 31, 2022	$ Change	% Change
Assets				
Cash and cash equivalents	$ 227,504	$ 163,041	$ 64,463	39.5 %
Restricted cash	34,534	55,927	(21,393)	(38.3)
Loans, net (including $9,773 and $9,786 held at fair value)	3,571,520	3,576,310	(4,790)	(0.1)
Loans, held for sale, at fair value	238,664	258,377	(19,713)	(7.6)
Paycheck Protection Program loans (including $172 and $576 held at fair value)	94,611	186,985	(92,374)	(49.4)
Mortgage-backed securities, at fair value	33,770	32,041	1,729	5.4
Loans eligible for repurchase from Ginnie Mae	59,015	66,193	(7,178)	(10.8)
Investment in unconsolidated joint ventures (including $7,731 and $8,094 held at fair value)	122,504	118,641	3,863	3.3
Investments held to maturity	3,446	3,306	140	4.2
Purchased future receivables, net	12,917	8,246	4,671	56.6
Derivative instruments	8,755	12,963	(4,208)	(32.5)
Servicing rights (including $201,471 and $192,203 held at fair value)	296,364	279,320	17,044	6.1
Real estate owned, held for sale	251,325	117,098	134,227	114.6
Other assets	220,691	189,769	30,922	16.3
Assets of consolidated VIEs	7,207,426	6,552,760	654,666	10.0
Total Assets	**$ 12,383,046**	**$ 11,620,977**	**$ 762,069**	**6.6 %**
Liabilities				
Secured borrowings	2,395,687	2,846,293	(450,606)	(15.8)
Paycheck Protection Program Liquidity Facility (PPPLF) borrowings	110,838	201,011	(90,173)	(44.9)
Securitized debt obligations of consolidated VIEs, net	5,395,361	4,903,350	492,011	10.0
Convertible notes, net	114,942	114,397	545	0.5
Senior secured notes, net	344,241	343,355	886	0.3
Corporate debt, net	762,668	662,665	100,003	15.1
Guaranteed loan financing	226,084	264,889	(38,805)	(14.6)
Contingent consideration	15,566	28,500	(12,934)	(45.4)
Liabilities for loans eligible for repurchase from Ginnie Mae	59,015	66,193	(7,178)	(10.8)
Derivative instruments	2,261	1,586	675	42.6
Dividends payable	26,381	47,177	(20,796)	(44.1)
Loan participations sold	54,461	54,641	(180)	(0.3)
Due to third parties	4,467	11,805	(7,338)	(62.2)
Accounts payable and other accrued liabilities	159,651	176,520	(16,869)	(9.6)
Total Liabilities	**$ 9,671,623**	**$ 9,722,382**	**$ (50,759)**	**(0.5)%**
Preferred stock Series C, liquidation preference $25.00 per share	8,361	8,361	—	—
Commitments & contingencies				
Stockholders' Equity				
Preferred stock Series E liquidation preference $25.00 per share	111,378	111,378	—	—
Common stock, $0.0001 par value, 500,000,000 shares authorized, 171,651,924 and 110,523,641 shares issued and outstanding, respectively	17	11	6	54.5
Additional paid-in capital	2,313,849	1,684,074	629,775	37.4
Retained earnings	187,139	4,994	182,145	3,647.3
Accumulated other comprehensive loss	(9,281)	(9,369)	88	(0.9)
Total Ready Capital Corporation equity	2,603,102	1,791,088	812,014	45.3
Non-controlling interests	99,960	99,146	814	0.8
Total Stockholders' Equity	**$ 2,703,062**	**$ 1,890,234**	**$ 812,828**	**43.0 %**
Total Liabilities, Redeemable Preferred Stock, and Stockholders' Equity	**$ 12,383,046**	**$ 11,620,977**	**$ 762,069**	**6.6 %**

As of June 30, 2023, total assets in our consolidated balance sheet were $12.4 billion, an increase of $762 million from December 31, 2022, primarily reflecting an increase in Assets of consolidated VIEs and Real estate owned, held for sale, partially offset by PPP loans. Assets of consolidated VIEs increased $655 million primarily due to the closing of RCMF 2023-FL12. Real estate owned, held for sale, increased $134 million primarily due to the closing of the Broadmark Merger. PPP loans decreased $92 million due to principal forgiveness.

As of June 30, 2023, total liabilities in our consolidated balance sheet were $9.7 billion, a decrease of $51 million from December 31, 2022, primarily reflecting a decrease in Secured borrowings and PPPLF borrowings, partially offset by Securitized debt obligations of consolidated VIEs, net. Secured borrowings decreased $451 million primarily due to the closing of RCMF 2023-FL12. PPPLF borrowings decreased $90 million due to PPP principal forgiveness. Securitized debt obligations of consolidated VIEs, net increased due to the closing of RCMF 2023-FL12.

As of June 30, 2023, total stockholders' equity was $2.7 billion, an increase of $813 million from December 31, 2022, primarily due to equity raised in connection with the Broadmark Merger, partially offset by repurchases of common stock.

Selected Balance Sheet Information by Business Segment. The table below presents certain selected balance sheet data by each of our three business segments, with the remaining amounts reflected in *Corporate –Other*.

(in thousands)	SBC Lending and Acquisitions	Small Business Lending	Residential Mortgage Banking	Total
June 30, 2023				
Assets				
Loans, net	$ 10,023,513	$ 545,756	$ 3,932	$ 10,573,201
Loans, held for sale, at fair value	70,615	33,881	134,168	238,664
Paycheck Protection Program loans	—	94,611	—	94,611
MBS, at fair value	33,770	—	—	33,770
Servicing rights	70,565	24,328	201,471	296,364
Investment in unconsolidated joint ventures	122,504	—	—	122,504
Investments held to maturity	3,446	—	—	3,446
Purchased future receivables, net	—	12,917	—	12,917
Real estate owned, held for sale	267,204	—	—	267,204
Liabilities				
Secured borrowings	$ 1,975,027	$ 191,763	$ 228,897	$ 2,395,687
Paycheck Protection Program Liquidity Facility (PPPLF) borrowings	—	110,838	—	110,838
Securitized debt obligations of consolidated VIEs	5,357,892	37,469	—	5,395,361
Guaranteed loan financing	—	226,084	—	226,084
Senior secured notes, net	330,742	13,499	—	344,241
Corporate debt, net	762,668	—	—	762,668
Convertible notes, net	109,204	5,738	—	114,942
Loan participations sold	54,461	—	—	54,461

In the table above, Loans, net includes assets of consolidated VIEs and excludes allowance for loan losses, and Investments held to maturity and Real estate owned, held for sale include assets of consolidated VIEs.

Income Statement Analysis and Metrics

	Three Months Ended June 30,			Six Months Ended June 30,		
(in thousands)	2023	2022	$ Change	2023	2022	$ Change
Interest income						
SBC lending and acquisitions	$ 212,233	$ 122,427	$ 89,806	$ 410,272	$ 218,770	$ 191,502
Small business lending	18,771	29,024	(10,253)	36,700	55,261	(18,561)
Residential mortgage banking	1,880	2,220	(340)	3,485	4,045	(560)
Total interest income	**$ 232,884**	**$ 153,671**	**$ 79,213**	**$ 450,457**	**$ 278,076**	**$ 172,381**
Interest expense						
SBC lending and acquisitions	(160,504)	(72,685)	(87,819)	(309,998)	(125,778)	(184,220)
Small business lending	(9,718)	(5,916)	(3,802)	(19,092)	(11,606)	(7,486)
Residential mortgage banking	(2,312)	(2,226)	(86)	(3,838)	(4,184)	346
Corporate - other	—	—	—	—	(276)	276
Total interest expense	**$ (172,534)**	**$ (80,827)**	**$ (91,707)**	**$ (332,928)**	**$ (141,844)**	**$ (191,084)**
Net interest income before recovery of (provision for) loan losses	**$ 60,350**	**$ 72,844**	**$ (12,494)**	**$ 117,529**	**$ 136,232**	**$ (18,703)**
Recovery of (provision for) loan losses						
SBC lending and acquisitions	(17,415)	4,609	(22,024)	(9,286)	4,339	(13,625)
Small business lending	(2,012)	(219)	(1,793)	(3,407)	(1,491)	(1,916)
Total recovery of (provision for) loan losses	**$ (19,427)**	**$ 4,390**	**$ (23,817)**	**$ (12,693)**	**$ 2,848**	**$ (15,541)**
Net interest income after recovery of (provision for) loan losses	**$ 40,923**	**$ 77,234**	**$ (36,311)**	**$ 104,836**	**$ 139,080**	**$ (34,244)**
Non-interest income						
SBC lending and acquisitions	24,768	22,486	2,282	34,324	46,294	(11,970)
Small business lending	21,122	16,726	4,396	42,865	30,972	11,893
Residential mortgage banking	28,119	11,529	16,590	40,587	60,690	(20,103)
Corporate - other	230,174	25	230,149	230,505	617	229,888
Total non-interest income	**$ 304,183**	**$ 50,766**	**$ 253,417**	**$ 348,281**	**$ 138,573**	**$ 209,708**
Non-interest expense						
SBC lending and acquisitions	(24,452)	(23,549)	(903)	(46,662)	(47,661)	999
Small business lending	(19,231)	(16,076)	(3,155)	(36,322)	(31,351)	(4,971)
Residential mortgage banking	(15,898)	(7,224)	(8,674)	(30,486)	(20,568)	(9,918)
Corporate - other	(27,011)	(11,868)	(15,143)	(43,764)	(26,678)	(17,086)
Total non-interest expense	**$ (86,592)**	**$ (58,717)**	**$ (27,875)**	**$ (157,234)**	**$ (126,258)**	**$ (30,976)**
Net income (loss) before provision for income taxes						
SBC lending and acquisitions	34,630	53,288	(18,658)	78,650	95,964	(17,314)
Small business lending	8,932	23,539	(14,607)	20,744	41,785	(21,041)
Residential mortgage banking	11,789	4,299	7,490	9,748	39,983	(30,235)
Corporate - other	203,163	(11,843)	215,006	186,741	(26,337)	213,078
Total net income before provision for income taxes	**$ 258,514**	**$ 69,283**	**$ 189,231**	**$ 295,883**	**$ 151,395**	**$ 144,488**

Results of Operations – Supplemental Information. Realized and unrealized gains (losses) on financial instruments are recorded in the consolidated statements of income and classified based on the nature of the underlying asset or liability.

The table below presents the components of realized and unrealized gains (losses) on financial instruments.

(in thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	$ Change	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	$ Change
Realized gain (loss) on financial instruments						
Realized gain on loans - Freddie Mac and CMBS	$ 643	$ 2,432	$ (1,789)	$ 895	$ 3,608	$ (2,713)
Creation of MSRs - Freddie Mac	558	2,639	(2,081)	782	3,907	(3,125)
Realized gain on loans - SBA	6,479	7,008	(529)	11,718	12,370	(652)
Creation of MSRs - SBA	2,044	2,045	(1)	3,555	3,779	(224)
Creation of MSRs - Red Stone	4,751	1,524	3,227	7,609	1,719	5,890
Realized gain (loss) on derivatives, at fair value	10,430	858	9,572	14,116	(267)	14,383
Realized gain on MBS, at fair value	—	5,111	(5,111)	—	6,484	(6,484)
Net realized gain (loss) - all other	(1,027)	(503)	(524)	(3,222)	(2,479)	(743)
Net realized gain (loss) on financial instruments	**$ 23,878**	**$ 21,114**	**$ 2,764**	**$ 35,453**	**$ 29,121**	**$ 6,332**
Unrealized gain (loss) on financial instruments						
Unrealized loss on loans - Freddie Mac and CMBS	$ (1,383)	$ (5,879)	$ 4,496	$ (4,051)	$ (18,820)	$ 14,769
Unrealized loss on loans - SBA	(734)	(722)	(12)	(260)	(434)	174
Unrealized gain (loss) on residential MSRs, at fair value	8,818	(15)	8,833	2,725	32,583	(29,858)
Unrealized gain (loss) on derivatives, at fair value	(81)	13,954	(14,035)	(3,618)	40,887	(44,505)
Unrealized gain (loss) on MBS, at fair value	846	(6,752)	7,598	1,056	(9,364)	10,420
Net unrealized gain (loss) - all other	(59)	(3,839)	3,780	(173)	(2,790)	2,617
Net unrealized gain (loss) on financial instruments	**$ 7,407**	**$ (3,253)**	**$ 10,660**	**$ (4,321)**	**$ 42,062**	**$ (46,383)**

SBC Lending and Acquisitions Segment Results.

Q2 2023 versus Q2 2022. Interest income of $212.2 million represented an increase of $89.8 million, primarily due to increased loan balances and increases in interest rates. Interest expense of $160.5 million represented an increase of $87.8 million, driven by increased debt balances and increases in interest rates. Provision for loan losses of $17.4 million represented an increase of $22.0 million, primarily due to decreases in CRE price index assumptions. Non-interest income of $24.8 million represented an increase of $2.3 million, primarily due to increases in net realized and unrealized gains on financial instruments partially offset by decreases in income from unconsolidated joint ventures. Non-interest expense of $24.5 million was essentially unchanged from the respective prior year period.

YTD 2023 versus YTD 2022. Interest income of $410.3 million represented an increase of $191.5 million, primarily due to increased loan balances and increases in interest rates. Interest expense of $310.0 million represented an increase of $184.2 million, driven by increased debt balances and increases in interest rates. Provision for loan losses of $9.3 million represented an increase of $13.6 million, primarily due to decreases in CRE price index assumptions. Non-interest income of $34.3 million represented a decrease of $12.0 million, primarily due to decreases in net unrealized gains on financial instruments and decreases in income from unconsolidated joint ventures partially offset by increases in net realized gains on financial instruments. Non-interest expense of $46.7 million represented a decrease of $1.0 million, primarily due to a decrease in loan servicing expense partially offset by increases in employee compensation and benefits, professional fees, and other operating expenses.

Small Business Lending Segment Results.

Q2 2023 versus Q2 2022. Interest income of $18.8 million represented a decrease of $10.3 million, primarily due to decreased loan balances. Interest expense of $9.7 million represented an increase of $3.8 million, driven by an increase in interest rates. Provision for loan losses of $2.0 million represented an increase of $1.8 million, primarily due to increased loan originations. Non-interest income of $21.1 million represented an increase of $4.4 million, primarily due to increases in other income driven by employee tax credit consulting, partially offset by decreases in servicing income, primarily due to recoveries of impairment, and income on purchased future receivables. Non-interest expense of $19.2 million represented an increase of $3.2 million, primarily due to increases in employee compensation and professional fees related to employee tax credit consulting.

YTD 2023 versus YTD 2022. Interest income of $36.7 million represented a decrease of $18.6 million, primarily due to decreased loan balances. Interest expense of $19.1 million represented an increase of $7.5 million, driven by an increase in interest rates. Provision for loan losses of $3.4 million represented an increase of $1.9 million, primarily due to increased loan originations. Non-interest income of $42.9 million represented an increase of $11.9 million, primarily due to increases in other income driven by employee tax credit consulting, partially offset by decreases in income on purchased future receivables. Non-interest expense of $36.3 million represented an increase of $5.0 million, primarily due to increases in employee compensation and professional fees related to employee tax credit consulting.

Residential Mortgage Banking Segment Results.

