

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 September 30, 2023  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-34569

**Ellington Financial Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware	26-0489289
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
53 Forest Avenue	
Old Greenwich, Connecticut, 06870	
(Address of Principal Executive Offices) (Zip Code)	
(203) 698-1200	
(Registrant's Telephone Number, Including Area Code)	

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value per share	EFC	The New York Stock Exchange
6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock	EFC PR A	The New York Stock Exchange
6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock	EFC PR B	The New York Stock Exchange
8.625% Series C Fixed-Rate Reset Cumulative Redeemable Preferred Stock	EFC PR C	The 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	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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

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

Number of shares of the Registrant's common stock outstanding as of November 9, 2023: 68,234,160

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**PART I—FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements (Unaudited)**

**ELLINGTON FINANCIAL INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<i>(In thousands, except share amounts)</i>		<i>Expressed in U.S. Dollars</i>
<b>Assets</b>		
Cash and cash equivalents <sup>(1)</sup>	\$ 174,664	\$ 217,053
Restricted cash <sup>(1)</sup>	1,604	4,816
Securities, at fair value <sup>(1)(2)</sup>	1,502,049	1,459,465
Loans, at fair value <sup>(1)(2)</sup>	11,920,872	11,626,008
Loan commitments, at fair value	3,752	3,060
Mortgage servicing rights, at fair value	29,653	8,108
Investments in unconsolidated entities, at fair value <sup>(1)</sup>	113,474	127,046
Real estate owned <sup>(1)(2)</sup>	23,570	28,403
Financial derivatives—assets, at fair value	198,023	132,518
Reverse repurchase agreements	175,197	226,444
Due from brokers	38,870	36,761
Investment related receivables <sup>(1)</sup>	167,447	139,413
Other assets <sup>(1)</sup>	95,866	76,791
<b>Total Assets</b>	<hr/> <hr/> \$ 14,445,041	<hr/> <hr/> \$ 14,085,886
<b>Liabilities</b>		
Securities sold short, at fair value	\$ 163,832	\$ 209,203
Repurchase agreements <sup>(1)</sup>	2,573,043	2,609,685
Financial derivatives—liabilities, at fair value	38,520	54,198
Due to brokers	80,180	34,507
Investment related payables	36,641	49,323
Other secured borrowings <sup>(1)</sup>	301,131	276,058
Other secured borrowings, at fair value <sup>(1)</sup>	1,404,567	1,539,881
HMBS-related obligations, at fair value	8,181,922	7,787,155
Senior notes, at fair value	189,735	191,835
Base management fee payable to affiliate	4,890	4,641
Incentive fee payable to affiliate	—	—
Dividends payable	14,343	12,243
Interest payable <sup>(1)</sup>	20,078	22,452
Accrued expenses and other liabilities <sup>(1)</sup>	98,742	73,819
<b>Total Liabilities</b>	<hr/> <hr/> 13,107,624	<hr/> <hr/> 12,865,000
Commitments and contingencies (Note 23)		
<b>Equity</b>		
Preferred stock, par value \$0.001 per share, 100,000,000 shares authorized; 13,420,421 and 9,420,421 shares issued and outstanding, and \$335,511 and \$235,511 aggregate liquidation preference, respectively	323,920	227,432
Common stock, par value \$0.001 per share, 200,000,000 and 100,000,000 shares authorized, respectively; 68,234,160 and 63,812,215 shares issued and outstanding, respectively	68	64
Additional paid-in-capital	1,323,124	1,259,352
Retained earnings (accumulated deficit)	(333,622)	(290,881)
<b>Total Stockholders' Equity</b>	<hr/> <hr/> 1,313,490	<hr/> <hr/> 1,195,967
Non-controlling interests <sup>(1)</sup>	23,927	24,919
<b>Total Equity</b>	<hr/> <hr/> 1,337,417	<hr/> <hr/> 1,220,886
<b>Total Liabilities and Equity</b>	<hr/> <hr/> <hr/> \$ 14,445,041	<hr/> <hr/> <hr/> \$ 14,085,886

(1) Ellington Financial Inc.'s Condensed Consolidated Balance Sheets include assets and liabilities of variable interest entities it has consolidated. See Note 11 for additional details on Ellington Financial Inc.'s consolidated variable interest entities.

(2) Includes assets pledged as collateral to counterparties. See Note 13 for additional details on the Company's borrowings and related collateral.

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2023	September 30, 2022 <sup>(1)</sup>	September 30, 2023	September 30, 2022 <sup>(1)</sup>
(in thousands, except per share amounts)				
<b>Net Interest Income</b>				
Interest income	\$ 96,216	\$ 78,592	\$ 271,482	\$ 192,388
Interest expense	(68,702)	(42,080)	(191,752)	(82,121)
Total net interest income	<u>27,514</u>	<u>36,512</u>	<u>79,730</u>	<u>110,267</u>
<b>Other Income (Loss)</b>				
Realized gains (losses) on securities and loans, net	(17,362)	(33,247)	(71,518)	(51,272)
Realized gains (losses) on financial derivatives, net	26,283	18,995	30,617	89,108
Realized gains (losses) on real estate owned, net	(155)	(18)	(1,456)	474
Unrealized gains (losses) on securities and loans, net	(63,850)	(150,750)	24,024	(477,253)
Unrealized gains (losses) on financial derivatives, net	55,794	50,259	66,897	98,082
Unrealized gains (losses) on real estate owned, net	(1,712)	(121)	(533)	(373)
Unrealized gains (losses) on other secured borrowings, at fair value, net	18,660	79,430	1,133	202,329
Unrealized gains (losses) on Senior notes, at fair value	(4,410)	9,135	2,100	16,485
Net change from reverse mortgage loans, at fair value	99,929	—	295,170	—
Net change related to HMBS obligations, at fair value	(115,729)	—	(271,840)	—
Other, net	<u>28,772</u>	<u>(31)</u>	<u>37,965</u>	<u>1,022</u>
Total other income (loss)	<u>26,220</u>	<u>(26,348)</u>	<u>112,559</u>	<u>(121,398)</u>
<b>Expenses</b>				
Base management fee to affiliate (Net of fee rebates of \$98, \$444, \$381, and \$1,705, respectively) <sup>(2)</sup>	4,890	3,950	14,759	12,206
Incentive fee to affiliate	—	—	—	—
Investment related expenses:				
Servicing expense	5,261	1,097	15,036	3,580
Debt issuance costs related to Other secured borrowings, at fair value	—	1,941	—	6,291
Debt issuance costs related to Senior notes, at fair value	—	—	—	3,615
Other	4,342	2,930	12,633	6,986
Professional fees	3,847	1,177	13,753	3,534
Compensation and benefits	14,675	1,877	45,261	6,347
Other expenses	<u>6,437</u>	<u>1,491</u>	<u>18,544</u>	<u>4,573</u>
Total expenses	<u>39,452</u>	<u>14,463</u>	<u>119,986</u>	<u>47,132</u>
<b>Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities</b>	<u>14,282</u>	<u>(4,299)</u>	<u>72,303</u>	<u>(58,263)</u>
Income tax expense (benefit)	224	(81)	328	(14,867)
Earnings (losses) from investments in unconsolidated entities	(978)	(25,513)	(3,403)	(54,284)
<b>Net Income (Loss)</b>	<u>13,080</u>	<u>(29,731)</u>	<u>68,572</u>	<u>(97,680)</u>
Net income (loss) attributable to non-controlling interests	509	(264)	3,090	(1,075)
Dividends on preferred stock	5,980	3,823	17,077	11,468
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<u>\$ 6,591</u>	<u>\$ (33,290)</u>	<u>\$ 48,405</u>	<u>\$ (108,073)</u>
<b>Net Income (Loss) per Share of Common Stock:</b>				
Basic and Diluted	\$ 0.10	\$ (0.55)	\$ 0.72	\$ (1.82)

(1) Conformed to current period presentation.

(2) See Note 15 for further details on management fee rebates.

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(UNAUDITED)**

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings/(Accumulated Deficit)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
		Shares	Par Value					
<i>(In thousands, except share amounts)</i>								
<b>BALANCE, December 31, 2022</b>		\$ 227,432	63,812,215	\$ 64	\$ 1,259,352	\$ (290,881)	\$ 1,195,967	\$ 24,919
Net income (loss)						44,033	44,033	720
Net proceeds from the issuance of common stock <sup>(1)</sup>			4,433,861	4	60,461		60,465	60,465
Net proceeds from the issuance of preferred stock <sup>(1)</sup>		96,488					96,488	96,488
Contributions from non-controlling interests								757
Common dividends <sup>(2)</sup>					(30,297)	(30,297)	(367)	(30,664)
Preferred dividends <sup>(3)</sup>					(5,117)	(5,117)		(5,117)
Distributions to non-controlling interests							(1,065)	(1,065)
Adjustment to non-controlling interests				37		37	(37)	—
Repurchase of shares of common stock			(1,061,000)	(1)	(12,071)		(12,072)	(12,072)
Share-based long term incentive plan unit awards				328		328	4	332
<b>BALANCE, March 31, 2023</b>		323,920	67,185,076	67	1,308,107	(282,262)	1,349,832	24,931
Net income (loss)						8,878	8,878	1,861
Contributions from non-controlling interests							842	842
Common dividends <sup>(2)</sup>					(30,223)	(30,223)	(367)	(30,590)
Preferred dividends <sup>(3)</sup>					(5,980)	(5,980)		(5,980)
Distributions to non-controlling interests							(5,172)	(5,172)
Repurchase of shares of common stock			(23,336)	—	(280)		(280)	—
Share-based long term incentive plan unit awards			—	—	331		331	4
<b>BALANCE, June 30, 2023</b>		323,920	67,161,740	67	1,308,158	(309,587)	1,322,558	22,099
Net income (loss)						12,571	12,571	509
Net proceeds from the issuance of common stock <sup>(1)</sup>			1,066,221	1	14,542		14,543	14,543
Contributions from non-controlling interests							5,339	5,339
Common dividends <sup>(2)</sup>					(30,626)	(30,626)	(366)	(30,992)
Preferred dividends <sup>(3)</sup>					(5,980)	(5,980)	—	(5,980)
Distributions to non-controlling interests							(3,552)	(3,552)
Conversion of non-controlling interest units to shares of common stock			6,199	—	90		90	(90)
Adjustment to non-controlling interests					16		16	(16)
Share-based long term incentive plan unit awards				318		318	4	322
<b>BALANCE, September 30, 2023</b>		\$ 323,920	68,234,160	\$ 68	\$ 1,323,124	\$ (333,622)	\$ 1,313,490	\$ 23,927