Q2 2023 versus Q2 2022. Interest income of $1.9 million and interest expense of $2.3 million was essentially unchanged from the respective prior year period. Non-interest income of $28.1 million represented an increase of $16.6 million, primarily due to increases in residential mortgage banking activities and unrealized gains on MSRs. Non-interest expense of $15.9 million represented an increase of $8.7 million, primarily due to increases in variable expenses on residential mortgage banking activities, partially offset by decreases in employee compensation and benefits.

YTD 2023 versus YTD 2022. Interest income of $3.5 million and interest expense of $3.8 million was essentially unchanged from the respective prior year period. Non-interest income of $40.6 million represented a decrease of $20.1 million, primarily due to unrealized losses on MSRs, partially offset by increases in mortgage banking activities and servicing income. Non-interest expense of $30.5 million represented an increase of $9.9 million, primarily due to increases in variable expenses on residential mortgage banking activities, partially offset by decreases in employee compensation and benefits.

Corporate – Other.

Q2 2023 versus Q2 2022. Non-interest income of $230.2 million represented an increase of $230.1 million, primarily due to a bargain purchase gain recognized from the Broadmark Merger. Non-interest expense of $27.0 million represented an increase of $15.1 million, primarily due to transaction related expenses for the Broadmark Merger.

YTD 2023 versus YTD 2022. Non-interest income of $230.5 million represented an increase of $229.9 million, primarily due to a bargain purchase gain recognized from the Broadmark Merger. Non-interest expense of $43.8 million represented an increase of $17.1 million, primarily due to transaction related expenses for the Broadmark Merger.

Non-GAAP financial measures

We believe that providing investors with distributable earnings, formerly referred to as core earnings, gives investors greater transparency into the information used by management in our financial and operational decision-making, including the determination of dividends. Distributable earnings is a non-U.S. GAAP financial measure and because distributable earnings is an incomplete measure of our financial performance and involves differences from net income computed in accordance with U.S. GAAP, it should be considered along with, but not as an alternative to, our net income as a measure of our financial performance. In addition, because not all companies use identical calculations, our presentation of distributable earnings may not be comparable to other similarly-titled measures of other companies.

We calculate distributable earnings as GAAP net income (loss) excluding the following:

- i) any unrealized gains or losses on certain MBS not retained by us as part of our loan origination businesses
- ii) any realized gains or losses on sales of certain MBS
- iii) any unrealized gains or losses on Residential MSRs
- iv) any unrealized change in current expected credit loss reserve
- v) any unrealized gains or losses on de-designated cash flow hedges
- vi) any non-cash compensation expense related to stock-based incentive plan
- vii) one-time non-recurring gains or losses, such as gains or losses on discontinued operations, bargain purchase gains, or merger related expenses

In calculating distributable earnings, net income (in accordance with GAAP) is adjusted to exclude unrealized gains and losses on MBS acquired by us in the secondary market but is not adjusted to exclude unrealized gains and losses on MBS retained by us as part of our loan origination businesses, where we transfer originated loans into an MBS securitization and retain an interest in the securitization. In calculating distributable earnings, we do not adjust net income (in accordance with GAAP) to take into account unrealized gains and losses on MBS retained by us as part of our loan origination businesses because we consider the unrealized gains and losses that are generated in the loan origination and securitization process to be a fundamental part of this business and an indicator of the ongoing performance and credit quality of our historical loan originations. In calculating distributable earnings, net income (in accordance with GAAP) is adjusted to exclude realized gains and losses on certain MBS securities due to a variety of reasons which may include collateral type, duration, and size. In 2016, we liquidated the majority of our MBS portfolio excluded from distributable earnings to fund our recurring operating segments.

In addition, in calculating distributable earnings, net income (in accordance with GAAP) is adjusted to exclude unrealized gains or losses on residential MSRs, held at fair value. We treat our commercial MSRs and residential MSRs as two separate classes based on the nature of the underlying mortgages and our treatment of these assets as two separate pools for risk management purposes. Servicing rights relating to our small business commercial business are accounted for under ASC 860 while our residential MSRs are accounted for under the fair value option under ASC 825. In calculating distributable earnings, we do not exclude realized gains or losses on either commercial MSRs or residential MSRs, held at fair value, as servicing income is a fundamental part of our business and an indicator of the ongoing performance.

To qualify as a REIT, we must distribute to our stockholders each calendar year dividends equal to 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. There are certain items, including net income generated from the creation of MSRs, that are included in distributable earnings but are not included in the calculation of the current year's taxable income. These differences may result in certain items that are recognized in the current period's calculation of distributable earnings not being included in taxable income, and thus not subject to the REIT dividend distribution requirement, until future years.

The table below presents a reconciliation of net income to distributable earnings.

	Three Months Ended June 30,			Six Months Ended June 30,		
(in thousands)	2023	2022	Change	2023	2022	Change
Net Income	**$ 253,373**	**$ 58,965**	**$ 194,408**	**$ 290,351**	**$ 123,228**	**$ 167,123**
Reconciling items:						
Unrealized (gain) loss on MSR	(8,818)	16	(8,834)	(2,725)	(32,583)	29,858
Increase (decrease) in current expected credit loss reserve	19,410	(2,110)	21,520	12,089	(142)	12,231
Non-recurring REO impairment	—	700	(700)	—	2,267	(2,267)
Non-cash compensation	2,062	1,876	186	3,915	2,832	1,083
Merger transaction costs and other non-recurring expenses	14,177	1,372	12,805	15,910	7,071	8,839
Bargain purchase gain	(229,894)	—	(229,894)	(229,894)	—	(229,894)
Total reconciling items	**$ (203,063)**	**$ 1,854**	**$ (204,917)**	**$ (200,705)**	**$ (20,555)**	**$ (180,150)**
Income tax adjustments	973	(717)	1,690	(214)	6,292	(6,506)
Distributable earnings	**$ 51,283**	**$ 60,102**	**$ (8,819)**	**$ 89,432**	**$ 108,965**	**$ (19,533)**
Less: Distributable earnings attributable to non-controlling interests	2,035	2,929	(894)	3,873	3,518	355
Less: Income attributable to participating shares	2,373	2,412	(39)	4,744	4,824	(80)
Distributable earnings attributable to common stockholders	**$ 46,875**	**$ 54,761**	**$ (7,886)**	**$ 80,815**	**$ 100,623**	**$ (19,808)**
Distributable earnings per common share - basic	**$ 0.36**	**$ 0.48**	**$ (0.12)**	**$ 0.67**	**$ 1.00**	**$ (0.33)**
Distributable earnings per common share - diluted	**$ 0.35**	**$ 0.46**	**$ (0.11)**	**$ 0.65**	**$ 0.94**	**$ (0.29)**

Q2 2023 versus Q2 2022. Consolidated net income of $253.4 million for the second quarter of 2023 represented an increase of $194.4 million from the second quarter of 2022, primarily due to a bargain purchase gain recognized from the Broadmark Merger, net realized and unrealized gains on financial instruments, and other income, partially offset by transaction related expenses for the Broadmark Merger, increases in provision for loan losses, and decreases in net interest income due to payoffs of PPP loans. Consolidated distributable earnings of $51.3 million for the second quarter of 2023 represented a decrease of $8.8 million from the second quarter of 2022. The decrease in the distributable earnings reconciling items is primarily due to increases of unrealized gains on MSRs and the bargain purchase gain, partially offset by increases in provision for loan losses and transaction related expenses.

YTD 2023 versus YTD 2022. Consolidated net income of $290.4 million for the six months ended June 30, 2023 represented an increase of $167.1 million from the six months ended June 30, 2022, primarily due to a bargain purchase gain recognized from the Broadmark Merger, net realized gains on financial instruments, and other income, partially offset by net unrealized losses on financial instruments, increases in provision for loan losses, and decreases in net interest income due to payoffs of PPP loans. Consolidated distributable earnings of $89.4 million for the six months ended June 30, 2023 represented a decrease of $19.5 million from the six months ended June 30, 2022. The decrease in the distributable earnings reconciling items is primarily due to the bargain purchase gain, partially offset by decreases in unrealized gains on MSRs, increases in provision for loan losses and transaction related expenses.

COVID-19 Impact on Operating Results

There has been a wide-ranging response of international, federal, state and local public health and governmental authorities to the COVID-19 pandemic in regions across the United States and the world. The full magnitude and duration of the COVID-19 pandemic and the extent to which it impacts our financial condition, results of operations and cash flows will depend on future developments, which continue to be uncertain. We will continue to monitor for any material or adverse effects on our business resulting from the COVID-19 pandemic. Further discussion of the potential impacts on our business from the COVID-19 pandemic is provided in the section entitled “Risk Factors” in Part I, Item 1A of the Company’s Annual Report on Form 10-K.

Incentive distribution payable to our Manager

Under the partnership agreement of our operating partnership, our Manager, the holder of the Class A special unit in our operating partnership, is entitled to receive an incentive distribution, distributed quarterly in arrears in an amount, not less than zero, equal to the difference between (i) the product of (A) 15% and (B) the difference between (x) distributable earnings (as described below) of our operating partnership, on a rolling four-quarter basis and before the incentive distribution for the current quarter, and (y) the product of (1) the weighted average of the issue price per share of common stock or operating partnership unit (“OP unit”) (without double counting) in all of our offerings multiplied by the weighted average number of shares of common stock outstanding (including any restricted shares of common stock and any other shares of common stock underlying awards granted under the Equity Incentive Plan) and OP units (without double counting) in such quarter and (2) 8%, and (ii) the sum of any incentive distribution paid to our Manager with respect to the first three quarters of such previous four quarters; provided, however, that no incentive distribution is payable with respect to any calendar quarter unless cumulative distributable earnings is greater than zero for the most recently completed 12 calendar quarters.

The incentive distribution shall be calculated within 30 days after the end of each quarter and such calculation shall promptly be delivered to our Company. We are obligated to pay the incentive distribution 50% in cash and 50% in either common stock or OP units, as determined in our discretion, within five business days after delivery to our Company of the written statement from the holder of the Class A special unit setting forth the computation of the incentive distribution for such quarter. Subject to certain exceptions, our Manager may not sell or otherwise dispose of any portion of the incentive distribution issued to it in common stock or OP units until after the three year anniversary of the date that such shares of common stock or OP units were issued to our Manager. The price of shares of our common stock for purposes of determining the number of shares payable as part of the incentive distribution is the closing price of such shares on the last trading day prior to the approval by our board of the incentive distribution.

For purposes of determining the incentive distribution payable to our Manager, distributable earnings (which is referred to as core earnings in the partnership agreement of our operating partnership) is defined under the partnership agreement of our operating partnership in a manner that is similar to the definition of distributable earnings described above under "Non-GAAP Financial Measures" but with the following additional adjustments which (i) further exclude: (a) the incentive distribution, (b) non-cash equity compensation expense, if any, (c) unrealized gains or losses on SBC loans (not just MBS and MSRs), (d) depreciation and amortization (to the extent we foreclose on any property), and (e) one-time events pursuant to changes in U.S. GAAP and certain other non-cash charges after discussions between our Manager and our independent directors and after approval by a majority of the independent directors and (ii) add back any realized gains or losses on the sales of MBS and on discontinued operations which were excluded from the definition of distributable earnings described above under "Non-GAAP Financial Measures".

Liquidity and Capital Resources

Liquidity is a measure of our ability to turn non-cash assets into cash and to meet potential cash requirements. We use significant cash to purchase SBC loans and other target assets, originate new SBC loans, pay dividends, repay principal and interest on our borrowings, fund our operations and meet other general business needs. Our primary sources of liquidity will include our existing cash balances, borrowings, including securitizations, re-securitizations, repurchase agreements, warehouse facilities, bank credit facilities and other financing agreements (including term loans and revolving facilities), the net proceeds of offerings of equity and debt securities, including our senior secured notes, corporate debt, and convertible notes, and net cash provided by operating activities.

We are continuing to monitor the impact of rising interest rates, credit spreads and inflation on the Company, the borrowers underlying our real estate-related assets, the tenants in the properties we own, our financing sources, and the economy as a whole. Because the severity, magnitude and duration of these economic events remain uncertain, rapidly changing and difficult to predict, the impact on our operations and liquidity also remains uncertain and difficult to predict.

Cash flow

Six Months Ended June 30, 2023. Cash and cash equivalents as of June 30, 2023, increased by $91.9 million to $388.9 million from December 31, 2022, primarily due to cash provided by investing and operating activities, partially offset by cash used for financing activities. The net cash provided by operating activities primarily reflected net income and decreases in loans, held for sale, at fair value, provision for loan losses, and amortization of loan discounts, premiums, and deferred issuance costs, net, as well as decreases in derivative instruments, partially offset by a bargain purchase gain, realized gains on financial instruments, net, increases in other current assets and decreases in other current liabilities. The net cash provided by investing activities primarily reflected net proceeds from loans and REO and net proceeds provided from the Broadmark Merger partially offset by net investments in unconsolidated joint ventures, and payment of liabilities under participation agreements, net of proceeds received. The net cash used for financing activities primarily reflected dividend payments, net payments of secured borrowings including PPPLF, and share repurchases, partially offset by net proceeds received from securitized debt obligations.

Six Months Ended June 30, 2022. Cash and cash equivalents as of June 30, 2022, decreased by $78.3 million to $245.1 million from December 31, 2021, primarily due to net cash used for investing activities, partially offset by net cash provided by financing and operating activities. The net cash used for investing activities primarily reflected loan originations and purchases, partially offset by paydowns and principal forgiveness. The net cash provided by financing activities primarily reflected net proceeds from issuances of securitized debt and proceeds from secured borrowings as a result of an increase in origination activities, partially offset by repayment of PPPLF borrowings. The net cash provided by operating activities primarily reflected net proceeds on disposition and principal payments of loans, held for sale, at fair value and an increase in operating assets, partially offset by an increase in operating liabilities and realized and unrealized gains on financial instruments.

Financing Strategy and Leverage

In addition to raising capital through offerings of our public equity and debt securities, we finance our investment portfolio through securitization and secured borrowings. We generally seek to match-fund our investments to minimize the differences in the terms of our investments and our liabilities. Our secured borrowings have various recourse levels including full recourse, partial recourse and non-recourse, as well as varied mark-to-market provisions including full mark-to-market, credit mark only and non-mark-to-market. Securitizations allow us to match fund loans pledged as collateral on a long-term, non-recourse basis. Securitization structures typically consist of trusts with principal and interest collections allocated to senior debt and losses on liquidated loans to equity and subordinate tranches, and provide debt equal to 50% to 90% of the cost basis of the assets.

We also finance originated Freddie Mac SBL and residential loans with secured borrowings until the loans are sold, generally within 30 days.

As of June 30, 2023, we had a total leverage ratio of 3.5x and recourse leverage ratio of 1.0x. Our operating segments have different levels of recourse debt according to the differentiated nature of each segment. Our SBC Lending and Acquisitions, Small Business Lending and Residential Mortgage Banking segments have recourse leverage ratios of 0.3x, 1.6x and 1.8x, respectively. The remaining recourse leverage ratio is from our corporate debt offerings.

Secured Borrowings

Credit Facilities and Other Financing Agreements. We utilize credit facilities and other financing arrangements to finance our business. The financings are collateralized by the underlying mortgages, assets, related documents, and instruments, and typically contain index-based financing rate and terms, haircut and collateral posting provisions which depend on the types of collateral and the counterparties involved. These agreements often contain customary negative covenants and financial covenants, including maintenance of minimum liquidity, minimum tangible net worth, maximum debt to net worth ratio and current ratio and limitations on capital expenditures, indebtedness, distributions, transactions with affiliates and maintenance of positive net income.

The table below presents certain characteristics of our credit facilities and other financing arrangements.

Lenders (1)	Asset Class	Current Maturity (2)	Pricing (3)	Facility Size	Pledged Assets Carrying Value	Carrying Value at June 30, 2023	Carrying Value at December 31, 2022
3	SBA loans	October 2023 – March 2025	SOFR + 2.86% Prime - 0.82%	$ 250,000	$ 276,395	$ 191,763	$ 160,903
2	SBC loans - USD	February 2024 – December 2024	SOFR + 6.82%	360,000	365,985	138,267	111,966
1	SBC loans - Non-USD (4)	June 2026	SONIA + 3.25%	127,030	56,284	37,395	61,596
5	Residential loans	October 2023 – August 2024	Variable Pricing	390,000	134,354	131,015	132,658
1	Residential MSRs	February 2026	SOFR + 3.00%	120,000	138,859	97,881	49,900
1	Purchased future receivables	October 2025	SOFR + 4.50%	50,000	12,917	7,000	—
Total borrowings under credit facilities and other financing agreements				**$ 1,297,030**	**$ 984,794**	**$ 603,321**	**$ 517,023**

(1) Represents the total number of facility lenders.
(2) Current maturity does not reflect extension options available beyond original commitment terms.
(3) Asset class pricing is determined using an index rate plus a weighted average spread.
(4) Non-USD denominated credit facilities have been converted into USD for purposes of this disclosure.

Repurchase Agreements. Under the loan repurchase facilities and securities repurchase agreements, we may be required to pledge additional assets to our counterparties in the event that the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional assets or cash. Generally, the loan repurchase facilities and securities repurchase agreements contain a SOFR-based financing rate, term and haircuts depending on the types of collateral and the counterparties involved. The loan repurchase facilities also include financial maintenance covenants.

If the estimated fair values of the assets increase due to changes in market interest rates or other market factors, lenders may release collateral back to us. Margin calls may result from a decline in the value of the investments securing the loan repurchase facilities and securities repurchase agreements, prepayments on the loans securing such investments and from changes in the estimated fair value of such investments generally due to principal reduction of such investments from scheduled amortization and resulting from changes in market interest rates and other market factors. Counterparties also may choose to increase haircuts based on credit evaluations of our Company and/or the performance of the assets in question. Historically, disruptions in the financial and credit markets have resulted in increased volatility in these levels, and this volatility could persist as market conditions continue to change. Should prepayment speeds on the mortgages underlying our investments or market interest rates suddenly increase, margin calls on the loan repurchase facilities and securities repurchase agreements could result, causing an adverse change in our liquidity position. To date, we have satisfied all of our margin calls and have never sold assets in response to any margin call under these borrowings.

Our borrowings under repurchase agreements are renewable at the discretion of our lenders and, as such, our ability to roll-over such borrowings are not guaranteed. The terms of the repurchase transaction borrowings under our repurchase agreements generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association, as to repayment, margin requirements and the segregation of all assets we have initially sold under the repurchase transaction. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions, which differ by lender, may include changes to the margin maintenance requirements, required haircuts and purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction, and cross default and setoff provisions.

We maintain certain assets, which, from time to time, may include cash, unpledged SBC loans, SBC ABS and short-term investments (which may be subject to various haircuts if pledged as collateral to meet margin requirements) and collateral in excess of margin requirements held by our counterparties, or collectively, the “Cushion”, to meet routine margin calls and protect against unforeseen reductions in our borrowing capabilities. Our ability to meet future margin calls will be impacted by the Cushion, which varies based on the fair value of our investments, our cash position and margin requirements. Our cash position fluctuates based on the timing of our operating, investing and financing activities and is managed based on our anticipated cash needs.

The table below presents certain characteristics of our repurchase agreements.

Lenders [1]	Asset Class	Current Maturity	Pricing [2]	Facility Size	Pledged Assets Carrying Value	Carrying Value at June 30, 2023	Carrying Value at December 31, 2022
8	SBC loans	November 2023 – June 2026	1 MT + 2.00% SOFR + 2.67%	$ 4,420,500	$ 1,852,685	$ 1,384,451	$ 1,905,358
1	SBC loans - Non-USD [3]	January 2024	EURIBOR + 3.00%	218,180	54,499	40,846	—
6	MBS	July 2023 – January 2024	7.30%	367,069	751,311	367,069	423,912
Total borrowings under repurchase agreements				**$ 5,005,749**	**$ 2,658,495**	**$ 1,792,366**	**$ 2,329,270**

(1) Represents the total number of facility lenders
(2) Asset class pricing is determined using an index rate plus a weighted average spread.
(3) Non-USD denominated repurchase agreements have been converted into USD for purposes of this disclosure.

Collateralized borrowings under repurchase agreements
The table below presents collateralized borrowings outstanding under repurchase agreements as of the end of each quarter, the average amount of collateralized borrowings outstanding under repurchase agreements during the quarter and the highest balance of any month end during the quarter.

(in thousands)	Quarter End Balance	Average Balance in Quarter	Highest Month End Balance in Quarter
Q3 2020	624,549	669,356	831,200
Q4 2020	827,569	726,059	827,569
Q1 2021	1,320,644	1,785,656	2,481,436
Q2 2021	1,223,527	1,145,354	1,223,527
Q3 2021	1,552,135	1,497,324	1,552,135
Q4 2021	2,045,717	1,824,260	2,045,717
Q1 2022	2,771,038	2,835,212	3,065,412
Q2 2022	2,701,180	2,805,935	3,009,961
Q3 2022	2,870,807	2,887,318	2,940,474
Q4 2022	2,329,270	2,295,348	2,329,270
Q1 2023	1,959,888	2,094,621	2,371,413
Q2 2023	1,792,366	1,945,290	2,022,433

The net decrease in the outstanding balances during the second quarter of 2023 was primarily due to the closing of RCMF 2023-FL12.

Paycheck Protection Program Facility borrowings. The Company uses the Paycheck Protection Program Liquidity Facility ("PPPLF") from the Federal Reserve to finance PPP loans. The program charges an interest rate of 0.35%. As of June 30, 2023, we had approximately $110.8 million outstanding under this credit facility***.***

Senior Secured Notes, Convertible Notes and Corporate Debt, Net
The table below presents information about senior secured notes, convertible notes and corporate debt issued through public and private transactions.

(in thousands)	Coupon Rate	Maturity Date	June 30, 2023
Senior secured notes principal amount [1]	4.50 %	10/20/2026	$ 350,000
Unamortized deferred financing costs - Senior secured notes			(5,759)
Total Senior secured notes, net			**$ 344,241**
Convertible notes principal amount [2]	7.00 %	8/15/2023	115,000
Unamortized deferred financing costs - Convertible notes			(58)
Total Convertible notes, net			**$ 114,942**
Corporate debt principal amount [3]	5.50 %	12/30/2028	110,000
Corporate debt principal amount [4]	6.20 %	7/30/2026	104,613
Corporate debt principal amount [4]	5.75 %	2/15/2026	206,270
Corporate debt principal amount [5]	6.125 %	4/30/2025	120,000
Corporate debt principal amount [6]	7.375 %	7/31/2027	100,000
Corporate debt principal amount [7]	5.00 %	11/15/2026	100,000
Unamortized discount - corporate debt			(8,500)
Unamortized deferred financing costs - corporate debt			(5,965)
Junior subordinated notes principal amount [8]	SOFR + 3.10 %	3/30/2035	15,000
Junior subordinated notes principal amount [9]	SOFR + 3.10 %	4/30/2035	21,250
Total corporate debt, net			**$ 762,668**
Total carrying amount of debt			**$ 1,221,851**

(1) Interest on the senior secured notes is payable semiannually on April 20 and October 20 of each year.
(2) Interest on the convertible notes is payable quarterly on February 15, May 15, August 15, and November 15 of each year.
(3) Interest on the corporate debt is payable semiannually on June 30 and December 30 of each year.
(4) Interest on the corporate debt is payable quarterly on January 30, April 30, July 30, and October 30 of each year.
(5) Interest on the corporate debt is payable semiannually on April 30 and October 30 of each year.
(6) Interest on the corporate debt is payable semiannually on January 31 and July 31 of each year.
(7) Interest on the corporate debt is payable semiannually on May 15 and November 15 of each year; assumed as part of the Broadmark Merger.
(8) Interest on the Junior subordinated notes I-A is payable quarterly on March 30, June 30, September 30, and December 30 of each year.
(9) Interest on the Junior subordinated notes I-B is payable quarterly on January 30, April 30, July 30, and October 30 of each year.

The table below presents the contractual maturities for senior secured notes, convertible notes, and corporate debt.

(in thousands)		June 30, 2023
2023	$	115,000
2024		—
2025		120,000
2026		760,883
2027		100,000
Thereafter		146,250
Total contractual amounts	**$**	**1,242,133**
Unamortized deferred financing costs, discounts, and premiums, net		(20,282)
Total carrying amount of debt	**$**	**1,221,851**

ReadyCap Holdings 4.50% senior secured notes due 2026. On October 20, 2021, ReadyCap Holdings, an indirect subsidiary of the Company, completed the offer and sale of $350.0 million of its 4.50% Senior Secured Notes due 2026 (the "Senior Secured Notes"). The Senior Secured Notes are fully and unconditionally guaranteed by the Company, each direct parent entity of ReadyCap Holdings, and other direct or indirect subsidiaries of the Company from time to time that is a direct parent entity of Sutherland Asset III, LLC or otherwise pledges collateral to secure the Senior Secured Notes (collectively, the "Guarantors").

ReadyCap Holdings' and the Guarantors' respective obligations under the Senior Secured Notes are secured by a perfected first-priority lien on certain capital stock and assets (collectively, the "SSN Collateral") owned by certain subsidiaries of the Company.

The Senior Secured Notes are redeemable by ReadyCap Holdings' following a non-call period, through the payment of the outstanding principal balance of the Senior Secured Notes plus a "make-whole" or other premium that decreases the closer the Senior Secured Notes are to maturity. ReadyCap Holdings is required to offer to repurchase the Senior Secured Notes at 101% of the principal balance of the Senior Secured Notes in the event of a change in control and a downgrade of the rating on the Senior Secured Notes in connection therewith, as set forth more fully in the note purchase agreement.

The Senior Secured Notes were issued pursuant to a note purchase agreement, which contains certain customary negative covenants and requirements relating to the collateral and our company, including maintenance of minimum liquidity, minimum tangible net worth, maximum debt to net worth ratio and limitations on transactions with affiliates.

***Convertible notes*.** On August 9, 2017, we closed an underwritten public sale of $115.0 million aggregate principal amount of our 7.00% convertible senior notes due 2023 (the "Convertible Notes"). As of June 30, 2023, the conversion rate was 1.6548 shares of common stock per $25 principal amount of the Convertible Notes, which is equivalent to a conversion price of approximately $15.11 per share of our common stock. Upon conversion, holders will receive, at our discretion, cash, shares of our common stock or a combination thereof.

We may redeem all or any portion of the Convertible Notes on or after August 15, 2021, if the last reported sale price of our common stock has been at least 120% of the conversion price in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption, at a redemption price payable in cash equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest. Additionally, upon the occurrence of certain corporate transactions, holders may require us to purchase the Convertible Notes for cash at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest.

The Convertible Notes will be convertible only upon satisfaction of one or more of the following conditions: (1) the closing market price of our common stock is greater than or equal to 120% of the conversion price of the respective Convertible Notes for at least 20 out of 30 days prior to the end of the preceding fiscal quarter, (2) the trading price of the Convertible Notes is less than 98% of the product of (i) the conversion rate and (ii) the closing price of our common stock during any five consecutive trading day period, (3) we issue certain equity instruments at less than the 10 day average closing market price of our common stock or the per-share value of certain distributions exceeds the market price of our common stock by more than 10%, or (4) certain other specified corporate events (significant consolidation, sale, merger share exchange, etc.) occur.

Corporate debt
We issue senior unsecured notes in public and private transactions. The notes are governed by a base indenture and supplemental indentures. Often, the notes are redeemable by us following a non-call period, through the payment of the outstanding principal balance plus a “make-whole” or other premium that typically decreases the closer the notes are to maturity. We are often required to offer to repurchase the notes, in some cases at 101% of the principal balance of the notes, in the event of a change in control or fundamental change pertaining to our company, as defined in the applicable supplemental indentures. The notes rank equal in right of payment to any of our existing and future unsecured and unsubordinated indebtedness; effectively junior in right of payment to any of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness, other liabilities (including trade payables) and (to the extent not held by us) preferred stock, if any, of our subsidiaries. The supplemental indentures governing the notes often contain customary negative covenants and financial covenants relating to maintenance of minimum liquidity, minimum tangible net worth, maximum debt to net worth ratio and limitations on transactions with affiliates.

In addition, in connection with the Broadmark Merger, RCC Merger Sub, a wholly owned subsidiary of the Company, assumed Broadmark’s obligations on certain senior unsecured notes. The note purchase agreement governing these notes contains financial covenants that require compliance with leverage and coverage ratios and maintenance of minimum tangible net worth, as well as other customary affirmative and negative covenants.

The Debt ATM Agreement
On May 20, 2021, the Company entered into an At Market Issuance Sales Agreement (the “Sales Agreement”) with B. Riley Securities, Inc. (the “Agent”), pursuant to which it may offer and sell, from time to time, up to $100.0 million of the 6.20% 2026 Notes and the 5.75% 2026 Notes. Sales of the 6.20% 2026 Notes and the 5.75% 2026 Notes pursuant to the Sales Agreement, if any, may be made in transactions that are deemed to be “at the market offerings” as defined in Rule 415 under the Securities Act (the “Debt ATM Program”). The Agent is not required to sell any specific number of the notes, but the Agent will make all sales using commercially reasonable efforts consistent with its normal trading and sales practices on mutually agreed terms between the Agent and the Company. No such sales through the Debt ATM Program were made during the three or six months ended June 30, 2023.

Securitization transactions
Our Manager’s extensive experience in loan acquisition, origination, servicing and securitization strategies has enabled us to complete several securitizations of SBC and SBA loan assets since January 2011. These securitizations allow us to match fund the SBC and SBA loans on a long-term, non-recourse basis. The assets pledged as collateral for these securitizations were contributed from our portfolio of assets. By contributing these SBC and SBA assets to the various securitizations, these transactions created capacity for us to fund other investments.

The table below presents information on the securitization structures and related issued tranches of notes to investors.