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**  
**(UNAUDITED)**

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings/(Accumulated Deficit)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
		Shares	Par Value					
<b>BALANCE, December 31, 2021</b>	\$ 226,939	57,458,169	\$ 58	\$ 1,161,603	\$ (97,279)	\$ 1,291,321	\$ 32,235	\$ 1,323,556
Net income (loss)					(6,078)	(6,078)	(420)	(6,498)
Net proceeds from the issuance of common stock <sup>(1)</sup>		2,185,000	2	38,452		38,454		38,454
Net proceeds from the issuance of preferred stock <sup>(1)</sup>	493					493		493
Shares of common stock issued in connection with incentive fee payment		19,094	—	325		325		325
Contributions from non-controlling interests							5,846	5,846
Common dividends <sup>(2)</sup>					(26,189)	(26,189)	(332)	(26,521)
Preferred dividends <sup>(3)</sup>					(3,824)	(3,824)		(3,824)
Distributions to non-controlling interests							(9,181)	(9,181)
Adjustment to non-controlling interests				(706)		(706)	706	—
Share-based long term incentive plan unit awards		284			284	4		288
<b>BALANCE, March 31, 2022</b>	<b>227,432</b>	<b>59,662,263</b>	<b>60</b>	<b>1,199,958</b>	<b>(133,370)</b>	<b>1,294,080</b>	<b>28,858</b>	<b>1,322,938</b>
Net income (loss)					(61,060)	(61,060)	(391)	(61,451)
Net proceeds from the issuance of common stock <sup>(1)</sup>		383,700	—	6,767		6,767		6,767
Contributions from non-controlling interests							4,037	4,037
Common dividends <sup>(2)</sup>					(27,008)	(27,008)	(342)	(27,350)
Preferred dividends <sup>(3)</sup>					(3,821)	(3,821)		(3,821)
Distributions to non-controlling interests							(5,863)	(5,863)
Adjustment to non-controlling interests				(3)		(3)	3	—
Repurchase of shares of common stock		(88,184)	—	(1,164)		(1,164)		(1,164)
Share-based long term incentive plan unit awards			358			358	4	362
<b>BALANCE, June 30, 2022</b>	<b>227,432</b>	<b>59,957,779</b>	<b>60</b>	<b>1,205,916</b>	<b>(225,259)</b>	<b>1,208,149</b>	<b>26,306</b>	<b>1,234,455</b>
Net income (loss)					(29,467)	(29,467)	(264)	(29,731)
Net proceeds from the issuance of common stock <sup>(1)</sup>		516,942	1	8,025		8,026		8,026
Contributions from non-controlling interests							467	467
Common dividends <sup>(2)</sup>					(27,131)	(27,131)	(346)	(27,477)
Preferred dividends <sup>(3)</sup>					(3,823)	(3,823)		(3,823)
Distributions to non-controlling interests							(1,162)	(1,162)
Conversion of non-controlling interest units to shares of common stock		4,066	—	66		66	(66)	—
Adjustment to non-controlling interests				(383)		(383)	383	—
Repurchase of shares of common stock		(40,000)	—	(495)		(495)		(495)
Share-based long term incentive plan unit awards			364			364	5	369
<b>BALANCE, September 30, 2022</b>	<b>\$ 227,432</b>	<b>60,438,787</b>	<b>\$ 61</b>	<b>\$ 1,213,493</b>	<b>\$ (285,680)</b>	<b>\$ 1,155,306</b>	<b>\$ 25,323</b>	<b>\$ 1,180,629</b>

See Notes to Condensed Consolidated Financial Statements

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- (1) Net of discounts and commissions and offering costs.
- (2) For each of the three-month periods ended September 30, 2023 and 2022, dividends totaling \$0.45 per share of common stock and convertible unit outstanding, were declared. For each of the nine-month periods ended September 30, 2023 and 2022, dividends totaling \$1.35, per share of common stock and convertible unit outstanding were declared.
- (3) For the three-month periods ended September 30, 2023 and 2022, dividends totaling \$1.3516 and \$0.8125, respectively, per share of preferred stock were declared. For the nine-month periods ended September 30, 2023 and 2022, dividends totaling \$4.0188 and \$2.4375, respectively, per share of preferred stock were declared.

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Nine-Month Period Ended	
	September 30, 2023	September 30, 2022
(In thousands)		
Expressed in U.S. Dollars		
<b>Cash Flows from Operating Activities:</b>		
Net cash provided by (used in) operating activities	\$ (162,904)	\$ 70,204
<b>Cash Flows from Investing Activities:</b>		
Purchase of securities	(1,742,351)	(1,034,217)
Purchase of loans	(2,280,632)	(2,758,684)
Capital improvements of real estate owned	(37)	(137)
Proceeds from disposition of securities	1,525,663	1,069,959
Proceeds from disposition of loans	29,491	27,502
Contributions to investments in unconsolidated entities	(47,834)	(15,254)
Distributions from investments in unconsolidated entities	134,060	202,818
Proceeds from disposition of real estate owned	24,063	5,198
Proceeds from FHA insurance claims on HECM loans	82,115	—
Proceeds from principal payments of securities	127,309	259,252
Proceeds from principal payments of loans	1,946,981	484,637
Proceeds from securities sold short	288,283	776,902
Repurchase of securities sold short	(332,556)	(675,663)
Payments on financial derivatives	(201,306)	(86,868)
Proceeds from financial derivatives	216,473	165,384
Payments made on reverse repurchase agreements	(27,907,320)	(26,676,129)
Proceeds from reverse repurchase agreements	27,958,839	26,592,168
Due from brokers, net	9,413	17,949
Due to brokers, net	47,809	59,325
Net cash provided by (used in) investing activities	(121,537)	(1,585,858)
<b>Cash Flows from Financing Activities:</b>		
Net proceeds from the issuance of common stock <sup>(1)</sup>	75,194	53,342
Net proceeds from the issuance of preferred stock <sup>(1)</sup>	96,850	511
Offering costs paid	(635)	(757)
Repurchase of common stock	(12,352)	(1,659)
Dividends paid	(107,223)	(91,459)
Contributions from non-controlling interests	6,690	11,853
Distributions to non-controlling interests	(9,789)	(16,206)
Proceeds from issuance of Other secured borrowings	1,323,595	15,063
Principal payments on Other secured borrowings	(1,368,132)	(27,066)
Borrowings under repurchase agreements	28,939,166	9,074,510
Repayments of repurchase agreements	(28,834,355)	(8,392,715)
Proceeds from issuance of Senior notes, at fair value	—	206,385
Repayment of Senior notes	—	(86,000)
Proceeds from issuance of Other secured borrowings, at fair value	—	857,578
Proceeds from issuance of HMBS	1,096,682	—
Principal payments on HMBS related obligations, at fair value	(954,353)	—
Due from brokers, net	(11,114)	(5,393)
Due to brokers, net	(1,384)	61
Net cash provided by (used in) financing activities	238,840	1,598,048
<b>Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash</b>	(45,601)	82,394
<b>Cash, Cash Equivalents, and Restricted Cash, Beginning of Period</b>	221,869	92,836
<b>Cash, Cash Equivalents, and Restricted Cash, End of Period</b>	\$ 176,268	\$ 175,230

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONCLUDED)**  
**(UNAUDITED)**

	<b>Nine-Month Period Ended</b>	
	<b>September 30, 2023</b>	<b>September 30, 2022</b>
<i>(In thousands)</i>		
<i>Expressed in U.S. Dollars</i>		
<b>Reconciliation of cash, cash equivalents, and restricted cash</b>		
Cash and cash equivalents, beginning of period	\$ 217,053	\$ 92,661
Restricted cash, beginning of period	4,816	175
Cash and cash equivalents and restricted cash, beginning of period	221,869	92,836
Cash and cash equivalents, end of period	174,664	175,230
Restricted cash, end of period	1,604	—
Cash and cash equivalents and restricted cash, end of period	176,268	175,230
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 194,126	\$ 75,005
Income tax paid (refunded)	(458)	144
Dividends payable	14,343	11,732
Shares issued in connection with incentive fee payment (non-cash)	—	325
Share-based long term incentive plan unit awards (non-cash)	989	1,019
Transfers from mortgage loans to real estate owned (non-cash)	20,181	1,018
Transfers from mortgage loans to other sales and claims receivable (non-cash)	81,218	—
Transfers from mortgage loans to investments in unconsolidated entities (non-cash)	67,435	209,965
Transfers from corporate loans to investments in unconsolidated entities (non-cash)	665	1,000
Contributions to investments in unconsolidated entities (non-cash)	(7,957)	—
Purchase of investments (non-cash)	(25,580)	—
Purchase of loans, net (non-cash)	(69,610)	—
Proceeds from the disposition of loans (non-cash)	174,181	—
Proceeds from principal payments of investments (non-cash)	135,153	267,368
Principal payments on Other secured borrowings, at fair value (non-cash)	(135,153)	(259,899)
Proceeds received from Other secured borrowings, at fair value (non-cash)	—	255,914
Proceeds from issuance of Other secured borrowings, net (non-cash)	69,610	—
Principal payments on Other secured borrowings (non-cash)	—	(43,719)
Repayments of repurchase agreements (non-cash)	(141,453)	(256,539)

(1) Net of discounts and commissions.