(in millions)	Collateral Asset Class	Issuance	Active / Collapsed		Bonds Issued
Trusts (Firm sponsored)					
Waterfall Victoria Mortgage Trust 2011-1 (SBC1)	SBC Acquired loans	February 2011	Collapsed	$	40.5
Waterfall Victoria Mortgage Trust 2011-3 (SBC3)	SBC Acquired loans	October 2011	Collapsed		143.4
Sutherland Commercial Mortgage Trust 2015-4 (SBC4)	SBC Acquired loans	August 2015	Collapsed		125.4
Sutherland Commercial Mortgage Trust 2018 (SBC7)	SBC Acquired loans	November 2018	Collapsed		217.0
ReadyCap Lending Small Business Trust 2015-1 (RCLT 2015-1)	Acquired SBA 7(a) loans	June 2015	Collapsed		189.5
ReadyCap Lending Small Business Loan Trust 2019-2 (RCLT 2019-2)	Originated SBA 7(a) loans, Acquired SBA 7(a) loans	December 2019	Active		131.0
Real Estate Mortgage Investment Conduits (REMICs)					
ReadyCap Commercial Mortgage Trust 2014-1 (RCMT 2014-1)	SBC Originated conventional	September 2014	Collapsed	$	181.7
ReadyCap Commercial Mortgage Trust 2015-2 (RCMT 2015-2)	SBC Originated conventional	November 2015	Active		218.8
ReadyCap Commercial Mortgage Trust 2016-3 (RCMT 2016-3)	SBC Originated conventional	November 2016	Active		162.1
ReadyCap Commercial Mortgage Trust 2018-4 (RCMT 2018-4)	SBC Originated conventional	March 2018	Active		165.0
Ready Capital Mortgage Trust 2019-5 (RCMT 2019-5)	SBC Originated conventional	January 2019	Active		355.8
Ready Capital Mortgage Trust 2019-6 (RCMT 2019-6)	SBC Originated conventional	November 2019	Active		430.7
Ready Capital Mortgage Trust 2022-7 (RCMT 2022-7)	SBC Originated conventional	April 2022	Active		276.8
Waterfall Victoria Mortgage Trust 2011-2 (SBC2)	SBC Acquired loans	March 2011	Collapsed		97.6
Sutherland Commercial Mortgage Trust 2018 (SBC6)	SBC Acquired loans	August 2017	Active		154.9
Sutherland Commercial Mortgage Trust 2019 (SBC8)	SBC Acquired loans	June 2019	Active		306.5
Sutherland Commercial Mortgage Trust 2020 (SBC9)	SBC Acquired loans	June 2020	Collapsed		203.6
Sutherland Commercial Mortgage Trust 2021 (SBC10)	SBC Acquired loans	May 2021	Active		232.6
Collateralized Loan Obligations (CLOs)					
Ready Capital Mortgage Financing 2017 – FL1	SBC Originated bridge	August 2017	Collapsed	$	198.8
Ready Capital Mortgage Financing 2018 – FL2	SBC Originated bridge	June 2018	Collapsed		217.1
Ready Capital Mortgage Financing 2019 – FL3	SBC Originated bridge	April 2019	Active		320.2
Ready Capital Mortgage Financing 2020 – FL4	SBC Originated bridge	June 2020	Collapsed		405.3
Ready Capital Mortgage Financing 2021 – FL5	SBC Originated bridge	March 2021	Active		628.9
Ready Capital Mortgage Financing 2021 – FL6	SBC Originated bridge	August 2021	Active		652.5
Ready Capital Mortgage Financing 2021 – FL7	SBC Originated bridge	November 2021	Active		927.2
Ready Capital Mortgage Financing 2022 – FL8	SBC Originated bridge	March 2022	Active		1,135.0
Ready Capital Mortgage Financing 2022 – FL9	SBC Originated bridge	June 2022	Active		754.2
Ready Capital Mortgage Financing 2022 – FL10	SBC Originated bridge	October 2022	Active		860.1
Ready Capital Mortgage Financing 2023 – FL11	SBC Originated bridge	February 2023	Active		586.0
Ready Capital Mortgage Financing 2023 – FL12	SBC Originated bridge	June 2023	Active		648.6
Trusts (Non-firm sponsored)					
Freddie Mac Small Balance Mortgage Trust 2016-SB11	Originated agency multi-family	January 2016	Active	$	110.0
Freddie Mac Small Balance Mortgage Trust 2016-SB18	Originated agency multi-family	July 2016	Active		118.0
Freddie Mac Small Balance Mortgage Trust 2017-SB33	Originated agency multi-family	June 2017	Active		197.9
Freddie Mac Small Balance Mortgage Trust 2018-SB45	Originated agency multi-family	January 2018	Active		362.0
Freddie Mac Small Balance Mortgage Trust 2018-SB52	Originated agency multi-family	September 2018	Active		505.0
Freddie Mac Small Balance Mortgage Trust 2018-SB56	Originated agency multi-family	December 2018	Active		507.3
Key Commercial Mortgage Trust 2020-S3[(1)]	SBC Originated conventional	September 2020	Active		263.2

[(1)] Contributed portion of assets into trust

We used the proceeds from the sale of the tranches issued to purchase and originate SBC and SBA loans. We are the primary beneficiary of all firm sponsored securitizations; therefore they are consolidated in our financial statements.

Contractual Obligations and Off-Balance Sheet Arrangements

Other than the items referenced above, there have been no material changes to our contractual obligations for the three months ended June 30, 2023. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations" in the Company's annual report on Form 10-K for further details. As of the date of this quarterly report on Form 10-Q, we had no off-balance sheet arrangements, other than as disclosed.

Critical Accounting Estimates

Our financial statements are prepared in accordance with GAAP, which requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe that all of the decisions and assessments upon which our financial statements are based were reasonable at the time made, based upon information available to us at that time. The following discussion describes the critical accounting estimates that apply to our operations and require complex management judgment. This summary should be read in conjunction with our accounting policies and use of estimates included in “Notes to Consolidated Financial Statements, Note 3 – Summary of Significant Accounting Policies” included in Item 8, “Financial Statements and Supplementary Data,” in the Company’s annual report on Form 10-K.

Allowance for credit losses
The allowance for credit losses consists of the allowance for losses on loans and lending commitments accounted for at amortized cost. Such loans and lending commitments are reviewed quarterly considering credit quality indicators, including probable and historical losses, collateral values, LTV ratio and economic conditions. The allowance for credit losses increases through provisions charged to earnings and reduced by charge-offs, net of recoveries.

ASC 326, *Financial Instruments-Credit Losses (“ASC 326”)*, became effective for us on January 1, 2020 and replaced the “incurred loss” methodology previously required by GAAP with an expected loss model known as the Current Expected Credit Loss (“CECL”) model. CECL amends the previous credit loss model to reflect a reporting entity's current estimate of all expected credit losses, not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost. The allowance for credit losses required under ASC 326 is deducted from the respective loans’ amortized cost basis on our consolidated balance sheets. The related Accounting Standards Update No. 2016-13 (“ASU 2016-13”) also requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.

In connection with ASU 2016-13, we implemented new processes including the utilization of loan loss forecasting models, updates to our reserve policy documentation, changes to internal reporting processes and related internal controls. We implemented loan loss forecasting models for estimating expected life-time credit losses, at the individual loan level, for its loan portfolio. The CECL forecasting methods used by the Company include (i) a probability of default and loss given default method using underlying third-party CMBS/CRE loan database with historical loan losses and (ii) probability weighted expected cash flow method, depending on the type of loan and the availability of relevant historical market loan loss data. We might use other acceptable alternative approaches in the future depending on, among other factors, the type of loan, underlying collateral, and availability of relevant historical market loan loss data.

We estimate the CECL expected credit losses for our loan portfolio at the individual loan level. Significant inputs to our forecasting methods include (i) key loan-specific inputs such as LTV, vintage year, loan-term, underlying property type, occupancy, geographic location, and others, and (ii) a macro-economic forecast. These estimates may change in future periods based on available future macro-economic data and might result in a material change in our future estimates of expected credit losses for its loan portfolio.

In certain instances, we consider relevant loan-specific qualitative factors to certain loans to estimate its CECL expected credit losses. We consider loan investments that are both (i) expected to be substantially repaid through the operation or sale of the underlying collateral, and (ii) for which the borrower is experiencing financial difficulty, to be “collateral-dependent” loans. For such loans that we determine that foreclosure of the collateral is probable, we measure the expected losses based on the difference between the fair value of the collateral (less costs to sell the asset if repayment is expected through the sale of the collateral) and the amortized cost basis of the loan as of the measurement date. For collateral-dependent loans that we determine foreclosure is not probable, we apply a practical expedient to estimate expected losses using the difference between the collateral’s fair value (less costs to sell the asset if repayment is expected through the sale of the collateral) and the amortized cost basis of the loan.

While we have a formal methodology to determine the adequate and appropriate level of the allowance for credit losses, estimates of inherent loan losses involve judgment and assumptions as to various factors, including current economic conditions. Our determination of adequacy of the allowance for credit losses is based on quarterly evaluations of the above factors. Accordingly, the provision for loan losses will vary from period to period based on management's ongoing assessment of the adequacy of the allowance for credit losses.

Significant judgment is required when evaluating loans for impairment; therefore, actual results over time could be materially different. Refer to “Notes to Consolidated Financial Statements, Note 6 – Loans and Allowance for Credit Losses” included in this Form 10-Q for results of our loan impairment evaluation.

Accretion of discounts associated with PPP loans, held for investment
The Company’s loan originations in the second round of the program are accounted for as loans, held-for-investment under ASC 310, *Receivables*. Loan origination fees and related direct loan origination costs are capitalized into the initial recorded investment in the loan and are deferred over the loan term. The net amount between the loan origination fees and direct loan origination costs is recognized as a discount in the carrying value of the loans, and the discount is required to be recognized in income at a constant effective yield over the life of the instrument.

The effective yield is determined based on the payment terms required by the loan contract as well as with actual and expected prepayments from loan forgiveness by the federal government. Because prepayments from loan forgiveness often deviate from the estimates, the Company periodically recalculates the effective yield to reflect actual prepayments to date and anticipated future prepayments. Anticipated future prepayments are estimated based on past prepayment patterns, historical, current, and projected interest rate environments, among other factors, to predict future cash flows.

Adjustments to anticipated future prepayments are recorded on a retrospective basis, meaning that the net investment or liability is adjusted to the amount that would have existed had the new effective yield been applied since the initial recognition of the instrument. As prepayment speeds change, these accounting requirements can be a source of income volatility. Accelerations of prepayments accelerate the accretion and increase current earnings. Conversely, when prepayments decline, thus lengthening the effective maturity of the instruments and shifting some of the discount accretion to future periods.

Significant judgment is required when evaluating the effective yield on PPP loans; therefore, actual results over time could be materially different. Refer to “Notes to Consolidated Financial Statements, Note 20 – Other Income and Operating Expenses” included in Item 8, “Financial Statements and Supplementary Data,” in the Company’s annual report on Form 10-K for a more complete discussion of PPP loans, held for investment.

Valuation of financial assets and liabilities carried at fair value
We measure our MBS, derivative assets and liabilities, residential MSRs, and any assets or liabilities where we have elected the fair value option at fair value, including certain loans we have originated that are expected to be sold to third parties or securitized in the near term.

We have established valuation processes and procedures designed so that fair value measurements are appropriate and reliable, that they are based on observable inputs where possible, that the valuation approaches are consistently applied, and the assumptions and inputs are reasonable. We also have established processes to provide that the valuation methodologies, techniques and approaches for investments that are categorized within Level 3 of the ASC 820 *Fair Value Measurement* fair value hierarchy (the “fair value hierarchy”) are fair, consistent and verifiable. Our processes provide a framework that ensures the oversight of our fair value methodologies, techniques, validation procedures, and results.

When actively quoted observable prices are not available, we either use implied pricing from similar assets and liabilities or valuation models based on net present values of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. Refer to “Notes to Consolidated Financial Statements, Note 7 – Fair Value Measurements” included in Item 8, “Financial Statements and Supplementary Data,” in the annual report on Form 10-K for a more complete discussion of our critical accounting estimates as they pertain to fair value measurements.

Servicing rights impairment
Servicing rights, at amortized cost, are initially recorded at fair value and subsequently carried at amortized cost. We have elected the fair value option on our residential MSRs, which are not subject to impairment.

For purposes of testing our servicing rights, carried at amortized cost, for impairment, we first determine whether facts and circumstances exist that would suggest the carrying value of the servicing asset is not recoverable. If so, we then compare the net present value of servicing cash flow with its carrying value. The estimated net present value of servicing cash flows of the intangibles is determined using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, taking into consideration historical and forecasted loan prepayment rates, delinquency rates and anticipated maturity defaults. If the carrying value of the servicing rights exceeds the net present value of servicing cash flows, the servicing rights are considered impaired and an impairment loss is recognized in earnings for the amount by which carrying value exceeds the net present value of servicing cash flows. We monitor the actual performance of our servicing rights by regularly comparing actual cash flow, credit, and prepayment experience to modeled estimates.

Significant judgment is required when evaluating servicing rights for impairment; therefore, actual results over time could be materially different. Refer to “Notes to Consolidated Financial Statements, Note 9 – Servicing Rights” included in this Form 10-Q for a more complete discussion of our critical accounting estimates as they pertain to servicing rights impairment.

Refer to “Notes to Consolidated Financial Statements, Note 4– Recently Issued Accounting Pronouncements” included in Item 8, “Financial Statements and Supplementary Data,” in the Company’s annual report on Form 10-K for a discussion of recent accounting developments and the expected impact to the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we enter into transactions in various financial instruments that expose us to various types of risk, both on and off-balance sheet, which are associated with such financial instruments and markets for which we invest. These financial instruments expose us to varying degrees of market risk, credit risk, interest rate risk, liquidity risk, off-balance sheet risk and prepayment risk. Many of these risks have been augmented due to the continuing economic disruptions caused by the COVID-19 pandemic which remain uncertain and difficult to predict. We continue to monitor the impact of the pandemic and the effect of these risks in our operations.

Market risk. Market risk is the potential adverse changes in the values of the financial instrument due to unfavorable changes in the level or volatility of interest rates, foreign currency exchange rates, or market values of the underlying financial instruments. We attempt to mitigate our exposure to market risk by entering into offsetting transactions, which may include purchase or sale of interest-bearing securities and equity securities.

Credit risk. We are subject to credit risk in connection with our investments in SBC loans and SBC ABS and other target assets we may acquire in the future. The credit risk related to these investments pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is granted or renewed and periodically reviewed throughout the loan or security term. We believe that loan credit quality is primarily determined by the borrowers’ credit profiles and loan characteristics. We seek to mitigate this risk by seeking to acquire assets at appropriate prices given anticipated and unanticipated losses and by deploying a value-driven approach to underwriting and diligence, consistent with our historical investment strategy, with a focus on projected cash flows and potential risks to cash flow. We further mitigate our risk of potential losses while managing and servicing our loans by performing various workout and loss mitigation strategies with delinquent borrowers. Nevertheless, unanticipated credit losses could occur which could adversely impact operating results.

The COVID-19 pandemic has adversely impacted the commercial real estate markets, causing reduced occupancy, requests from tenants for rent deferral or abatement, and delays in property renovations currently planned or underway. These negative conditions may persist into the future and impair borrower’s ability to pay principal and interest due under our loan agreements. We maintain robust asset management relationships with our borrowers and have leveraged these relationships to address the potential impact of the COVID-19 pandemic on our loans secured by properties experiencing cash flow pressure, most significantly hospitality and retail assets. Some of our borrowers have indicated that due to the impact of the COVID-19 pandemic, they will be unable to timely execute their business plans, have had to temporarily close their businesses, or have experienced other negative business consequences and have requested temporary interest deferral or forbearance, or other modifications of their loans. Accordingly, we have discussed with our borrowers potential near-term defensive loan modifications, which could include repurposing of reserves, temporary deferrals of interest, or performance test or covenant waivers on loans collateralized by assets directly impacted by the COVID-19 pandemic, and which would typically be coupled with an additional equity commitment and/or guaranty from sponsors. As of June 30, 2023, 0.2% of the loans in our commercial real estate portfolio are in forbearance plans. While we believe the principal amounts of our loans are generally adequately protected by underlying collateral value, there is a risk that we will not realize the entire principal value of certain investments.

Interest rate risk. Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

Our operating results will depend, in part, on differences between the income from our investments and our financing costs. Our debt financing is based on a floating rate of interest calculated on a fixed spread over the relevant index, subject to a floor, as determined by the particular financing arrangement. The general impact of changing interest rates is discussed above under "— Factors Impacting Operating Results — Changes in Market Interest Rates." In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us, which could materially and adversely affect our business, financial condition, liquidity, results of operations and prospects. Furthermore, such defaults could have an adverse effect on the spread between our interest-earning assets and interest-bearing liabilities.

Additionally, non-performing SBC loans are not as interest rate sensitive as performing loans, as earnings on non-performing loans are often generated from restructuring the assets through loss mitigation strategies and opportunistically disposing of them. Because non-performing SBC loans are short-term assets, the discount rates used for valuation are based on short-term market interest rates, which may not move in tandem with long-term market interest rates.

The table below projects the impact on our interest income and expense for the twelve-month period following June 30, 2023, assuming an immediate increase or decrease of 25, 50, 75, and 100 basis points in interest rates.

	12-month pretax net interest income sensitivity profiles							
	Instantaneous change in rates							
(in thousands)	**25 basis point increase**	**50 basis point increase**	**75 basis point increase**	**100 basis point increase**	**25 basis point decrease**	**50 basis point decrease**	**75 basis point decrease**	**100 basis point decrease**
Assets:								
Loans	$ 20,086	$ 40,174	$ 60,264	$ 80,354	$ (20,075)	$ (40,098)	$ (60,018)	$ (79,862)
Interest rate swap hedges	1,585	3,170	4,756	6,341	(1,585)	(3,170)	(4,756)	(6,341)
Total	**$ 21,671**	**$ 43,344**	**$ 65,020**	**$ 86,695**	**$ (21,660)**	**$ (43,268)**	**$ (64,774)**	**$ (86,203)**
Liabilities:								
Recourse debt	$ (4,723)	$ (9,445)	$ (14,168)	$ (18,890)	$ 4,723	$ 9,445	$ 14,168	$ 18,890
Non-recourse debt	(11,687)	(23,373)	(35,060)	(46,747)	11,687	23,373	35,060	46,747
Total	**$ (16,410)**	**$ (32,818)**	**$ (49,228)**	**$ (65,637)**	**$ 16,410**	**$ 32,818**	**$ 49,228**	**$ 65,637**
Total Net Impact to Net Interest Income (Expense)	**$ 5,261**	**$ 10,526**	**$ 15,792**	**$ 21,058**	**$ (5,250)**	**$ (10,450)**	**$ (15,546)**	**$ (20,566)**

Such hypothetical impact of interest rates on our variable rate debt does not consider the effect of any change in overall economic activity that could occur in a rising interest rate environment. Further, in the event of such a change in interest rates, we may take actions to further mitigate our exposure to such a change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, this analysis assumes no changes in our financial structure.

Liquidity risk. Liquidity risk arises in our investments and the general financing of our investing activities. It includes the risk of not being able to fund acquisition and origination activities at settlement dates and/or liquidate positions in a timely manner at a reasonable price, in addition to potential increases in collateral requirements during times of heightened market volatility. If we were forced to dispose of an illiquid investment at an inopportune time, we might be forced to do so at a substantial discount to the market value, resulting in a realized loss. We attempt to mitigate our liquidity risk by regularly monitoring the liquidity of our investments in SBC loans, ABS and other financial instruments. Factors such as our expected exit strategy for, the bid to offer spread of, and the number of broker dealers making an active market in a particular strategy and the availability of long-term funding, are considered in analyzing liquidity risk. To reduce any perceived disparity between the liquidity and the terms of the debt instruments in which we invest, we attempt to minimize our reliance on short-term financing arrangements. While we may finance certain investments in security positions using traditional margin arrangements and reverse repurchase agreements, other financial instruments such as collateralized debt obligations, and other longer-term financing vehicles may be utilized to provide us with sources of long-term financing.

Prepayment risk. Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, causing the return on certain investments to be less than expected. As we receive prepayments of principal on our assets, any premiums paid on such assets are amortized against interest income. In general, an increase in prepayment rates accelerates the amortization of purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates accelerates the accretion of purchase discounts, thereby increasing the interest income earned on the assets.

SBC loan and ABS extension risk. Our Manager computes the projected weighted-average life of our assets based on assumptions regarding the rate at which the borrowers will prepay the mortgages or extend. If prepayment rates decrease in a rising interest rate environment or extension options are exercised, the life of the fixed-rate assets could extend beyond the term of the secured debt agreements. This could have a negative impact on our results of operations. In some situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Real estate risk. The market values of residential and commercial assets are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, construction cost, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans, which could also cause us to suffer losses.

***Fair value risk*. ** The estimated fair value of our investments fluctuates primarily due to changes in interest rates. Generally, in a rising interest rate environment, the estimated fair value of the fixed-rate investments would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of the fixed-rate investments would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our assets recorded and/or disclosed may be adversely impacted. Our economic exposure is generally limited to our net investment position as we seek to fund fixed rate investments with fixed rate financing or variable rate financing hedged with interest rate swaps.

Counterparty risk. We finance the acquisition of a significant portion of our commercial and residential mortgage loans, MBS and other assets with our repurchase agreements, credit facilities, and other financing agreements. In connection with these financing arrangements, we pledge our mortgage loans and securities as collateral to secure the borrowings. The amount of collateral pledged will typically exceed the amount of the borrowings (i.e. the haircut) such that the borrowings will be over-collateralized. As a result, we are exposed to the counterparty if, during the term of the financing, a lender should default on its obligation and we are not able to recover our pledged assets. The amount of this exposure is the difference between the amount loaned to us plus interest due to the counterparty and the fair value of the collateral pledged by us to the lender including accrued interest receivable on such collateral.

We are exposed to changing interest rates and market conditions, which affects cash flows associated with borrowings. We enter into derivative instruments, such as interest rate swaps, to mitigate these risks. Interest rate swaps are used to mitigate the exposure to changes in interest rates and involve the receipt of variable-rate interest amounts from a counterparty in exchange for us making payments based on a fixed interest rate over the life of the swap contract.

Certain of our subsidiaries have entered into over-the-counter ("OTC") interest rate swap agreements to hedge risks associated with movements in interest rates. Because certain interest rate swaps were not cleared through a central counterparty, we remain exposed to the counterparty's ability to perform its obligations under each such swap and cannot look to the creditworthiness of a central counterparty for performance. As a result, if an OTC swap counterparty cannot perform under the terms of an interest rate swap, our subsidiary would not receive payments due under that agreement, we may lose any unrealized gain associated with the interest rate swap and the hedged liability would cease to be hedged by the interest rate swap. While we would seek to terminate the relevant OTC swap transaction and may have a claim against the defaulting counterparty for any losses, including unrealized gains, there is no assurance that we would be able to recover such amounts or to replace the relevant swap on economically viable terms or at all. In such case, we could be forced to cover our unhedged liabilities at the then current market price. We may also be at risk for any collateral we have pledged to secure our obligations under the OTC interest rate swap if the counterparty becomes insolvent or files for bankruptcy. Therefore, upon a default by an interest rate swap agreement counterparty, the interest rate swap would no longer mitigate the impact of changes in interest rates as intended.

The table below presents information with respect to any counterparty for repurchase agreements for which our Company had greater than 5% of stockholders' equity at risk in the aggregate.

	June 30, 2023			
(in thousands)	Counterparty Rating	Amount of Risk	Weighted Average Months to Maturity for Agreement	Percentage of Stockholders' Equity
Credit Suisse AG	A/A3	$ 246,850	3.94	9.2%
JPMorgan Chase Bank, N.A.	A+/Aa2	$ 159,309	14.39	5.9%

In the table above,

- The counterparty ratings presented are the long-term issuer credit rating as rated by S&P and Moody's, respectively.

- The amount at risk reflects the difference between the amount loaned through repurchase agreements, including interest payable, and the cash and fair value of the assets pledged as collateral, including accrued interest receivable.

Capital market risk. We are exposed to risks related to the equity capital markets, and our related ability to raise capital through the issuance of our common stock or other equity instruments. We are also exposed to risks related to the debt capital markets, and our related ability to finance our business through borrowings under repurchase obligations or other financing arrangements. As a REIT, we are required to distribute a significant portion of our taxable income annually, which constrains our ability to accumulate operating cash flow and therefore requires us to utilize debt or equity capital to finance our business. We seek to mitigate these risks by monitoring the debt and equity capital markets to inform our decisions on the amount, timing, and terms of capital we raise.

Off-balance sheet risk. Off-balance sheet risk refers to situations where the maximum potential loss resulting from changes in the level or volatility of interest rates, foreign currency exchange rates or market values of the underlying financial instruments may result in changes in the value of a particular financial instrument in excess of the reported amounts of such assets and liabilities currently reflected in the accompanying consolidated balance sheets.

Inflation risk. Most of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance significantly more than inflation does. Changes in interest rates may, but do not necessarily, correlate with inflation rates and/or changes in inflation rates. See "Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk" in this quarterly report on Form 10-Q for a discussion on interest rate sensitivity.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Securities Exchange Act of 1934, as amended (the "Exchange Act"), reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" as promulgated under the Exchange Act and the rules and regulations thereunder. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2023. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes to the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the quarter ended June 30, 2023, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company may be involved in various claims and legal actions in the ordinary course of business.

On February 24, 2021, Sheila Baker and Merle W. Bundick purported shareholders of Anworth, filed lawsuits in the California Superior Court, styled Baker v. McAdams, et al., No. 21STCV07569 (the “Baker Action”) and Bundick v. McAdams, et al., No. 21STCV07571 (the “Bundick Action”). On March 2, 2021, Benjamin Gigli, a purported shareholder of Anworth, also filed a lawsuit in California Superior Court, styled Gigli v. McAdams, et al., No. 21STCV08413 (the “Gigli Action,” and together with the Baker Action and the Bundick Action, the “Anworth Merger Actions”). The Anworth Merger Actions were filed against the former members of Anworth’s Board of Directors (the “Anworth Board”). The complaints in the Anworth Merger Actions assert that the Anworth Board breached their fiduciary duties by failing to properly consider acquisition proposals that were purportedly superior to the Merger, agreeing to purportedly unreasonable deal protections in connection with the Merger, and authorizing the issuance of the Form 424B3 filed on February 9, 2021, which allegedly contained materially misleading information. The Anworth Merger Actions seek, among other things, rescissory damages and an award of attorneys’ and experts’ fees. On May 26, 2021, the Anworth Merger Actions were consolidated and restyled In re Anworth Mortgage Asset Corporation Stockholder Litigation, Lead Case No. 21STCV07569. A consolidated amended complaint was filed by Sheila Baker, Merle W. Bundick, and Benjamin Gigli (together, the “Plaintiffs”) on June 14, 2021, and the California Superior Court denied Anworth’s Demurrer seeking to dismiss the consolidated amended complaint on December 2, 2021. The Anworth Board filed their answer on January 3, 2022.

On December 27, 2022, the parties notified the California Superior Court that they have reached an agreement in principle resolving this action. On June 30, 2023, the California Superior Court entered an Order granting preliminary approval of the settlement, which set a hearing for final approval of the settlement on November 14, 2023.The settlement is subject to both preliminary and final approval by the California Superior Court.

On April 3, 2023, a purported stockholder of the Company filed a complaint, captioned Whitehead v. Ready Capital Corporation, et al., Case No. 1:23-cv-02773, in the United States District Court for the Southern District of New York. The complaint, which was filed as an individual action, named the Company and its directors as defendants and alleged defendants violated Sections 14(a) and 20(a) of the Exchange Act with respect to the Form S-4 originally filed with the SEC in connection with the proposed Broadmark Merger, and sought to enjoin the Broadmark Merger, as well as damages, costs and attorneys’ and experts’ fees. On May 16, 2023, the Whitehead action was voluntarily dismissed. Six similar complaints, asserting similar claims and seeking similar relief, were filed against Broadmark and its directors in connection with the Broadmark Merger: O’Dell v. Broadmark Realty Capital Inc., et al., Case No. 23-cv-02640 (S.D.N.Y., filed Mar. 29, 2023); Wang v. Broadmark Realty Capital Inc., et al., Case No. 23-cv-02717 (S.D.N.Y., filed Mar. 31, 2023); Kirkland v. Broadmark Realty Capital Inc., et al., Case No. 23-cv-02943 (S.D.N.Y., filed Apr. 7, 2023); Kirsteins v. Broadmark Reality Capital Inc., et al., Case No. 23-cv-03008 (S.D.N.Y., filed Apr. 10, 2023); Morgan v. Broadmark Realty Capital Inc., et al., Case No. 23-cv-03850 (S.D.N.Y., filed May 8, 2023); and Lawrence v. Broadmark Realty Capital Inc., et al., Case No. 23-cv-03921 (S.D.N.Y., filed May 10, 2023). The O’Dell, Wang, Morgan, and Lawrence actions have been voluntarily dismissed.

Item 1A. Risk Factors

The following represents important updates to the risk factors previously disclosed in Item 1A. of part I of the Company’s Annual Report on Form 10-K for the year ended December 31, 2022. You should be aware that these risk factors and other information may not describe every risk facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Risks Related to the Broadmark Merger

The Company may be unable to integrate the Company's existing business and Broadmark's business successfully and realize the anticipated synergies and other expected benefits of the Broadmark Merger on the anticipated timeframe or at all.

The Broadmark Merger involves the combination of two companies that previously operated as two separate independent public companies. The newly combined company will be required to devote significant management attention and resources to the integration of the Company's existing business and Broadmark's business. The potential difficulties the Company may encounter in the integration process include, but are not limited to, the following:

- the complexities of combining two companies with different histories and portfolio assets;
- the difficulties or delays in redeploying the capital acquired in connection with the Broadmark Merger into the target assets of the combined company;
- potential unknown liabilities and unforeseen increased expenses, delays or conditions associated with the Broadmark Merger; and
- performance shortfalls as a result of the diversion of management's attention caused by completing the Broadmark Merger and integrating the companies' operations.

For all these reasons, you should be aware that it is possible that the integration process could result in the distraction of the Company's management, the disruption of the Company's ongoing business or inconsistencies in its operations, services, standards, controls, policies and procedures, any of which could adversely affect the Company's ability to deliver investment returns to stockholders, to maintain relationships with its key stakeholders and employees, to achieve the anticipated benefits of the Broadmark Merger, or could otherwise materially and adversely affect its business and financial results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchase Program

On March 6, 2018, our Board of Directors approved a share repurchase program authorizing, but not obligating, the repurchase of our common stock, and on September 29, 2022, our Board of Directors approved an increase to the size of the share repurchase program bringing the total authorized repurchases thereunder to $50.0 million. To facilitate further repurchases, on June 1, 2023, our Board of Directors approved a new share repurchase program, replacing the previous program, authorizing, but not obligating, the repurchase of up to $100.0 million of our common stock. Repurchases under the stock repurchase programs may be made at management's discretion from time to time on the open market, in privately negotiated transactions or otherwise, in each case subject to compliance with all Securities and Exchange Commission rules and other legal requirements and may be made in part under one or more Rule 10b5-1 plans, which permit stock repurchases at times when we might otherwise be precluded from doing so. The timing and amount of repurchase transactions will be determined by our management based on its evaluation of market conditions, share price, legal requirements and other factors.