See Notes to Condensed Consolidated Financial Statements

**ELLINGTON FINANCIAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2023**  
**(UNAUDITED)**

**1. Organization and Investment Objective**

Ellington Financial Inc. commenced operations on August 17, 2007 and is a Delaware corporation. Ellington Financial Operating Partnership LLC (the "Operating Partnership"), a 99.1% owned consolidated subsidiary of Ellington Financial Inc., was formed as a Delaware limited liability company on December 14, 2012 and commenced operations on January 1, 2013. All of Ellington Financial Inc.'s operations and business activities are conducted through the Operating Partnership. Ellington Financial Inc., the Operating Partnership, and their consolidated subsidiaries are hereafter collectively referred to as the "Company." All intercompany accounts are eliminated in consolidation.

The Company conducts its operations to qualify and be taxed as a real estate investment trust, or "REIT," under the Internal Revenue Code of 1986, as amended (the "Code"), and has elected to be taxed as a corporation effective January 1, 2019. In anticipation of the Company's intended election to be taxed as a REIT under the Code beginning with its 2019 taxable year (the "REIT Election"), the Company implemented an internal restructuring as of December 31, 2018. As part of this restructuring, the Company moved certain of its non-REIT-qualifying investments and financial derivatives to taxable REIT subsidiaries or, "TRSS," and disposed of certain of its investments in non-REIT-qualifying investments and financial derivatives.

Ellington Financial Management LLC (the "Manager") is an SEC-registered investment adviser that serves as the Manager to the Company pursuant to the terms of its Seventh Amended and Restated Management Agreement (the "Management Agreement"), which was approved by Ellington Financial Inc.'s Board of Directors (the "Board of Directors") effective March 13, 2018. The Manager is an affiliate of Ellington Management Group, L.L.C. ("Ellington"), an investment management firm that is registered as both an investment adviser and a commodity pool operator. In accordance with the terms of the Management Agreement, the Manager implements the investment strategy and manages the business and operations on a day-to-day basis for the Company and performs certain services for the Company, subject to oversight by the Board of Directors.

On October 3, 2022, the Company completed the acquisition of a controlling interest in Longbridge Financial, LLC ("Longbridge"), a reverse mortgage loan originator and servicer (the "Longbridge Transaction"). As a result of the Longbridge Transaction, the Company consolidates Longbridge's financial results.

As a result of the Longbridge Transaction, the Company has two reportable segments, the Investment Portfolio Segment and the Longbridge Segment. The Investment Portfolio Segment is focused on investing in a diverse array of financial assets, including residential and commercial mortgage loans, residential mortgage-backed securities, or "RMBS," commercial mortgage-backed securities, or "CMBS," consumer loans and asset-backed securities, or "ABS," including ABS backed by consumer loans, collateralized loan obligations, or "CLOs," non-mortgage- and mortgage-related derivatives, debt and equity investments in loan origination companies, and other strategic investments. The Longbridge Segment is focused on the origination and servicing of reverse mortgage loans. Longbridge acquires reverse mortgage loans both through its origination activities and through secondary market purchases. Historically, the majority of loans acquired by Longbridge have been home equity conversion mortgage loans, or "HECMs," which are insured by the Federal Housing Administration, or "FHA." Such loans are generally eligible for securitization into HECM-backed MBS, or "HMBS," which are guaranteed by the Government National Mortgage Association, or "GNMA." Longbridge is an approved issuer of HMBS, and it transfers HECM loans into HMBS, which it then sells in the secondary market while retaining the servicing rights on the underlying HECM loans. Longbridge also originates and purchases non-FHA-insured reverse mortgage loans originated under guidelines established by private lenders, which the Company refers to as "Proprietary reverse mortgage loans." Proprietary reverse mortgage loans typically carry loan balances or credit lines that exceed FHA limits or have other characteristics that make them ineligible for FHA insurance.

**Pending Acquisition of Arlington Asset Investment Corp.**

On May 29, 2023, the Company; EF Merger Sub Inc., a wholly-owned subsidiary of the Company; Arlington Asset Investment Corp., a Virginia corporation ("Arlington"); and, solely for the limited purposes set forth in the Arlington Merger Agreement (as defined below), the Manager, entered into an agreement and plan of merger (the "Arlington Merger Agreement") under which Arlington will be merged with and into EF Merger Sub Inc.. EF Merger Sub Inc. will survive as a wholly-owned subsidiary of the Company (the "Arlington Merger").

Under the terms of the Arlington Merger Agreement, at the effective time of the Arlington Merger, each outstanding share of Arlington's Class A common stock (other than shares held by the Company, EF Merger Sub Inc. or any wholly-owned subsidiary of the Company, EF Merger Sub Inc. or Arlington) will be converted into the right to receive: (i) from the Company,

shares of the Company's common stock based on an exchange ratio of 0.3619 and (ii) from the Manager, \$0.09 in cash (approximately \$3.0 million in aggregate).

In addition, at the effective time of the Arlington Merger, each share of Arlington's 7.00% Series B Cumulative Perpetual Redeemable Preferred Stock, \$0.01 par value per share, will be automatically converted into the right to receive one newly issued share of 7.00% Series D Cumulative Perpetual Redeemable Preferred Stock, \$0.001 par value per share, of the Company; and each share of Arlington's 8.250% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.01 par value per share, will be automatically converted into the right to receive one newly issued share of 8.250% Series E Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.001 par value per share, of the Company.

Certain equity-based awards previously issued under Arlington's equity-incentive plans, including restricted shares of common stock, performance restricted stock units, stock price performance restricted stock units and deferred stock units, will, immediately prior to the consummation of the Arlington Merger, become fully vested (and, where applicable, vested as if all performance goals were achieved at maximum or actual performance levels) and be treated as shares of Arlington's Class A common stock for all purposes of the Arlington Merger Agreement.

At the consummation of the Arlington Merger, all assets, and all debts, obligations and liabilities of Arlington will become the assets, debts, obligations and liabilities of the Company (including Arlington's outstanding trust preferred securities, 6.75% Senior Notes due 2025 and 6.000% Senior Notes due 2026).

The closing of the Arlington Merger is subject to the approval of Arlington's shareholders and other customary closing conditions set forth in the Arlington Merger Agreement.

## **2. Significant Accounting Policies**

**(A) Basis of Presentation:** The Company's unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP," and Regulation S-X. The condensed consolidated financial statements include the accounts of the Company, the Operating Partnership, its subsidiaries, and variable interest entities, or "VIEs," for which the Company is deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated. The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material. In management's opinion, all material adjustments considered necessary for a fair statement of the Company's consolidated financial statements have been included and are only of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the entire fiscal year. The information included in the condensed consolidated financial statements and notes thereto should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

**(B) Valuation:** The Company applies ASC 820-10, *Fair Value Measurement* ("ASC 820") to its holdings of financial instruments. ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1—inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets. Currently, the types of financial instruments the Company generally includes in this category are listed equities and exchange-traded derivatives;
- Level 2—inputs to the valuation methodology other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly. Currently, the types of financial instruments that the Company generally includes in this category are RMBS, for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," U.S. Treasury securities and sovereign debt, certain non-Agency RMBS, CMBS, CLOs, corporate debt, and actively traded derivatives such as interest rate swaps, foreign currency forwards, and other over-the-counter derivatives; and
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. The types of financial instruments that the Company generally includes in this category are certain RMBS, CMBS, CLOs, ABS, credit default swaps, or "CDS," on individual ABS, and total return swaps on distressed corporate debt, in each case where there is less price transparency. Also included in this category are residential and commercial mortgage loans, consumer loans, reverse mortgage loans, private corporate debt and equity investments, loan commitments, mortgage servicing rights, or "MSRs," other secured borrowings, at fair value, HMBS-related obligations, at fair value, and Senior notes, at fair value.

For certain financial instruments, the various inputs that management uses to measure fair value may fall into different levels of the fair value hierarchy. For each such financial instrument, the determination of which category within the fair value hierarchy is appropriate is based on the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the various inputs that management uses to measure fair value, with the highest priority given to inputs that are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets (Level 1), and the lowest priority given to inputs that are unobservable and significant to the fair value measurement (Level 3). The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. The Company may use valuation techniques consistent with the market and income approaches to measure the fair value of its financial instruments. The market approach uses third-party valuations and information obtained from market transactions involving identical or similar financial instruments. The income approach uses projections of the future economic benefit of an instrument to determine its fair value, such as in the discounted cash flow methodology. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with investing in these financial instruments. The leveling of each financial instrument is reassessed at the end of each period. Transfers between levels of the fair value hierarchy are assumed to occur at the end of the reporting period.

#### *Summary Valuation Techniques*

For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of the Company's financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology. The following are summary descriptions, for various categories of financial instruments, of the valuation methodologies management uses in determining fair value of the Company's financial instruments in such categories. Management utilizes such methodologies to assign a fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument.

For mortgage-backed securities, or "MBS," forward settling to-be-announced mortgage-backed-securities, or "TBAs," CLOs, and corporate debt and equity, management seeks to obtain at least one third-party valuation, and often obtains multiple valuations when available. Management has been able to obtain third-party valuations on the vast majority of these instruments and expects to continue to solicit third-party valuations in the future. Management generally values each financial instrument at the average of third-party valuations received and not rejected as described below. Third-party valuations are not binding, management may adjust the valuations it receives (e.g., downward adjustments for odd lots), and management may challenge or reject a valuation when, based on its validation criteria, management determines that such valuation is unreasonable or erroneous. Furthermore, based on its validation criteria, management may determine that the average of the third-party valuations received for a given financial instrument does not result in what management believes to be the fair value of such instrument, and in such circumstances management may override this average with its own good faith valuation. The validation criteria may take into account output from management's own models, recent trading activity in the same or similar instruments, and valuations received from third parties. The use of proprietary models requires the use of a significant amount of judgment and the application of various assumptions including, but not limited to, assumptions concerning future prepayment rates and default rates. Given their relatively high level of price transparency, Agency RMBS pass-throughs are typically classified as Level 2. Non-Agency RMBS, CMBS, Agency interest only and inverse interest only RMBS, CLOs, and corporate bonds are generally classified as either Level 2 or Level 3 based on analysis of available market data and/or third-party valuations. The Company's investments in distressed corporate debt can be in the form of loans as well as total return swaps on loans. These investments, as well as related non-listed equity investments, are generally designated as Level 3 assets. Valuations for total return swaps are typically based on prices of the underlying loans received from third-party pricing services. Private equity investments are generally classified as Level 3. Furthermore, the methodology used by the third-party valuation providers is reviewed at least annually by management, so as to ascertain whether such providers are utilizing observable market data to determine the valuations that they provide.

For residential mortgage loans, reverse mortgage loans, commercial mortgage loans, and consumer loans, management determines fair value by taking into account both external pricing data, which includes third-party valuations, and internal pricing models. Management has obtained third-party valuations on the majority of these loans and expects to continue to solicit third-party valuations in the future. In determining fair value for non-performing mortgage loans, management evaluates third-party valuations, if applicable, as well as management's estimates of the value of the underlying real estate, using information including general economic data, broker price opinions, or "BPOs," recent sales, property appraisals, and bids. In determining fair value for performing mortgage loans and consumer loans, management evaluates third-party valuations, if applicable, as well as discounted cash flows of the loans based on market assumptions. Cash flow assumptions typically include projected default and prepayment rates and loss severities, and may include adjustments based on appraisals and BPOs, and in the case of HECM reverse mortgage loans, projected future tail draws. Many adjustable-rate reverse mortgage loans provide the borrower with a line of credit that can be drawn over time, and a "tail draw" is a principal addition that results when a borrower takes such a draw, which may be securitized. Mortgage and consumer loans are classified as Level 3.

The Company has elected the fair value option, or "FVO," for its HMBS-related obligations. It determines fair value by taking into account both external pricing data, which includes third-party valuations, and internal pricing models. The estimated fair value of HMBS-related obligations also includes the consideration that would be required by a market participant to transfer the HECM loan net of the related servicing, including exposure resulting from shortfalls in FHA insurance proceeds. HMBS-related obligations, at fair value are classified as Level 3.

The Company has elected the FVO for its MSRs. It determines fair value by taking into account both external pricing data, which includes third-party valuations, and internal pricing models. MSRs are classified as Level 3.

The Company has securitized certain mortgage loans that are not deemed "qualified mortgage," or "QM," loans under the rules of the Consumer Financial Protection Bureau, or "non-QM loans." The Company's securitized non-QM loans are held as part of a collateralized financing entity, or "CFE." A CFE is a VIE that holds financial assets, issues beneficial interests in those assets, and has no more than nominal equity, and for which the issued beneficial interests have contractual recourse only to the related assets of the CFE. ASC 810, *Consolidation* ("ASC 810") allows the Company to elect to measure both the financial assets and financial liabilities of the CFE using the more observable of the fair value of the financial assets and the fair value of the financial liabilities of the CFE. The Company has elected the FVO for initial and subsequent recognition of the debt issued by its consolidated securitization trusts and has determined that each consolidated securitization trust meets the definition of a CFE; see Note 12 "*Securitization Transactions—Residential Mortgage Loan Securitizations*" for further discussion on the Company's consolidated securitization trusts. The Company has determined the inputs to the fair value measurement of the financial liabilities of each of its CFEs to be more observable than those of the financial assets and, as a result, has used the fair value of the financial liabilities of each of the CFEs to measure the fair value of the financial assets of each of the CFEs. The fair value of the debt issued by each CFE is typically valued using both external pricing data, which includes third-party valuations, and internal pricing models. The securitized non-QM loans, which are assets of the consolidated CFEs, are included in Loans, at fair value, on the Company's Condensed Consolidated Balance Sheet. The debt issued by the consolidated CFEs is included in Other secured borrowings, at fair value, on the Company's Condensed Consolidated Balance Sheet. Unrealized gains (losses) from changes in fair value of Other secured borrowings, at fair value, are included in Unrealized gains (losses) on other secured borrowings, at fair value, net, on the Company's Condensed Consolidated Statement of Operations. The securitized non-QM loans and the debt issued by the Company's CFEs are both classified as Level 3.

The Company has elected the FVO for its loan commitments related to reverse mortgage loans, and uses valuation models incorporating market pricing for instruments with similar characteristics in determining fair value. The valuation model uses various inputs, such as an estimate of the fair value of the servicing rights expected to be recorded upon sale of a loan to a third party, estimated cost to originate the loan, and the expected pull-through rate. The Company's loan commitments are classified as Level 3.

For financial derivatives with greater price transparency, such as CDS on asset-backed indices, CDS on corporate indices, certain options on the foregoing, and total return swaps on publicly traded equities or indices, market-standard pricing sources are used to obtain valuations; these financial derivatives are generally classified as Level 2. Interest rate swaps, swaptions, and foreign currency forwards are typically valued based on internal models that use observable market data, including applicable interest rates and foreign currency rates in effect as of the measurement date; the model-generated valuations are then typically compared to counterparty valuations for reasonableness. These financial derivatives are also generally classified as Level 2. Financial derivatives with less price transparency, such as CDS on individual ABS, are generally valued based on internal models, and are classified as Level 3. In the case of CDS on individual ABS, the valuation process typically starts with an estimation of the value of the underlying ABS. In valuing its financial derivatives, the Company also considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each financial derivative agreement.

Investments in private operating entities, such as loan originators, are valued based on available metrics, such as relevant market multiples and comparable company valuations, company specific-financial data including actual and projected results, and independent third party valuation estimates. These investments are classified as Level 3.

The Company's repurchase and reverse repurchase agreements are carried at cost, which approximates fair value. Repurchase and reverse repurchase agreements are classified as Level 2, based on the adequacy of the collateral and their short term nature.

The Company's valuation process, including the application of validation criteria, is directed by the Manager's Valuation Committee (the "Valuation Committee"), and overseen by the Company's audit committee. The Valuation Committee includes senior level executives from various departments within the Manager, and each quarter, the Valuation Committee reviews and approves the valuations of the Company's financial instruments. The valuation process also includes a monthly review by the Company's third-party administrator. The goal of this review is to replicate various aspects of the Company's valuation process based on the Company's documented procedures.

Because of the inherent uncertainty of valuation, the estimated fair value of the Company's financial instruments may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to the Company's consolidated financial statements.

(C) *Accounting for Securities*: Purchases and sales of investments in securities are generally recorded on trade date, and realized and unrealized gains and losses are calculated based on identified cost. Investments in securities are recorded in accordance with ASC 320, *Investments—Debt and Equity Securities* ("ASC 320") or ASC 325-40, *Beneficial Interests in Securitized Financial Assets* ("ASC 325-40"). The Company generally classifies its securities as available-for-sale. The Company has chosen to elect the FVO pursuant to ASC 825, *Financial Instruments* ("ASC 825") for its investments in securities. Electing the FVO allows the Company to record changes in fair value in the Condensed Consolidated Statement of Operations, as a component of Unrealized gains (losses) on securities and loans, net, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all investment activities will be recorded in a similar manner.

Many of the Company's investments in securities, such as MBS and CLOs, are issued by entities that are deemed to be VIEs. For the majority of such investments, the Company has determined it is not the primary beneficiary of such VIEs and therefore has not consolidated such VIEs. The Company's maximum risk of loss in these unconsolidated VIEs is generally limited to the fair value of the Company's investment in the VIE.

The Company evaluates its investments in interest only securities to determine whether they meet the requirements for classification as financial derivatives under ASC 815, *Derivatives and Hedging* ("ASC 815"). For interest only securities, where the holder is entitled only to a portion of the interest payments made on the mortgages underlying certain MBS, and inverse interest only securities, which are interest only securities whose coupon has an inverse relationship to its benchmark rate, such as SOFR, the Company has determined that such investments do not meet the requirements for treatment as financial derivatives and are classified as securities.

The Company applies the principles of ASU 2016-13, *Financial Instruments—Credit Losses* ("ASU 2016-13") and evaluates the cost basis of its investments in securities on at least a quarterly basis, under ASC 326-30, *Financial Instruments—Credit Losses: Available-for-Sale Debt Securities* ("ASC 326-30"). When the fair value of a security is less than its amortized cost basis as of the balance sheet date, the security's cost basis is considered impaired. The Company must evaluate the decline in the fair value of the impaired security and determine whether such decline resulted from a credit loss or non-credit related factors. In its assessment of whether a credit loss exists, the Company compares the present value of estimated future cash flows of the impaired security with the amortized cost basis of such security. The estimated future cash flows reflect those that a "market participant" would use and typically include assumptions related to fluctuations in interest rates, prepayment speeds, default rates, collateral performance, and the timing and amount of projected credit losses, as well incorporating observations of current market developments and events. Cash flows are discounted at an interest rate equal to the current yield used to accrete interest income. If the present value of estimated future cash flows is less than the amortized cost basis of the security, an expected credit loss exists and is included in Unrealized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations. If it is determined as of the financial reporting date that all or a portion of a security's cost basis is not collectible, then the Company will recognize a realized loss to the extent of the adjustment to the security's cost basis. This adjustment to the amortized cost basis of the security is reflected in Net realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations.