The table below presents purchases of our common stock during the quarter.

	Total Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Program
April	—	$ —	—	$ —
May	64,370 (1)	10.25	—	—
June	1,667,852	10.82	1,667,852	81,953,841
Total	**1,732,222**	**$ 10.80 (2)**	**1,667,852**	**$ 81,953,841**

(1) Total shares purchased includes shares of common stock owned by certain of our employees which have been surrendered by them to satisfy their tax and other compensation related withholdings associated with the vesting of restricted stock units and awards.
(2) The price paid per share is based on the price of our common stock as of the date of the withholding.

Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None of our officers and directors entered into, modified or terminated any “Rule 10b5-1 trading arrangements” or “non-Rule 10b5-1 trading arrangements” (each as defined in Item 408(c) of Regulation S-K) during the quarter ended June 30, 2023.

Item 6. Exhibits

Exhibit number	Exhibit description
2.1*	Agreement and Plan of Merger, dated as of December 6, 2020, by and among Ready Capital Corporation, RC Merger Subsidiary, LLC and Anworth Mortgage Asset Corporation (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed December 8, 2020).
2.2*	Merger Agreement, by and among Ready Capital Corporation, Ready Capital, RC Mosaic Sub, LLC, a Delaware limited liability company, Sutherland Partners, L.P., a Delaware limited partnership, Mosaic Real Estate Credit, LLC, a Delaware limited liability company, Mosaic Real Estate Credit TE, LLC, a Delaware limited liability company, MREC International Incentive Split, LP, a Delaware limited partnership, Mosaic Real Estate Credit Offshore, LP, a Cayman Islands exempted limited partnership, MREC Corp Sub 1 (VO), LLC, a Delaware limited liability company, MREC Corp Sub 2 (LA Office), LLC, a Delaware limited liability company, MREC Corp Sub 3 (Superblock), LLC, a Delaware limited liability company, Mosaic Special Member, LLC, a Delaware limited liability company, Mosaic Secured Holdings, LLC, a Delaware limited liability company, and MREC Management, LLC, dated as of November 3, 2021 (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed November 9, 2021).
2.3*	First Amendment to Merger Agreement, dated February 7, 2022, by and among Ready Capital Corporation, Sutherland Partners, L.P., RC Mosaic Sub, LLC, Mosaic Real Estate Credit, LLC, Mosaic Real Estate Credit TE, LLC, MREC International Incentive Split, LP, Mosaic Real Estate Credit Offshore, LP, MREC Corp Sub 1 (VO), LLC, MREC Corp Sub 2 (LA Office), LLC, MREC Corp Sub 3 (Superblock), LLC, Mosaic Special Member, LLC, Mosaic Secured Holdings, LLC and MREC Management, LLC (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed February 7, 2022).
2.4*	Agreement and Plan of Merger, dated as of February 26, 2023, by and among Ready Capital Corporation, RCC Merger Sub, LLC and Broadmark Realty Capital Inc. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed February 28, 2023).
3.1*	Articles of Amendment and Restatement of ZAIS Financial Corp. (incorporated by reference to Exhibit 3.1 of the Registrant's Form S-11, as amended (Registration No. 333-185938).
3.2*	Articles Supplementary of ZAIS Financial Corp. (incorporated by reference to Exhibit 3.2 of the Registrant's Form S-11, as amended (Registration No. 333-185938).
3.3*	Articles of Amendment and Restatement of Sutherland Asset Management Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed November 4, 2016).
3.4*	Articles of Amendment of Ready Capital Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on September 26, 2018).
3.5*	Articles Supplementary to the Articles of Amendment of Ready Capital Corporation designating the shares of 6.25% Series C Cumulative Convertible Preferred Stock, $0.0001 par value per share (incorporated by reference to Exhibit 3.7 to the Registrant's Registration Statement on Form 8-A filed on March 19, 2021).
3.6*	Articles Supplementary to the Articles of Amendment of Ready Capital Corporation designating the shares of 6.50% Series E Cumulative Redeemable Preferred Stock, $0.0001 par value per share (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on June 10, 2021).
3.7*	Articles Supplementary to the Articles of Amendment of Ready Capital Corporation designating the shares of Class B-1 Common Stock, $0.0001 par value per share, Class B-2 Common Stock, $0.0001 par value per share, Class B-3 Common Stock, $0.0001 par value per share, and Class B-4 Common Stock, $0.0001 par value per share (incorporated by reference to Exhibit 4.8 to the Registration Statement on Form S-3 filed with the SEC on March 21, 2022).

3.8* Amended and Restated Bylaws of Ready Capital Corporation (incorporated by reference to Exhibit 3.2 to the Registrant’s Form 8-K filed on September 26, 2018).

3.9* Certificate of Notice, dated May 11, 2022, relating to the automatic conversion of the Class B-1 Common Stock, $0.0001 par value per share, Class B-2 Common Stock, $0.0001 par value per share, Class B-3 Common Stock, $0.0001 par value per share, and Class B-4 Common Stock, $0.0001 par value per share, into Common Stock, $0.0001 par value per share (incorporated by reference to Exhibit 3.1 to the Registrant’s Form 8-K filed on May 10, 2022).

3.10* Articles Supplementary to the Articles of Amendment of Ready Capital Corporation reclassifying and designating the Class B-1 Common Stock, $0.0001 par value per share, Class B-2 Common Stock, $0.0001 par value per share, Class B-3 Common Stock, $0.0001 par value per share, and Class B-4 Common Stock, $0.0001 par value per share, as Common Stock, $0.0001 par value per share (incorporated by reference to Exhibit 3.2 to the Registrant’s Form 8-K filed on May 10, 2022).

4.1* Indenture, dated February 13, 2017, by and among ReadyCap Holdings, LLC, as issuer, Sutherland Asset Management Corporation, Sutherland Partners, L.P., Sutherland Asset I, LLC and ReadyCap Commercial, LLC, each as guarantors, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed February 13, 2017).

4.2* First Supplemental Indenture, dated February 13, 2017, by and among ReadyCap Holdings, LLC, as issuer, Sutherland Asset Management Corporation, Sutherland Partners, L.P., Sutherland Asset I, LLC, ReadyCap Commercial, LLC, each as guarantors and U.S. Bank National Association, as trustee and as collateral agent, including the form of 7.5% Senior Secured Notes due 2022 and the related guarantees (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed February 13, 2017).

4.3* Indenture, dated as of August 9, 2017, by and between Sutherland Asset Management Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed August 9, 2017).

4.4* First Supplemental Indenture, dated as of August 9, 2017, by and between Sutherland Asset Management Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed August 9, 2017).

4.5* Second Supplemental Indenture, dated as of April 27, 2018, by and between Sutherland Asset Management Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed April 27, 2018).

4.6* Third Supplemental Indenture, dated as of February 26, 2019, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.7 of the Registrant's Annual Report on Form 10-K filed March 13, 2019).

4.7* Amendment No. 1, dated as of February 26, 2019, to the First Supplemental Indenture, dated as of August 9, 2017, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.8 of the Registrant's Annual Report on Form 10-K filed March 13, 2019).

4.8* Amendment No. 1, dated as of February 26, 2019, to the Second Supplemental Indenture, dated as of April 27, 2018, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.9 of the Registrant's Annual Report on Form 10-K filed March 13, 2019).

4.9* Fourth Supplemental Indenture, dated as of July 22, 2019, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed July 22, 2019).

4.10*	Fifth Supplemental Indenture, dated as of February 10, 2021, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed February 10, 2021).
4.11*	Sixth Supplemental Indenture, dated as of December 21, 2021, by and between Ready Capital Corporation and U.S. Bank National Association, a Sixth Supplemental Indenture, dated as of December 21, 2021, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed December 21, 2021) as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed December 21, 2021).
4.12*	Seventh Supplemental Indenture, dated as of April 18, 2022, by and between Ready Capital Corporation and U.S. Bank Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed April 18, 2022).
4.13*	Eighth Supplemental Indenture, dated as of July 25, 2022, by and between Ready Capital Corporation and U.S. Bank Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed on July 25, 2022).
4.14*	Specimen Common Stock Certificate of Ready Capital Corporation (incorporated by reference to Exhibit 4.1 to the Registrant's Form S-4 filed on December 13, 2018).
4.15*	Specimen Preferred Stock Certificate representing the shares of 6.25% Series C Cumulative Convertible Preferred Stock, $0.0001 par value per share (incorporated by reference to Exhibit 4.13 of the Registrant's Registration Statement on Form 8-A filed on March 19, 2021).
4.16*	Specimen Preferred Stock Certificate representing the shares of 6.50% Series E Cumulative Redeemable Preferred Stock, $0.0001 par value per share (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on June 10, 2021).
4.17*	Specimen Warrant Certificate (incorporated by reference to Exhibit 4.2 to Broadmark Realty Capital Inc.'s Form 8-A12B filed with the SEC on November 14, 2019).
4.18*	Warrant Agreement, dated as of May 14, 2018, between Trinity Merger Corp. and Continental Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.3 to Broadmark Realty Capital Inc.'s Form 8-A12B filed with the SEC on November 14, 2019).
4.19*	Amendment to Warrant Agreement, dated November 14, 2019, by and among Broadmark Realty Capital Inc., Continental Stock Transfer & Trust Co., and American Stock Transfer & Trust Company, LLC (incorporated by reference to Exhibit 4.4 to Broadmark Realty Capital Inc.'s Form 8-K filed with the SEC on November 20, 2019).
4.20*	Second Amendment to Warrant Agreement, dated November 14, 2019, by and among Broadmark Realty Capital Inc., Continental Stock Transfer & Trust Co., and American Stock Transfer & Trust Company, LLC (incorporated by reference to Exhibit 4.5 to Broadmark Realty Capital Inc.'s Form 8-K filed with the SEC on November 20, 2019).
4.21	Third Amendment of Warrant Agreement, dated May 31, 2023, by and among Ready Capital Corporation, RCC Merger Sub, LLC, Computershare Inc. and Computershare Trust Company, N.A.

10.1	Assignment and Assumption Agreement, dated May 31, 2023, between RCC Merger Sub, LLC and Broadmark Realty Capital Inc.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Scheme Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Linkbase Document
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded with the Inline XBRL document)

* Previously filed.
** This exhibit is being furnished rather than filed, and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

SIGNATURES

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

READY CAPITAL CORPORATION

Date: August 8, 2023	By: /s/ Thomas E. Capasse Thomas E. Capasse Chairman of the Board and Chief Executive (Principal Executive Officer)
Date: August 8, 2023	By: /s/ Andrew Ahlborn Andrew Ahlborn Chief Financial Officer (Principal Accounting and Financial Officer)

Exhibit 4.21

THIRD AMENDMENT OF WARRANT AGREEMENT

THIS THIRD AMENDMENT OF WARRANT AGREEMENT (this "**Third Amendment**"), made as of May 31, 2023, is made by and among Ready Capital Corporation, a Maryland corporation ("**Ready Capital**"), RCC Merger Sub, LLC, a Delaware limited liability company and wholly owned subsidiary of Ready Capital ("**RCC Merger Sub**") and the successor by merger to Broadmark Realty Capital Inc. ("**Broadmark**"), and Computershare Inc., a Delaware corporation ("**Computershare Inc.**") and its affiliate, Computershare Trust Company, N.A., a federally chartered trust company, ("**Trust Company**," and together with Computershare Inc., "**Computershare**"). Capitalized terms used herein, but not otherwise defined, shall have the meanings given to such terms in the Warrant Agreement (as defined below).

WHEREAS, Trinity Merger Corp., a Delaware corporation ("**Trinity**"), and Continental Stock Transfer & Trust Company, a New York corporation ("**Continental**"), are parties to that certain Warrant Agreement, dated as of May 14, 2018 (the "**Initial Warrant Agreement**"), as amended on November 14, 2019 (the "**First Amendment**"), and as further amended on November 14, 2019 (the "**Second Amendment**," and collectively with the Initial Warrant Agreement and the First Amendment, the "**Warrant Agreement**"), pursuant to which Trinity issued 34,500,000 warrants (the "**Trinity Public Warrants**") in its initial public offering and 12,350,000 private placement warrants (the "**Trinity Private Placement Warrants**");

WHEREAS, pursuant to the First Amendment, among other things, each outstanding Trinity Public Warrant automatically converted into an equal number of publicly traded warrants issued by Broadmark (the "**Broadmark Public Warrants**") and each outstanding Trinity Private Placement Warrant automatically converted into an equal number of privately held warrants issued by Broadmark (the "**Broadmark Private Placement Warrants**" and, together with the Broadmark Public Warrants, the "**Broadmark Warrants**"), and became exercisable on the same terms as were in effect with respect to such Trinity Public Warrants and Trinity Private Placement Warrants, respectively, immediately prior to the business combination between Trinity and Broadmark on November 14, 2019;

WHEREAS, pursuant to the Second Amendment, Continental resigned as warrant agent ("**Warrant Agent**") under the Warrant Agreement and American Stock Transfer & Trust Company, LLC, a New York limited liability trust company ("**AST**"), Broadmark's transfer agent, was appointed as Warrant Agent;

WHEREAS, on February 26, 2023, Broadmark entered into an Agreement and Plan of Merger with Ready Capital and RCC Merger Sub (as the same may be amended from time to time, the "**Merger Agreement**"), which provides, among other things, that following the effective time (the "**Effective Time**") of the merger (the "**Merger**") of Broadmark with and into RCC Merger Sub, (i) each Broadmark Warrant that is outstanding as of the Effective Time shall remain outstanding and entitle each holder thereof to receive, upon exercise of such Broadmark Warrant, a number of shares of common stock, par value $0.0001 per share, of Ready Capital ("**Ready Capital Common Stock**") equal to the product of (a) the total number of shares of common stock, par value $.001 per share, of Broadmark ("**Broadmark Common Stock**") that such holder would have been entitled to receive had such holder exercised such Broadmark Warrant immediately prior to the Effective Time and (b) 0.47233 (subject to adjustment as provided in the Merger Agreement (the "**Exchange Ratio**"), and (ii) the per share purchase price under each Broadmark Warrant shall be adjusted by dividing the per share purchase price under such Broadmark Warrant as of immediately prior to the Effective Time by the Exchange Ratio and rounding down to the nearest cent;

WHEREAS, the Merger was consummated on the date of this Third Amendment, as a result of which RCC Merger Sub succeeded to all of the rights and obligations of Broadmark;

WHEREAS, pursuant to Section 4.4 of the Warrant Agreement, RCC Merger Sub, as the successor-in-interest to Broadmark, and Ready Capital desire to execute this Third Amendment providing for delivery of Ready Capital Common Stock to holders of the Broadmark Warrants in lieu of Broadmark Common Stock, when exercising their right to acquire shares of Broadmark Common Stock, on the same contractual terms and conditions as were in effect immediately prior to the closing of the Effective Time, subject to the modified terms resulting from the First Amendment, the Second Amendment and this Third Amendment;

WHEREAS, pursuant to Section 9.8 of the Warrant Agreement, the parties may amend the Warrant Agreement without the consent of the Registered Holders.