(D) *Accounting for Loans*: The Company's loan portfolio primarily consists of residential mortgage, commercial mortgage, consumer, and reverse mortgage loans. The Company's loans are accounted for under ASC 310-10, *Receivables*, and are classified as held-for-investment when the Company has the intent and ability to hold such loans for the foreseeable future or to maturity/payoff. When the Company has the intent to sell loans, such loans will be classified as held-for-sale. Mortgage loans held-for-sale are accounted for under ASC 948-310, *Financial services—mortgage banking*. Transfers between held-for-investment and held-for-sale occur once the Company's intent to sell the loans changes. The Company may aggregate its loans into pools based on common risk characteristics at purchase. The Company has chosen to elect the FVO pursuant to ASC 825 for its loan portfolios. Loans are recorded at fair value on the Condensed Consolidated Balance Sheet and changes in fair value are recorded in earnings on the Condensed Consolidated Statement of Operations. Changes in fair value on residential mortgage, commercial mortgage, consumer, and corporate loans are included as a component of Unrealized gains (losses) on securities and loans, net. Changes in fair value on reverse mortgage loans held-for-investment is included as a component of Net change from reverse mortgage loans, at fair value, on the Condensed Consolidated Statement of Operations. The Company generates income from fees on certain loans, generally reverse mortgage and commercial mortgage loans, that it originates and holds for investment, including origination, servicing, and exit fees. Such fee income is recorded when earned and included in Other, net on the Condensed Consolidated Statement of Operations.

For residential and commercial mortgage loans, the Company generally accrues interest payments. Such loans are typically moved to non-accrual status if the loan becomes 90 days or more delinquent. Although reverse mortgage loans do not

require monthly principal and interest payments, the terms of such loans require the borrower to occupy the property and to stay current on payment of property taxes and homeowners insurance. In the event that the borrower no longer occupies the property due to death or other circumstances or becomes delinquent on their tax or insurance payments, the loan will be classified as inactive. The Company does not accrue interest payments on its consumer loans; interest payments are recorded upon receipt. Once consumer loans are more than 120 days past due, the Company will generally charge off such loans. The Company evaluates its charged-off loans and determines collectibility, if any, on such loans.

The Company evaluates the collectibility of both interest and principal on each of its loan investments and whether the cost basis of the loan is impaired. A loan's cost basis is impaired when, based on current information and market developments, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a loan's cost basis is impaired, the Company does not record an allowance for loan loss as it elected the FVO on all of its loan investments.

Consistent with the Company's application of the principles of ASU 2016-13, in its assessment of whether a credit loss exists, the Company compares the present value of the amount expected to be collected on the impaired loan with the amortized cost basis of such loan. If the present value of the amount expected to be collected on the impaired loan is less than the amortized cost basis of such loan, an expected credit loss exists and is included in Unrealized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations. If it is determined as of the financial reporting date that all or a portion of a loan's cost basis is not collectible, then the Company will recognize a realized loss to the extent of the adjustment to the loan's cost basis. This adjustment to the amortized cost basis of the loan is reflected in Realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations.

*(E) Interest Income:* The Company generally amortizes premiums and accretes discounts on its debt securities. Coupon interest income on fixed-income investments is generally accrued based on the outstanding principal balance or notional value and the current coupon rate.

For debt securities that are deemed to be of high credit quality at the time of purchase (generally Agency RMBS, exclusive of interest only securities), premiums and discounts are amortized/accreted into interest income over the life of such securities using the effective interest method. For such securities whose cash flows vary depending on prepayments, an effective yield retroactive to the time of purchase is periodically recomputed based on actual prepayments and changes in projected prepayment activity, and a catch-up adjustment, or "Catch-up Amortization Adjustment," is made to amortization to reflect the cumulative impact of the change in effective yield.

For debt securities (generally non-Agency RMBS, CMBS, ABS, CLOs, and interest only securities) that are deemed not to be of high credit quality at the time of purchase, interest income is recognized based on the effective interest method. For purposes of estimating future expected cash flows, management uses assumptions including, but not limited to, assumptions for future prepayment rates, default rates, and loss severities (each of which may in turn incorporate various macro-economic assumptions, such as future housing prices, GDP growth rates, and unemployment rates). These assumptions are re-evaluated not less than quarterly. Changes in projected cash flows may result in prospective changes in the yield/interest income recognized on such securities based on the updated expected future cash flows.

For each loan (including residential and commercial mortgage, and consumer loans) purchased with the expectation that both interest and principal will be paid in full, the Company generally amortizes or accretes any premium or discount over the life of the loan utilizing the effective interest method. However, based on current information and market developments, the Company reassesses the collectibility of interest and principal, and generally designates a loan as in non-accrual status either when any payments have become 90 or more days past due, or when, in the opinion of management, it is probable that the Company will be unable to collect either interest or principal in full. Once a loan is designated as in non-accrual status, as long as principal is still expected to be collectible in full, interest payments are recorded as interest income only when received (i.e., under the cash basis method); accruals of interest income are only resumed when the loan becomes contractually current and performance is demonstrated to be resumed. However, if principal is not expected to be collectible in full, the cost recovery method is used (i.e., no interest income is recognized, and all payments received—whether contractually interest or principal—are applied to cost).

Interest income on reverse mortgage loans held-for-investment is recognized based on the stated rate of the loan. Such interest income is included on the Condensed Consolidated Statement of Operations as a component of Net change from reverse mortgage loans, at fair value.

Certain of the Company's debt securities and loans, at the date of acquisition, have experienced or are expected to experience more-than-insignificant deterioration in credit quality since origination. Consistent with the Company's application of the principles of ASU 2016-13, if at the date of acquisition for a particular asset the Company projects a significant difference between contractual cash flows and expected cash flows, it establishes an initial estimate for credit losses as an

upward adjustment to the acquisition cost of the asset for the purpose of calculating interest income using the effective yield method.

In estimating future cash flows on the Company's debt securities, there are a number of assumptions that are subject to significant uncertainties and contingencies, including, in the case of MBS, assumptions relating to prepayment rates, default rates, loan loss severities, and loan repurchases. These estimates require the use of a significant amount of judgment.

(F) *Mortgage Servicing Rights*: MSRs represent contractual rights to perform specific administrative functions for the underlying loans including specified mortgage servicing activities, which include collecting loan payments, remitting principal and interest payments, managing escrow accounts for mortgage-related expenses such as taxes and insurance, and various other administrative tasks required to adequately service the mortgage loan portfolio. MSRs are created when the Company sells originated or purchased reverse mortgage loans but retains the servicing rights. The Company has elected the FVO for its MSRs in accordance with ASC 860-50, *Transfers and Servicing—Servicing assets and liabilities* ("ASC 860-50"). Under this methodology, the Company fair values its MSRs on a recurring basis with changes in fair value recorded through earnings on the Condensed Consolidated Statement of Operations in Other, net. The Company accrues a base servicing fee for each serviced loan, typically based on the remaining outstanding principal balance of the loan and a fixed annual percentage fee, which is included in Other, net on the Condensed Consolidated Statement of Operations. Costs of servicing and ancillary fees are recognized as incurred or earned, and are included in Servicing expense on the Condensed Consolidated Statement of Operations.

(G) *Loan Commitments*: The Company's loan commitments relate to certain reverse mortgage loans extended to borrowers. The Company has elected the FVO for its loan commitments which are included in Loan commitments, at fair value on the Condensed Consolidated Balance Sheet. Changes in the fair value of the Company's loan commitments are included in Other, net on the Condensed Consolidated Statement of Operations.

(H) *Investments in unconsolidated entities*: The Company has made and may in the future make non-controlling equity investments in various entities, such as loan originators. Such investments are generally in the form of preferred and/or common equity, or membership interests. In certain cases, the Company can exercise significant influence over the entity (e.g. by having representation on the entity's board of directors) but the requirements for consolidation under ASC 810 are not met; in such cases the Company is required to account for such equity investments under ASC 323-10, *Investments—Equity Method and Joint Ventures* ("ASC 323-10"). The Company has chosen to elect the FVO pursuant to ASC 825 for its investments in unconsolidated entities, which, in management's view, more appropriately reflects the results of operations for a particular reporting period, as all investment activities will be recorded in a similar manner. The period change in fair value of the Company's investments in unconsolidated entities is recorded on the Condensed Consolidated Statement of Operations in Earnings (losses) from investments in unconsolidated entities.

(I) *Real Estate Owned "REO"*: When the Company obtains possession of real property in connection with a foreclosure or similar action, the Company de-recognizes the associated mortgage loan according to ASU 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* ("ASU 2014-04"). Under the provisions of ASU 2014-04, the Company is deemed to have received physical possession of real estate property collateralizing a mortgage loan when it obtains legal title to the property upon completion of a foreclosure or when the borrower conveys all interest in the property to it through a deed in lieu of foreclosure or similar legal agreement. The Company's initial cost basis in REO is equal to the fair value of the real estate associated with the foreclosed mortgage loan, less expected costs to sell. REO valuations are reflected at the lower of cost or fair value. The fair value of such REO is typically based on management's estimates which generally use information including general economic data, BPOs, recent sales, property appraisals, and bids, and takes into account the expected costs to sell the property. REO recorded at fair value on a non-recurring basis are classified as Level 3.

(J) *Securities Sold Short*: The Company may purchase or engage in short sales of U.S. Treasury securities and sovereign debt to mitigate the potential impact of changes in interest rates and/or foreign exchange rates on the performance of its portfolio. When the Company sells securities short, it typically satisfies its security delivery settlement obligation by borrowing or purchasing the security sold short from the same or a different counterparty. When borrowing a security sold short from a counterparty, the Company generally is required to deliver cash or securities to such counterparty as collateral for the Company's obligation to return the borrowed security. The Company has chosen to elect the FVO pursuant to ASC 825 for its securities sold short. Electing the FVO allows the Company to record changes in fair value in the Condensed Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, securities sold short are recorded at fair value on the Condensed Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on the Condensed Consolidated Statement of Operations as a component of Unrealized gains (losses) on securities and loans, net. A realized gain or loss will be recognized upon the termination of a short sale if the market price is less or greater than the original sale price. Such realized gain or loss is recorded on the Company's Condensed Consolidated Statement of Operations in Realized gains (losses) on securities and loans, net.

**(K) Financial Derivatives:** The Company enters into various types of financial derivatives subject to its investment guidelines, which include restrictions associated with maintaining qualification as a REIT. The Company's financial derivatives are predominantly subject to bilateral master trade agreements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the "Dodd-Frank Act." The Company may be required to deliver or receive cash or securities as collateral upon entering into derivative transactions. In addition, changes in the value of derivative transactions may require the Company or the counterparty to post or receive additional collateral. In the case of cleared derivatives, the clearinghouse becomes the Company's counterparty and a futures commission merchant acts as an intermediary between the Company and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral. Cash collateral received by the Company is included in Due to brokers, on the Condensed Consolidated Balance Sheet. Conversely, cash collateral posted by the Company is included in Due from brokers, on the Condensed Consolidated Balance Sheet. The types of derivatives primarily utilized by the Company are swaps, TBAs, futures, options, and forwards.

**Swaps:** The Company may enter into various types of swaps, including interest rate swaps, credit default swaps, and total return swaps. The primary risk associated with the Company's interest rate swap activity is interest rate risk. The primary risk associated with the Company's credit default swaps and total return swaps is credit risk.

The Company is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Primarily to help mitigate interest rate risk, the Company enters into interest rate swaps. Interest rate swaps are contractual agreements whereby one party pays a floating interest rate on a notional principal amount and receives a fixed-rate payment on the same notional principal, or vice versa, for a fixed period of time. Interest rate swaps change in value with movements in interest rates. The Company also enters into interest rate swaps whereby the Company pays one floating rate and receives a different floating rate, or "basis swaps."

The Company enters into credit default swaps. A credit default swap is a contract under which one party agrees to compensate another party for the financial loss associated with the occurrence of a "credit event" in relation to a "reference amount" or notional value of a "reference asset" (usually a bond, loan, or an index or basket of bonds or loans). The definition of a credit event may vary from contract to contract. A credit event may occur (i) when the reference asset (or underlying asset, in the case of a reference asset that is an index or basket) fails to make scheduled principal or interest payments to its holders, (ii) with respect to credit default swaps referencing mortgage/asset-backed securities and indices, when the reference asset (or underlying asset, in the case of a reference asset that is an index or basket) is downgraded below a certain rating level, or (iii) with respect to credit default swaps referencing corporate entities and indices, upon the bankruptcy of the obligor of the reference asset (or underlying obligor, in the case of a reference asset that is an index). The Company typically writes (sells) protection to take a "long" position with respect to the underlying reference assets, or purchases (buys) protection to take a "short" position with respect to the underlying reference assets or to hedge exposure to other investment holdings.

The Company enters into total return swaps in order to take a "long" or "short" position with respect to an underlying reference asset. The Company is subject to market price volatility of the underlying reference asset. A total return swap involves commitments to pay interest in exchange for a market-linked return based on a notional value. To the extent that the total return of the corporate debt, security, group of securities or index underlying the transaction exceeds or falls short of the offsetting interest obligation, the Company will receive a payment from or make a payment to the counterparty.

Swaps change in value with movements in interest rates, credit quality, or total return of the reference securities. During the term of swap contracts, changes in value are recognized as unrealized gains or losses on the Condensed Consolidated Statement of Operations. When a contract is terminated, the Company realizes a gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Company's basis in the contract, if any. Periodic payments or receipts required by swap agreements are recorded as unrealized gains or losses when accrued and realized gains or losses when received or paid. Upfront payments paid and/or received by the Company to open swap contracts are recorded as an asset and/or liability on the Condensed Consolidated Balance Sheet and are recorded as a realized gain or loss on the termination date.

**TBA Securities:** The Company transacts in the forward settling TBA market. A TBA position is a forward contract for the purchase ("long position") or sale ("short position") of Agency RMBS at a predetermined price, face amount, issuer, coupon, and maturity on an agreed-upon future delivery date. For each TBA contract and delivery month, a uniform settlement date for all market participants is determined by the Securities Industry and Financial Markets Association. The specific Agency RMBS to be delivered into the contract at the settlement date are not known at the time of the transaction. The Company usually does not take delivery of TBAs, but rather enters into offsetting transactions and settles the associated receivable and payable balances with its counterparties. The Company uses TBAs to mitigate interest rate risk, usually by taking short positions. The Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for speculative purposes, including holding long positions.

TBAs are accounted for by the Company as financial derivatives. The difference between the forward contract price and the market value of the TBA position as of the reporting date is included in Unrealized gains (losses) on financial derivatives, net, on the Condensed Consolidated Statement of Operations.

**Futures Contracts:** A futures contract is an exchange-traded agreement to buy or sell an asset for a set price on a future date. The Company enters into Eurodollar and/or U.S. Treasury security futures contracts to hedge its interest rate risk. The Company may also enter into various other futures contracts, including equity index futures and foreign currency futures. Initial margin deposits are made upon entering into futures contracts and can generally be either in the form of cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking-to-market to reflect the current market value of the contract. Variation margin payments are made or received periodically, depending upon whether unrealized losses or gains are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

**Options:** The Company may purchase or write put or call options contracts or enter into swaptions. The Company enters into options contracts typically to help mitigate overall market, credit, or interest rate risk depending on the type of options contract. However, the Company also enters into options contracts from time to time for speculative purposes. When the Company purchases an options contract, the option asset is initially recorded at an amount equal to the premium paid, if any, and is subsequently marked-to-market. Premiums paid for purchasing options contracts that expire unexercised are recognized on the expiration date as realized losses. If an options contract is exercised, the premium paid is subtracted from the proceeds of the sale or added to the cost of the purchase to determine whether the Company has realized a gain or loss on the related transaction. When the Company writes an options contract, the option liability is initially recorded at an amount equal to the premium received, if any, and is subsequently marked-to-market. Premiums received for writing options contracts that expire unexercised are recognized on the expiration date as realized gains. If an options contract is exercised, the premium received is subtracted from the cost of the purchase or added to the proceeds of the sale to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company enters into a closing transaction, the Company will realize a gain or loss depending upon whether the amount from the closing transaction is greater or less than the premiums paid or received. The Company may also enter into options contracts that contain forward-settling premiums. In this case, no money is exchanged upfront. Instead, the agreed-upon premium is paid by the buyer upon expiration of the option, regardless of whether or not the option is exercised.

**Forward Currency Contracts:** A forward currency contract is an agreement between two parties to purchase or sell a specific quantity of currency with the delivery and settlement at a specific future date and exchange rate. During the period the forward currency contract is open, changes in the value of the contract are recognized as unrealized gains or losses. When the contract is settled, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

Financial derivative assets are included in Financial derivatives—assets, at fair value, on the Condensed Consolidated Balance Sheet. Financial derivative liabilities are included in Financial derivatives—liabilities, at fair value, on the Condensed Consolidated Balance Sheet. The Company has chosen to elect the FVO pursuant to ASC 825 for its financial derivatives. Electing the FVO allows the Company to record changes in fair value in the Condensed Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. Changes in unrealized gains and losses on financial derivatives are included in Unrealized gains (losses) on financial derivatives, net, on the Condensed Consolidated Statement of Operations. Realized gains and losses on financial derivatives are included in Realized gains (losses) on financial derivatives, net, on the Condensed Consolidated Statement of Operations.

**(L) Intangible Assets:** In connection with the Longbridge Transaction, the Company acquired intangible assets including internally developed software of Longbridge, trademarks, customer relationships, and non-compete agreements for various Longbridge employees. Intangible assets are amortized over their expected useful lives on a straight-line basis. See Note 10 for additional details on the Company's intangible assets.

**(M) Cash and Cash Equivalents:** Cash and cash equivalents include cash and short term investments with original maturities of three months or less at the date of acquisition. Cash and cash equivalents typically include amounts held in interest bearing overnight accounts and amounts held in money market funds, and these balances generally exceed insured limits. The Company holds its cash at institutions that it believes to be highly creditworthy. Restricted cash represents cash that the Company can use only for specific purposes.

**(N) Repurchase Agreements:** The Company enters into repurchase agreements with third-party broker-dealers whereby it sells securities under agreements to be repurchased at an agreed-upon price and date. The Company accounts for repurchase agreements as collateralized borrowings, with the initial sale price representing the amount borrowed, and with the future

repurchase price consisting of the amount borrowed plus interest, at the implied interest rate of the repurchase agreement, on the amount borrowed over the term of the repurchase agreement. The interest rate on a repurchase agreement is based on competitive rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. When the Company enters into a repurchase agreement, the lender establishes and maintains an account containing cash and/or securities having a value not less than the repurchase price, including accrued interest, of the repurchase agreement. Repurchase agreements are carried at their contractual amounts, which approximate fair value as the debt is short-term in nature.

(O) *Reverse Repurchase Agreements*: The Company enters into reverse repurchase agreement transactions whereby it purchases securities under agreements to resell at an agreed-upon price and date. In general, securities received pursuant to reverse repurchase agreements are delivered to counterparties of short sale transactions. The interest rate on a reverse repurchase agreement is based on competitive rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. Assets held pursuant to reverse repurchase agreements are reflected as assets on the Condensed Consolidated Balance Sheet. Reverse repurchase agreements are carried at their contractual amounts, which approximates fair value due to their short-term nature.

Repurchase and reverse repurchase agreements that are conducted with the same counterparty may be reported on a net basis if they meet the requirements of ASC 210-20, *Balance Sheet Offsetting*. There are no repurchase and reverse repurchase agreements reported on a net basis in the Company's consolidated financial statements.