NOW, THEREFORE, in consideration of the mutual agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **Amendment of Warrant Agreement.**

The parties hereby amend, effective as of the date of this Third Amendment, the Warrant Agreement as provided in this Section 1.

1.1 Preamble and References to the "Company" and the "Warrant Agent." The preamble of the Warrant Agreement is hereby amended by (i) deleting "Broadmark Realty Capital Inc." and replacing it with "Ready Capital Corporation" and (ii) deleting "American Stock Transfer & Trust Company, LLC, a New York limited liability company (the "Warrant Agent", also referred to herein as the "Transfer Agent")" and replacing it with "Computershare Inc., a Delaware corporation ("Computershare"), and its affiliate, Computershare Trust Company, N.A., a federally chartered trust company ("Trust Company" and, together with Computershare, in such capacity as warrant agent, the "Warrant Agent")." As a result thereof, (x) all references to the "Company" in the Warrant Agreement (including all exhibits thereto) shall be amended such that they refer to Ready Capital rather than Broadmark and (y) unless the context otherwise requires, all references to the "Warrant Agent" in the Warrant Agreement (including all exhibits thereto) shall be amended such that they refer to Computershare rather than AST.

1.2 *Appointment of Warrant Agent*. Section 1 of the Warrant Agreement is hereby amended by deleting "the terms and conditions set forth in this Agreement." and replacing it with "the express terms and conditions set forth in this Agreement (and no implied terms or conditions)."

1.3 *Effect of Countersignature*. Section 2.2 of the Warrant Agreement is hereby amended by inserting "either by manual, electronic or facsimile signature," immediately after "Warrant Agent,".

1.4 *Cashless Exercise*. A new subsection 3.3.6 is hereby inserted in the Warrant Agreement as follows:

"3.3.6. <u>Cashless Exercise</u>. In connection with any cashless exercise of Warrants, the Company shall calculate and transmit to the Warrant Agent, and the Warrant Agent shall have no duty under this Agreement to determine, the number of shares of Ready Capital Common Stock to be issued on such cashless exercise, and the Warrant Agent shall have no duty or obligation to calculate or confirm whether the Company's determination of the number of shares of Ready Capital Common Stock to be issued on such exercise is accurate."

1.5 *Cost Basis*. A new subsection 3.3.7 is hereby inserted in the Warrant Agreement as follows:

"3.3.7. <u>Cost Basis</u>.

(a) In the event of a cash exercise, the Company hereby instructs the Warrant Agent to record cost basis for newly issued shares in a manner to be subsequently communicated by the Company in writing to the Warrant Agent.

(b) In the event of a cashless exercise, the Company shall provide cost basis for shares issued pursuant to a cashless exercise at the time the Company confirms the number of Company Common Shares issuable in connection with the cashless exercise to the Warrant Agent pursuant to Section 3.3.1 hereof."

1.6 *Notices of Changes in Warrants*. Section 4.5 of the Warrant Agreement is hereby amended to add the following immediately after the first full sentence thereof:

"The Warrant Agent shall be entitled to rely on such notice and any adjustment or statement therein contained and shall have no duty or liability with respect thereto and shall not be deemed to have knowledge of any such adjustment or any such event unless and until it shall have received such notice. The Company shall also provide to the Warrant Agent any new or amended exercise terms."

1.7 *Form of Warrant*. Section 4.7 of the Warrant Agreement is hereby amended by deleting in its entirety "provided, however, that the Company may at any time in its sole discretion make any change in the form of Warrant that the Company may deem appropriate and that does not affect the substance thereof, and any Warrant thereafter issued or countersigned, whether in exchange or substitution for an outstanding Warrant or otherwise, may be in the form as so changed." and replacing it with the following "provided, however, that the Company may at any time in its sole discretion make any change in the form of Warrant that the Company may deem appropriate and that does not affect the substance thereof or the rights, duties, obligations or immunities of the Warrant Agent, and any Warrant thereafter issued or countersigned, whether in exchange or substitution for an outstanding Warrant or otherwise, may be in the form as so changed."

1.8 *Registration of Transfer*. Section 5.1 of the of the Warrant Agreement is hereby amended by:

1.8.1 deleting the first full sentence thereof and replacing it with the following: "5.1. Registration of Transfer. The Warrant Agent shall register the transfer, from time to time, of any outstanding Warrant upon the Warrant Register, upon surrender of such Warrant for transfer, in the case of certificated Warrants, properly endorsed with signatures properly guaranteed (which may include any evidence of authority that may be required by the Warrant Agent, including but not limited to, a signature guarantee from an eligible guarantor institution participating in a signature guarantee program approved by the Securities Transfer Association) and accompanied by appropriate instructions for transfer."; and

1.8.2 adding the following immediately after the last full sentence thereof: "The Warrant Agent shall not have any duty or obligation to take any action under any section of this Agreement that requires the payment of taxes and/or charges unless and until it is satisfied that all such payments have been made."

1.9 *Alternative Issuance Amendment.* A new Section 4.10 is hereby inserted into the Warrant Agreement and shall read as follows:

"4.10 Alternative Issuance; Right to acquire Ready Capital Common Stock. Subsequent to the Company's initial Business Combination with Broadmark Realty Capital, Inc., a Maryland corporation ("***Broadmark***"), whereby Broadmark became successor-in-interest to the Company, Broadmark has consummated the business combination set forth in the Agreement and Plan of Merger, dated as of February 26, 2023 (the "***Merger Agreement***"), by and among Broadmark, Ready Capital Corporation, a Maryland corporation ("***Ready Capital***"), and RCC Merger Sub, LLC, a Delaware limited liability company and a wholly owned subsidiary of Ready Capital. The Warrants now represent the right to acquire shares of common stock, par value $0.0001 per share, of Ready Capital ("***Ready Capital Common Stock***"), in lieu of the right to acquire shares of Common Stock. Each Warrant that is outstanding as of the effective time (the "***Effective Time***") of the merger described in the Merger Agreement shall remain outstanding and entitle each holder thereof to receive, upon exercise of such Warrant, a number of shares of Ready Capital Common Stock equal to the product of (a) the total number of shares of common stock, par value $0.001 per share, of Broadmark that such holder would have been entitled to receive had such holder exercised such Warrant immediately prior to the Effective Time and (b) the Exchange Ratio (as defined in the Merger Agreement). For the avoidance of doubt, the right to acquire shares of Ready Capital Common Stock shall replace the right to acquire shares of Common Stock and be on the terms and conditions set forth in this Agreement, as amended from time to time."

1.10 Lost, Stolen, Mutilated, or Destroyed Warrants. Section 7.2 of the Warrant Agreement is hereby amended by deleting the first full sentence thereof in its entirety and replacing it with the following:

"If any Warrant is lost, stolen, mutilated, or destroyed, the Company and the Warrant Agent may on such terms as to indemnity or otherwise as they may in their discretion impose (which shall in all cases include receipt by Warrant Agent of an open penalty surety bond satisfactory to it and holding it and Company harmless and, in the case of a mutilated Warrant, include the surrender thereof), absent notice to Warrant Agent that such certificates have been acquired by a bona fide purchaser, issue a new Warrant of like denomination, tenor, and date as the Warrant so lost, stolen, mutilated, or destroyed."

1.11 Reservation of Common Stock. Section 7.3 of the Warrant Agreement is hereby amended by inserting immediately after the first full sentence thereof the following:

"The Company shall provide an opinion of counsel prior to the Effective Time to set up a reserve of warrants and related Common Stock. The opinion shall state that all warrants or Common Stock, as applicable:

(i) were offered, sold or issued as part of an offering that was registered in compliance with the Securities Act of 1933, as amended (the "1933 Act") or pursuant to an exemption from the registration requirements of the 1933 Act;

(ii) were issued in compliance with all applicable state securities or "blue sky" laws; and

(iii) are validly issued, fully paid and non-assessable."

1.12 Appointment of Successor Warrant Agent. Subsection 8.2.1 of the Warrant Agreement is hereby amended by:

1.12.1 deleting "sixty (60)" in the first full sentence thereof and replacing it with "thirty (30)";

1.12.2 inserting "In the event the transfer agency relationship in effect between the Company and the Warrant Agent terminates, the Warrant Agent will be deemed to have resigned automatically and be discharged from its duties under this Agreement as of the effective date of such termination, and the Company shall be responsible for sending any required notice." immediately following the first full sentence thereof;

1.12.3 deleting "shall be a corporation organized and existing under the laws of the State of New York, in good standing and having its principal office in the Borough of Manhattan, City and State of New York" and replacing it with "shall be a corporation or other entity organized and existing under the laws of the United States of America, or any state thereof, in good standing and having its principal office in the United States of America"; and

1.12.4 by inserting "; provided that, such predecessor Warrant Agent shall not be required to make any additional expenditure or assume any additional liability in connection with the foregoing." at the end of the last full sentence thereof.

1.13 *Merger or Consolidation of Warrant Agent*. Subsection 8.2.3 of the Warrant Agreement is amended to delete all references to "corporation" and replace them with "entity".

1.14 *Remuneration*. Subsection 8.3.1 of the Warrant Agreement is hereby deleted in its entirety and replaced with the following:

"8.3.1. Remuneration. The Company agrees to pay the Warrant Agent reasonable remuneration for its services as such Warrant Agent hereunder in accordance with a fee schedule to be mutually agreed upon and will reimburse the Warrant Agent upon demand for all of its reasonable and documented expenses (including reasonable and documented counsel fees and expenses) incurred in connection with the preparation, delivery, negotiation, amendment, administration and execution of this Agreement and the exercise and performance of its duties hereunder."

1.15 *Reliance on Company Statement*. Subsection 8.4.1 of the Warrant Agreement is hereby deleted in its entirety and replaced with the following:

"8.4.1. Reliance on Company Statement. Whenever in the performance of its duties under this Agreement, the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking, suffering or omitting to take any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a statement signed by the Chief Executive Officer, Chief Financial Officer, Secretary, Chairman of the Board or other duly authorized person and delivered to the Warrant Agent; and such certificate shall be full authorization and protection to the Warrant Agent and the Warrant Agent shall incur no liability for or in respect of any action taken, suffered or omitted to be taken by it under the provisions of this Agreement in reasonable reliance upon such certificate. The Warrant Agent shall not be held to have notice of any change of authority of any authorized officer, until receipt of written notice thereof from Company."

1.16 *Indemnity*. Subsection 8.4.2 of the Warrant Agreement is hereby deleted in its entirety and replaced with the following:

"8.4.2. Indemnity. The Warrant Agent shall be liable hereunder only for its own gross negligence, willful misconduct or bad faith (in each case, as determined by a final, non-appealable judgment of a court of competent jurisdiction). The Company agrees to indemnify the Warrant Agent and save it harmless against any and all liabilities loss, damage, judgment, fine, penalty, claim, demand, settlement, reasonable cost or expense that is paid, incurred or to which it becomes subject, including judgments, costs and reasonable counsel fees, for anything done or omitted by the Warrant Agent for any action taken, suffered or omitted to be taken by the Warrant Agent in connection with the execution, acceptance, administration, exercise and performance of its duties under this Agreement, including the reasonable costs and expenses of defending against any claim of liability arising therefrom, directly or indirectly, or of enforcing its rights under this Agreement, except as a result of the Warrant Agent's gross negligence, willful misconduct or bad faith (in each case as determined by a final, non-appealable judgment of a court of competent jurisdiction). Notwithstanding anything in this Agreement to the contrary, in no event shall the Warrant Agent be liable for special, punitive, incidental, indirect or consequential loss or damage of any kind whatsoever, even if the Warrant Agent has been advised of the likelihood of such loss or damage and regardless of the form of the action. Notwithstanding anything to the contrary herein, any liability of the Warrant Agent under this Agreement shall be limited to the amount of fees (but not including any reimbursed costs) paid by the Company to the Warrant Agent during the twelve (12) months immediately preceding the event for which recovery from the Warrant Agent is being sought."

1.17 Liability of the Warrant Agent. Section 8.4 of the Warrant Agreement is hereby amended by inserting the following new subsections:

"8.4.4. Legal Counsel. The Warrant Agent may consult with legal counsel selected by it (who may be legal counsel for the Company), and the opinion or advice of such counsel shall be full and complete authorization and protection to the Warrant Agent as to any action taken or omitted by it in accordance with such advice or opinion in the absence of Warrant Agent's bad faith, fraud, gross negligence or willful misconduct (each as must be determined by a final, non-appealable judgment of a court of competent jurisdiction).

8.4.5. Reliance on Agreement and Warrants. The Warrant Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Warrants (except as to its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

8.4.7. Freedom to Trade in Company Securities. Subject to applicable laws, including U.S. securities laws, the Warrant Agent and any stockholder, director, officer or employee of the Warrant Agent may buy, sell or deal in any of the Warrant or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Warrant Agent under this Agreement. Nothing herein shall preclude the Warrant Agent or any such stockholder, director, officer or employee of the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

8.4.8. No Risk of Own Funds. No provision of this Agreement shall require the Warrant Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise any of its rights or powers if it shall reasonably believe in the absence of bad faith that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

8.4.9. No Notice. The Warrant Agent shall not be required to take notice or be deemed to have notice of any event or condition hereunder, including any event or condition that may require action by the Warrant Agent, unless the Warrant Agent shall be specifically notified in writing of such event or condition by the Company, and all notices or other instruments required by this Agreement to be delivered to the Warrant Agent must, in order to be effective, be received by the Warrant Agent as specified in Section 9.2 hereof, and in the absence of such notice so delivered, the Warrant Agent may conclusively assume no such event or condition exists.

8.4.10. Ambiguity. In the event the Warrant Agent believes any ambiguity or uncertainty exists hereunder or in any notice, instruction, direction, request or other communication, paper or document received by the Warrant Agent shall seek clarification. If such clarification is not provided within a reasonable amount of time, the Warrant Agent, may, in its sole discretion, refrain from taking any action, and shall be fully protected and shall not be liable in any way to Company, the holder of any Warrant or any other person for refraining from taking such action, unless the Warrant Agent receives written instructions signed by the Company which eliminates such ambiguity or uncertainty to the satisfaction of Warrant Agent.

8.4.11. Non-Registration. The Warrant Agent shall not be liable or responsible for any failure of the Company to comply with any of its obligations relating to any registration statement filed with the Securities and Exchange Commission or this Agreement, including without limitation obligations under applicable regulation or law.

8.4.12. Signature Guarantee. The Warrant Agent may rely on and be fully authorized and protected in acting or failing to act upon (a) any guaranty of signature by an “eligible guarantor institution” that is a member or participant in the Securities Transfer Agents Medallion Program or other comparable “signature guarantee program” or insurance program in addition to, or in substitution for, the foregoing; or (b) any related law, act, regulation or any interpretation of the same.

8.4.13. Reliance on Attorneys and Agents. The Warrant Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Warrant Agent shall not be answerable or accountable for any act, omission, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, omission, default, neglect or misconduct, absent gross negligence, wilful misconduct or bad faith in the selection and continued employment thereof (which gross negligence, wilful misconduct or bad faith must be determined by a final, non-appealable judgment of a court of competent jurisdiction).”