(P) *Transfers of Financial Assets*: The Company enters into transactions whereby it transfers financial assets to third parties. Upon such a transfer of financial assets, the Company will sometimes retain or acquire interests in the related assets. The Company evaluates transferred assets pursuant to ASC 860-10, *Transfers of Financial Assets*, or "ASC 860-10," which requires that a determination be made as to whether a transferor has surrendered control over transferred financial assets. That determination must consider the transferor's continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. When a transfer of financial assets does not qualify as a sale, ASC 860-10 requires the transfer to be accounted for as a secured borrowing with a pledge of collateral. ASC 860-10 is a standard that requires the Company to exercise significant judgment in determining whether a transaction should be recorded as a "sale" or a "financing."

(Q) *Variable Interest Entities*: VIEs are entities in which: (i) the equity investors do not have the characteristics of a controlling financial interest, or (ii) there is insufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties. Consolidation of a VIE is required by the entity that is deemed to be the primary beneficiary of the VIE. The Company evaluates all of its interests in VIEs for consolidation under ASC 810. The primary beneficiary is generally the party with both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant to the VIE.

When the Company has an interest in an entity that has been determined to be a VIE, the Company assesses whether it is deemed to be the primary beneficiary of the VIE. The Company will only consolidate a VIE for which it has concluded it is the primary beneficiary. To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes (i) identifying the activities that most significantly impact the VIE's economic performance; and (ii) identifying which party, if any, has power over those activities. To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, it considers all of its economic interests, including debt and/or equity investments, as well as other arrangements deemed to be variable interests in the VIE. These assessments to determine whether the Company is the primary beneficiary require significant judgment. In instances where the Company and its related parties have interests in a VIE, the Company considers whether there is a single party in the related party group that meets the criteria to be deemed the primary beneficiary. If one party within the related party group meets such criteria, that reporting entity would be deemed to be the primary beneficiary of the VIE and no further analysis is needed. If no party within the related party group on its own meets the criteria to be deemed the primary beneficiary, but the related party group as a whole meets such criteria, the determination of the primary beneficiary within the related party group requires significant judgment. The Company performs analysis, which is based upon qualitative as well as quantitative factors, such as the relationship of the VIE to each of the members of the related party group, as well as the significance of the VIE's activities to those members, with the objective of determining which party is most closely associated with the VIE.

The Company performs ongoing reassessments of (i) whether any entities previously evaluated have become VIEs, based on certain events, and therefore subject to assessment to determine whether consolidation is appropriate, and (ii) whether changes in the facts and circumstances regarding the Company's involvement with a VIE causes its consolidation conclusion regarding the VIE to change. See Note 11 and Note 15 for further information on the Company's consolidated VIEs.

The Company's maximum amount at risk is generally limited to the Company's investment in the VIE. The Company is generally not contractually required to provide and has not provided any form of financial support to the VIEs.

The Company holds beneficial interests in certain securitization trusts that are considered VIEs. The beneficial interests in these securitization trusts are represented by certificates issued by the trusts. The securitization trusts have been structured as pass-through entities that receive principal and interest payments on the underlying collateral and distribute those payments to the certificate holders, which include both third-party investors and the Company. The certificates held by the Company typically include some or all of the most subordinated tranches. The assets held by the trusts are restricted in that they can only be used to fulfill the obligations of the related trust. In certain cases, the design and structure of the securitization trust is such that the Company effectively retains control of the assets as well as the activities that most significantly impact the economic performance of the trust. In such cases, the Company is determined to be the primary beneficiary, and the Company consolidates the trust and all intercompany transactions are eliminated in consolidation. In cases where the Company does not effectively retain control of the assets of, or have the power to direct the activities that most significantly impact the economic performance of, the related trust, it does not consolidate the trust. See Note 12 for further discussion of the Company's securitization trusts.

*(R) Offering Costs/Underwriters' Discount:* Offering costs and underwriters' discount are generally charged against stockholders' equity upon the completion of a capital raise. Offering costs typically include legal, accounting, and other fees associated with the cost of raising capital.

*(S) Debt Issuance Costs:* Debt issuance costs associated with debt for which the Company has elected the FVO are expensed at the issuance of the debt, and are included in Investment related expenses—Other on the Condensed Consolidated Statement of Operations. Costs associated with the issuance of debt for which the Company has not elected the FVO are deferred and amortized over the life of the debt, which approximates the effective interest rate method, and are included in Interest expense on the Condensed Consolidated Statement of Operations. Deferred debt issuance costs are presented on the Condensed Consolidated Balance Sheet as a direct deduction from the related debt liability, unless such deferred debt issuance costs are associated with borrowing facilities that are expected to have a future benefit, such as giving the Company the ability to access additional borrowings over the contractual term of the debt, in which case such deferred debt issuance costs are included in Other assets on the Condensed Consolidated Balance Sheet. Debt issuance costs include legal and accounting fees, purchasers' or underwriters' discount, as well as other fees associated with the cost of the issuance of the related debt.

*(T) Expenses:* Expenses are recognized as incurred on the Condensed Consolidated Statement of Operations.

*(U) Leases:* Longbridge, the Company's consolidated subsidiary, leases office space under various operating lease agreements. The Company accounts for its leases under ASU 842, *Leases*, "ASC 842," using a right-of-use, or "ROU," model, which recognizes that, at the date of commencement, a lessee has a financial obligation to make lease payments to the lessor for the right to use the underlying asset during the lease term. For each lease with a term greater than one year the Company recognizes a ROU asset as well as a lease liability, which is included in Other assets and Accrued expenses and other liabilities, respectively, on its Condensed Consolidated Balance Sheet.

Operating lease liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected remaining lease term. The interest rate implicit in lease contracts is typically not readily determinable, and as a result, the Company utilizes an incremental borrowing rate, which reflects the fixed rate at which the Company could borrow on a collateralized basis the amount of the lease payments for a similar term. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

*(V) Investment Related Expenses:* Investment related expenses consist of expenses directly related to specific financial instruments. Such expenses generally include dividend expense on common stock sold short, servicing fees and corporate and escrow advances on mortgage and consumer loans, loan origination fees, and various other expenses and fees related directly to the Company's financial instruments. The Company has elected the FVO for its investments, and as a result all investment related expenses are expensed as incurred and included in Investment related expenses on the Condensed Consolidated Statement of Operations.

*(W) Investment Related Receivables:* Investment related receivables on the Company's Condensed Consolidated Balance Sheet includes receivables for securities sold and interest and principal receivable on securities and loans.

*(X) Long Term Incentive Plan Units:* Long term incentive plan units of the Operating Partnership ("OP LTIP Units") have been issued to certain Ellington personnel dedicated or partially dedicated to the Company, certain of the Company's directors, as well as the Manager. Costs associated with OP LTIP Units issued to dedicated or partially dedicated personnel, or to the Company's directors, are measured as of the grant date based on the Company's closing stock price on the New York Stock Exchange and are amortized over the vesting period in accordance with ASC 718-10, *Compensation—Stock Compensation*. The

vesting periods for OP LTIP Units are typically one year from issuance for non-executive directors, and are typically one year to two years from issuance for dedicated or partially dedicated personnel.

**(Y) Non-controlling interests:** Non-controlling interests include interests in the Operating Partnership represented by units convertible into shares of the Company's common stock ("Convertible Non-controlling Interests"). Convertible Non-controlling Interests include both the OP LTIP Units and those common units ("OP Units") of the Operating Partnership not held by the Company (collectively, the "Convertible Non-controlling Interest Units"). Non-controlling interests also include the interests of joint venture partners in certain of the Company's consolidated subsidiaries. The joint venture partners' interests are not convertible into shares of the Company's common stock. The Company adjusts the Convertible Non-controlling Interests to align their carrying value with their share of total outstanding Operating Partnership units, including both the OP Units held by the Company and the Convertible Non-controlling Interests. Any such adjustments are reflected in Adjustment to non-controlling interests, on the Condensed Consolidated Statement of Changes in Equity. Non-controlling interests also include a minority ownership stake of Longbridge by employees of Longbridge. See Note 17 for further discussion of non-controlling interests.

**(Z) Dividends:** Dividends payable on shares of common stock and Convertible Non-controlling Interest Units are recorded on the declaration date.

**(AA) Shares Repurchased:** Shares of common stock that are repurchased by the Company subsequent to issuance are immediately retired upon settlement and decrease the total number of shares of common stock issued and outstanding. The cost of such repurchases is charged against Additional paid-in-capital on the Company's Condensed Consolidated Balance Sheet.

**(AB) Earnings Per Share ("EPS"):** Basic EPS is computed using the two class method by dividing net income (loss) after adjusting for the impact of Convertible Non-controlling Interests which are participating securities, by the weighted average number of shares of common stock outstanding calculated including Convertible Non-controlling Interests. Because the Company's Convertible Non-controlling Interests are participating securities, they are included in the calculation of both basic and diluted EPS.

**(AC) Foreign Currency:** The functional currency of the Company is U.S. dollars. Assets and liabilities denominated in foreign currencies are remeasured into U.S. dollars at current exchange rates at the following dates: (i) assets, liabilities, and unrealized gains/losses—at the valuation date; and (ii) income, expenses, and realized gains/losses—at the accrual/transaction date. The Company isolates the portion of realized and change in unrealized gain (loss) resulting from changes in foreign currency exchange rates on investments and financial derivatives from the fluctuations arising from changes in fair value of investments and financial derivatives held. Changes in realized and change in unrealized gain (loss) due to foreign currency are included in Other, net, on the Condensed Consolidated Statement of Operations.

The Company's reporting currency is U.S. Dollars. If the Company has investments in unconsolidated entities that have a functional currency other than U.S. Dollars, the fair value is translated to U.S. dollars using the current exchange rate at the valuation date. The cumulative translation adjustment, if any, associated with the Company's investments in unconsolidated entities is recorded in accumulated other comprehensive income (loss), a component of consolidated stockholders' equity.