1.18 *Acceptance of Agency*. Section 8.5 of the Warrant Agreement is hereby amended by inserting the following immediately after the last full sentence thereof:

“The Warrant Agent shall act hereunder solely as agent for the Company. The Warrant Agent shall not assume any obligations or relationship of agency or trust with any of the owners or holders of the Warrants or Ordinary Shares. The Warrant Agent shall not have any duty or responsibility in the case of the receipt of any written demand from any holder of Warrants or Ordinary Shares with respect to any action or default by the Company, including, without limiting the generality of the foregoing, any duty or responsibility to initiate or attempt to initiate any proceedings at law or otherwise or to make any demand upon the Company. The Warrant Agent shall have no responsibility to the Company, any holders of Warrants, any holders of Ordinary Shares or any other person for interest or earnings on any moneys held by the Warrant Agent pursuant to this Agreement.”

1.19 *Waiver*. Section 8.6 of the Warrant Agreement is hereby deleted in its entirety and replaced with “8.6. [Reserved.]”

1.20 *Survival*. Section 8 of the Warrant Agreement shall have a new subsection inserted as follows:

“8.7. Survival. The obligations of the Company under this Section 8 shall survive the termination of this Agreement, the resignation, replacement or removal of the Warrant Agent and the exercise, termination and expiration of the Warrants.”

1.21 *Change of Address of Warrant Agent.*

1.21.1 Section9.2 of the Warrant Agreement is hereby amended by deleting the first sentence in its entirety and replacing it with the following:

“Any notice, statement or demand authorized by this Agreement to be given or made by the Warrant Agent or by the holder of any Warrant to or on the Company shall be sufficiently given when so delivered if by hand or overnight delivery or if sent by certified mail or private courier service after deposit of such notice, postage prepaid, addressed (until another address is filed in writing by the Company with the Warrant Agent), as follows:”

1.21.2 Section 9.2 of the Warrant Agreement is hereby further amended to direct that any notice, statement or demand authorized by this Agreement to be given or made by the Warrant Agent or by the holder of any Warrant to or on the Warrant Agent pursuant to Section 9.2 shall be delivered to:
Computershare Trust Company, N.A.
Computershare Inc.150 Royall Street Canton, MA 02021Attn: Client Services

1.21.3 *Change of Address of Company.* Section 9.2 of the Warrant Agreement is hereby further amended to direct that any notice, statement or demand authorized by this Agreement to be given or made by the Warrant Agent or by the holder of any Warrant to or on Ready Capital pursuant to Section 9.2 shall be delivered to:

Ready Capital Corporation
1251 Avenue of the Americas, 50th Floor
New York, New York 10020
Attention: Andrew Ahlborn

1.22 *Examination of the Warrant Agreement*. Section 9.5 of the Warrant Agreement is hereby amended by deleting "in the Borough of Manhattan, City and State of New York,".

1.23 *Counterparts*. Section 9.6 of the Warrant Agreement is hereby amended by inserting immediately after the last full sentence thereof the following:

"A signature to this Agreement transmitted electronically shall have the same authority, effect, and enforceability as an original signature."

1.24 *Amendments*. Section 9.8 of the Warrant Agreement is hereby amended by:

1.24.1 deleting "that the parties deem shall not adversely affect the interest of the Registered Holders" and replacing it with "that the Company deems shall not adversely affect the interest of the Registered Holders"; and

1.24.2 inserting after the last full sentence thereof the following:

"As a condition precedent to the Warrant Agent's execution of any amendment, the Company shall deliver to the Warrant Agent a certificate from a duly authorized officer of the Company that states that the proposed amendment is in compliance with the terms of this Section 9.8. Notwithstanding anything in this Agreement to the contrary, the Warrant Agent may, but is not obligated to, execute any amendment, supplement or waiver that affects the Warrant Agent's own rights, duties or immunities under this Agreement. No supplement or amendment to this Agreement shall be effective unless duly executed by the Warrant Agent."

1.25 *Severability*. Section 9.9 of the Warrant Agreement is hereby amended by inserting "; provided, however, that if such prohibited and invalid provision shall adversely affect the rights, immunities, liabilities, duties or obligations of the Warrant Agent, the Warrant Agent shall be entitled to resign immediately upon written notice to the Company" at the end of the first full sentence thereof.

1.26 *Miscellaneous Provisions.* Section 9 of the Warrant Agreement is amended to insert the following new subsections:

“9.10. Bank Accounts; Delivery of Exercise Price. All funds received by Computershare under this Agreement that are to be distributed or applied by Computershare in the performance of Services (the “Funds”) shall be held by Computershare as agent for the Company and deposited in one or more bank accounts to be maintained by Computershare in its name as agent for the Company. Until paid pursuant to the terms of this Agreement, Computershare will hold the Funds through such accounts in: deposit accounts of commercial banks with Tier 1 capital exceeding $1 billion or with an average rating above investment grade by S&P (LT Local Issuer Credit Rating), Moody’s (Long Term Rating) and Fitch Ratings, Inc. (LT Issuer Default Rating) (each as reported by Bloomberg Finance L.P.). Computershare shall have no responsibility or liability for any diminution of the Funds that may result from any deposit made by Computershare in accordance with this paragraph, including any losses resulting from a default by any bank, financial institution or other third party. Computershare may from time to time receive interest, dividends or other earnings in connection with such deposits. Computershare shall not be obligated to pay such interest, dividends or earnings to the Company, any holder or any other party. The Warrant Agent shall forward funds received for Warrant exercises in a given month by the 5th business day of the following month by wire transfer to an account designated by the Company.

9.11. Confidentiality. The Warrant Agent and the Company agree that all books, records, information and data pertaining to the business of the other party, including *inter alia*, personal, non-public warrant holder information, which are exchanged or received pursuant to the negotiation or the carrying out of this Agreement including the fees for services set forth in the attached schedule shall remain confidential, and shall not be voluntarily disclosed to any other person, except as may be required by law, including, without limitation, pursuant to subpoenas from state or federal government authorities (e.g., in divorce and criminal actions).

9.12. Force Majeure. Notwithstanding anything to the contrary contained herein, the Warrant Agent will not be liable for any delays or failures in performance resulting from acts beyond its reasonable control including, without limitation, acts of God, epidemic, pandemic, terrorist acts, shortage of supply, breakdowns or malfunctions, interruptions or malfunction of computer facilities, or loss of data due to power failures or mechanical difficulties with information storage or retrieval systems, labor difficulties, war, or civil unrest.

9.13. Entire Agreement. 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 hereof. Notwithstanding anything to the contrary contained in this Agreement, in the event of inconsistency between any provision in this Agreement and any provision in a Warrant Certificate, as it may from time to time be amended, this Agreement shall prevail. The Company shall not amend any provisions of the Warrant Certificate without the prior consent of the Warrant Agent, not to be unreasonably withheld or delayed.”

1.27 Change in Warrant Exercise Price. The second, third and fourth paragraphs of Exhibit A to the Warrant Agreement are hereby deleted in their entirety and replaced with the following:

"Each Public Warrant is exercisable for 0.1180825 shares of Ready Capital Common Stock. The Exercise Price per share of Ready Capital Common Stock for any Public Warrant is equal to $24.34 per share; *provided*, *however*, that only a multiple of four Public Warrants may be exercised at a given time.

Each Private Placement Warrant is exercisable for 0.47233 shares of Ready Capital Common Stock. The Exercise Price per share of Ready Capital Common Stock for any Private Placement Warrant is equal to $24.34 per share.

No fractional shares will be issued upon exercise of any Warrant. If, upon the exercise of Warrants, a holder would be entitled to receive a fractional interest in a share of Ready Capital Common Stock, the Company will, upon exercise, round down to the nearest whole number. The number of shares of Ready Capital Common Stock issuable upon exercise of the Warrants is subject to adjustment upon the occurrence of certain events set forth in the Warrant Agreement."

2. Miscellaneous Provisions.

2.1 Successors.

All the covenants and provisions of this Third Amendment by or for the benefit of the parties shall bind and inure to the benefit of their respective successors and assigns.

2.2 Applicable Law.

The validity, interpretation, and performance of this Third Amendment and of the Warrants shall be governed in all respects by the laws of the State of New York, without giving effect to conflicts of law principles that would result in the application of the substantive laws of another jurisdiction. Ready Capital hereby agrees that any action, proceeding or claim against it arising out of or relating in any way to this Third Amendment shall be brought and enforced in the courts of the State of New York or the United States District Court for the Southern District of New York, and irrevocably submits to such jurisdiction, which jurisdiction shall be exclusive. Ready Capital hereby waives any objection to such exclusive jurisdiction and that such courts represent an inconvenient forum.

2.3 Counterparts.

This Third Amendment may be executed in any number of original or facsimile counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. A signature to this Agreement transmitted electronically shall have the same authority, effect, and enforceability as an original signature.

2.4 Effect of Headings.

The section headings herein are for convenience only and are not part of this Third Amendment and shall not affect the interpretation thereof.

2.5 Severability.

This Third Amendment shall be deemed severable, and the invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of this Third Amendment or of any other term or provision hereof. Furthermore, in lieu of any such invalid or unenforceable term or provision, the parties hereto intend that there shall be added as a part of this Third Amendment a provision as similar in terms to such invalid or unenforceable provision as may be possible and be valid and enforceable.

2.6 Entire Agreement.

The Warrant Agreement, as amended, constitutes the entire understanding of the parties and supersedes all prior agreements, understandings, arrangements, promises and commitments, whether written or oral, express or implied, relating to the subject matter hereof, and all such prior agreements, understandings, arrangements, promises and commitments are hereby canceled and terminated.

[Signature page follows.]

IN WITNESS WHEREOF, each of the undersigned has executed this Third Amendment as of the date first written above.

READY CAPITAL CORPORATION

By: /s/ Andrew Ahlborn
Name: Andrew Ahlborn
Title: Chief Financial Officer

RCC MERGER SUB, LLC
By: Ready Capital Corporation, its sole Member

By: /s/ Andrew Ahlborn
Name: Andrew Ahlborn
Title: Chief Financial Officer

COMPUTERSHARE INC.
COMPUTERSHARE TRUST COMPANY, N.A., as Warrant Agent

By: /s/ Collin Ekeogu
Name: Collin Ekeogu
Title: Manager, Corporate Actions

Exhibit 10.1

ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT (this "***Agreement***") is made as of May 31, 2023, by and among Broadmark Realty Capital Inc., a Maryland corporation (the "***Initial Company***") and RCC Merger Sub, LLC, a Delaware limited liability company (the "***Successor Company***"). Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Note Purchase Agreement (as defined herein).

W I T N E S S E T H:

WHEREAS, the Initial Company and the Purchasers (as such term is defined in the Note Purchase Agreement (as defined herein)) are parties to that certain Note Purchase Agreement, dated as of November 12, 2021 (the "***Note Purchase Agreement***") pursuant to which the Initial Company issued its 5.00% Senior Notes due 2026 in an initial aggregate principal amount of $100,000,000 (the "***Notes***");

WHEREAS, pursuant to, and subject to the terms and conditions set forth in, that certain Agreement and Plan of Merger, dated as of February 26, 2023, by and among Ready Capital Corporation, a Maryland corporation, the Successor Company and the Initial Company (as amended, restated, supplemented or otherwise modified from time to time, the "***Merger Agreement***"), on the date hereof, the Initial Company intends to merge with and into the Successor Company, with the Successor Company as the surviving entity;

WHEREAS, Section 10.2 of the Note Purchase Agreement provides that the Company will not, in any transaction or series of related transactions, consolidate with or merge into any Person unless such successor Person formed by such consolidation or into which the Company is merged expressly assumes the due and punctual payment of the principal of, any premium and interest on, all outstanding Notes and the due and punctual performance and observance of every obligation in the Note Purchase Agreement and the outstanding Notes to be observed or performed by the Company; and

WHEREAS, pursuant to the terms of this Agreement, the Initial Company shall assign to the Successor Company, and the Successor Company shall assume, all rights and obligations of the Initial Company as "Company" under the Note Purchase Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, each of the undersigned agrees as follows:

1. Assignment and Assumption.

(a) The Initial Company hereby irrevocably assigns, transfers and conveys to the Successor Company all of its obligations, indebtedness, covenants and liabilities under the Note Purchase Agreement and the Notes, including, without limitation, the obligation to pay all principal on the Notes, interest thereon and all other obligations on the terms set forth in the Note Purchase Agreement and the Notes, all indemnities set forth in the Note Purchase Agreement and all other obligations of the Initial Company set forth in the Note Purchase Agreement.

(b) The Successor Company hereby expressly, unconditionally and irrevocably assumes from the Initial Company all of its obligations, indebtedness, covenants, and liabilities under the Note Purchase Agreement and the Notes, including, without limitation, the obligation to pay all principal on the Notes, interest thereon and all other obligations on the terms set forth in the Note Purchase Agreement and the Notes, all indemnities set forth in the Note Purchase Agreement, and all other obligations of the Initial Company set forth in the Note Purchase Agreement.

(c) For all purposes under the Note Purchase Agreement and the Notes, the Successor Company hereby becomes the “Company” under the Note Purchase Agreement and the Notes and shall hereby succeed to, and be substituted for, and may exercise every right and power of the “Company” with the same effect as if the Successor Company had been named as the “Company” in the Note Purchase Agreement and the Notes.

2. Miscellaneous. Without limitation of any of the foregoing, this Agreement shall be subject to all of terms and conditions contained in Sections 22.6 and 22.7 of the Note Purchase Agreement, *mutatis mutandis*.

IN WITNESS WHEREOF, this Agreement has been duly executed by each of the undersigned as of the day and year first set forth above.

INITIAL COMPANY:

BROADMARK REALTY CAPITAL INC.

By: /s/ Jeffrey B. Pyatt
Name: Jeffrey B. Pyatt
Title: Interim Chief Executive Officer

SUCCESSOR COMPANY:

RCC MERGER SUB, LLC

By: Ready Capital Corporation, its sole Member

By: /s/ Andrew Ahlborn
Name: Andrew Ahlborn
Title: Chief Financial Officer

EXHIBIT 31.1

CERTIFICATIONS

I, Thomas E. Capasse, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ready Capital Corporation (the “registrant”) for the period ended June 30, 2023;

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

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

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

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

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

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

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

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

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

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

Date: August 8, 2023

By: /s/ Thomas E. Capasse
Name: Thomas E. Capasse
Title: Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Andrew Ahlborn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ready Capital Corporation (the “registrant”) for the period ended June 30, 2023;

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

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

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

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

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

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

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

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

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

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

Date: August 8, 2023

By: /s/ Andrew Ahlborn
Name: Andrew Ahlborn
Title: Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350**

In connection with the quarterly report on Form 10-Q of Ready Capital Corporation (the “Company”) for the period ended June 30, 2023 to be filed with the Securities and Exchange Commission on or about the date hereof (the “report”), I, Thomas E. Capasse, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

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

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

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

Date: August 8, 2023

By: /s/ Thomas E. Capasse
Name: Thomas E. Capasse
Title: Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350

In connection with the quarterly report on Form 10-Q of Ready Capital Corporation (the “Company”) for the period ended June 30, 2023 to be filed with the Securities and Exchange Commission on or about the date hereof (the “report”), I, Andrew Ahlborn, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

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

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

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

Date: August 8, 2023

By: /s/ Andrew Ahlborn
Name: Andrew Ahlborn
Title: Chief Financial Officer