**(AD) Income Taxes:** The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code. As a REIT, the Company is generally not subject to corporate-level federal and state income tax on net income it distributes to its stockholders within the prescribed timeframes. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including distributing at least 90% of its annual taxable income to stockholders. Even if the Company qualifies as a REIT, it may be subject to certain federal, state, local and foreign taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state, and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which the Company fails to qualify as a REIT.

As a REIT, if the Company fails to distribute in any calendar year (subject to specific timing rules for certain dividends paid in January) at least the sum of (i) 85% of its ordinary income for such year, (ii) 95% of its capital gain net income for such year, and (iii) any undistributed taxable income from the prior year, the Company would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (i) the amounts actually distributed and (ii) the amounts of income retained and on which the Company has paid corporate income tax.

The Company elected to treat certain domestic and foreign subsidiaries as TRSs, and may in the future elect to treat other current or future subsidiaries as TRSs. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A domestic TRS may, but is not required to, declare dividends to the Company; such dividends will be included in the Company's taxable income/(loss) and may necessitate a distribution to the Company's stockholders. Conversely, if the Company retains earnings at the level of a domestic TRS, such earnings will increase the book equity of the consolidated entity. A domestic TRS is subject to U.S.

federal, state, and local corporate income taxes. The Company has elected and may elect in the future to treat certain of its foreign corporate subsidiaries as TRSs and, accordingly, taxable income generated by these TRSs may not be subject to U.S. federal, state, and local corporate income taxation, but generally will be included in the Company's income on a current basis as Subpart F income, whether or not distributed. However, certain of the Company's foreign subsidiaries may be subject to income taxes in the relevant foreign jurisdictions. The Company's financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation.

The Company follows the authoritative guidance on accounting for and disclosure of uncertainty on tax positions, which requires management to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For uncertain tax positions, the tax benefit to be recognized is measured as the largest amount of benefit that is more than 50% likely to be realized upon ultimate settlement. The Company did not have any unrecognized tax benefits resulting from tax positions related to the current period or its open tax years (2019, 2020, 2021, and 2022). In the normal course of business, the Company may be subject to examination by federal, state, local, and foreign jurisdictions, where applicable, for the current period and its open tax years. The Company may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any of such positions, the Company might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof. The Company recognizes interest and penalties, if any, related to uncertain tax positions, as income tax expense (benefit) on the Condensed Consolidated Statement of Operations.

**(AE) Business Combinations:** In accordance with ASC 805, *Business Combinations* ("ASC 805"), the Company applies the acquisition method to transactions in which it obtains control over one or more other businesses. Assets acquired and liabilities assumed are measured at fair value as of the acquisition date. Goodwill is recognized if the consideration transferred exceeds the fair value of the net assets acquired. Alternatively, a bargain purchase gain is recognized if the fair value of the net assets acquired exceeds the consideration transferred.

### 3. Valuation

The tables below reflect the value of the Company's Level 1, Level 2, and Level 3 financial instruments that are measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022:

**September 30, 2023:**

Description	Level 1	Level 2	Level 3	Total				
	(In thousands)							
<b>Assets:</b>								
<b>Securities, at fair value:</b>								
Agency RMBS	\$ —	\$ 960,220	\$ 4,066	\$ 964,286				
Non-Agency RMBS	—	139,587	170,225	309,812				
CMBS	—	7,175	13,412	20,587				
CLOs	—	14,080	15,870	29,950				
Asset-backed securities, backed by consumer loans	—	—	80,524	80,524				
Other ABS	—	—	1,285	1,285				
Corporate debt securities	—	—	10,292	10,292				
Corporate equity securities	642	—	10,293	10,935				
U.S. Treasury securities	—	74,378	—	74,378				
<b>Loans, at fair value:</b>								
Residential mortgage loans	—	—	2,987,515	2,987,515				
Commercial mortgage loans	—	—	290,944	290,944				
Consumer loans	—	—	2,408	2,408				
Corporate loans	—	—	6,623	6,623				
Reverse mortgage loans	—	—	8,633,382	8,633,382				
MSRs, at fair value	—	—	29,653	29,653				
Servicing asset, at fair value	—	—	2,295	2,295				
Loan commitments, at fair value	—	—	3,752	3,752				
Investment in unconsolidated entities, at fair value	—	—	113,474	113,474				
<b>Financial derivatives—assets, at fair value:</b>								
Credit default swaps on asset-backed securities	—	—	76	76				
Credit default swaps on asset-backed indices	—	3,574	—	3,574				
Credit default swaps on corporate bond indices	—	2,298	—	2,298				
Interest rate swaps	—	177,288	—	177,288				
Total return swaps	—	—	16	16				
TBAs	—	6,826	—	6,826				
Warrants	—	1,517	—	1,517				
Futures	6,165	—	—	6,165				
Forwards	—	263	—	263				
<b>Total assets</b>	<b>\$ 6,807</b>	<b>\$ 1,387,206</b>	<b>\$ 12,376,105</b>	<b>\$ 13,770,118</b>				
<b>Liabilities:</b>								
<b>Securities sold short, at fair value:</b>								
Government debt	\$ —	\$ (163,644)	\$ —	\$ (163,644)				
Common stock	(188)	—	—	(188)				

Description	Level 1	Level 2	Level 3	Total
(continued)				
(In thousands)				
<b>Financial derivatives—liabilities, at fair value:</b>				
Credit default swaps on asset-backed indices	—	(33)	—	(33)
Credit default swaps on corporate bonds	—	(268)	—	(268)
Credit default swaps on corporate bond indices	—	(8,891)	—	(8,891)
Interest rate swaps	—	(28,463)	—	(28,463)
TBAs	—	(683)	—	(683)
Futures	(163)	—	—	(163)
Forwards	—	(19)	—	(19)
<b>Other secured borrowings, at fair value</b>	—	—	(1,404,567)	(1,404,567)
<b>HMBS-related obligations, at fair value</b>	—	—	(8,181,922)	(8,181,922)
<b>Senior notes, at fair value</b>	—	—	(189,735)	(189,735)
<b>Total liabilities</b>	<b>\$ (351)</b>	<b>\$ (202,001)</b>	<b>\$ (9,776,224)</b>	<b>\$ (9,978,576)</b>
<b>December 31, 2022:</b>				
Description	Level 1	Level 2	Level 3	Total
(In thousands)				
<b>Assets:</b>				
<b>Securities, at fair value:</b>				
Agency RMBS	\$ —	\$ 961,236	\$ 7,027	\$ 968,263
Non-Agency RMBS	—	129,676	132,502	262,178
CMBS	—	5,604	12,649	18,253
CLOs	—	6,463	24,598	31,061
Asset-backed securities, backed by consumer loans	—	—	73,644	73,644
Corporate debt securities	—	—	7,533	7,533
Corporate equity securities	—	—	11,111	11,111
U.S. Treasury securities	—	87,422	—	87,422
<b>Loans, at fair value:</b>				
Residential mortgage loans	—	—	3,115,518	3,115,518
Commercial mortgage loans	—	—	404,324	404,324
Consumer loans	—	—	4,843	4,843
Corporate loans	—	—	4,086	4,086
Reverse mortgage loans	—	—	8,097,237	8,097,237
<b>MSRs, at fair value</b>	—	—	8,108	8,108
<b>Servicing asset, at fair value</b>	—	—	999	999
<b>Loan commitments, at fair value</b>	—	—	3,060	3,060
<b>Investment in unconsolidated entities, at fair value</b>	—	—	127,046	127,046
<b>Financial derivatives—assets, at fair value:</b>				
Credit default swaps on asset-backed securities	—	—	76	76
Credit default swaps on asset-backed indices	—	3,366	—	3,366
Credit default swaps on corporate bond indices	—	83	—	83
Interest rate swaps	—	117,022	—	117,022
TBAs	—	7,985	—	7,985
Warrants	—	1,137	—	1,137
Futures	2,772	—	—	2,772
Forwards	—	77	—	77
<b>Total assets</b>	<b>\$ 2,772</b>	<b>\$ 1,320,071</b>	<b>\$ 12,034,361</b>	<b>\$ 13,357,204</b>

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Description	Level 1	Level 2	Level 3	Total				
(continued)	(In thousands)							
<b>Liabilities:</b>								
<b>Securities sold short, at fair value:</b>								
Government debt	\$ —	\$ (209,203)	\$ —	\$ (209,203)				
<b>Financial derivatives—liabilities, at fair value:</b>								
Credit default swaps on asset-backed indices	—	(33)	—	(33)				
Credit default swaps on corporate bonds	—	(259)	—	(259)				
Credit default swaps on corporate bond indices	—	(1,513)	—	(1,513)				
Interest rate swaps	—	(50,290)	—	(50,290)				
TBAs	—	(2,007)	—	(2,007)				
Futures	(96)	—	—	(96)				
Other secured borrowings, at fair value	—	—	(1,539,881)	(1,539,881)				
HMBS-related obligations, at fair value	—	—	(7,787,155)	(7,787,155)				
Senior notes, at fair value	—	—	(191,835)	(191,835)				
<b>Total liabilities</b>	<b>\$ (96)</b>	<b>\$ (263,305)</b>	<b>\$ (9,518,871)</b>	<b>\$ (9,782,272)</b>				

The following tables identify the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of September 30, 2023 and December 31, 2022:

September 30, 2023:

Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
Non-Agency RMBS	\$ 108,481	Market Quotes	Non Binding Third-Party Valuation	\$ 0.46	\$ 171.21	\$ 74.48
	61,744	Discounted Cash Flows				
	170,225		Yield	0.0 %	142.5 %	11.8 %
			Projected Collateral Prepayments	0.0 %	100.0 %	33.7 %
			Projected Collateral Losses	0.0 %	86.9 %	14.1 %
			Projected Collateral Recoveries	0.0 %	41.8 %	13.0 %
Non-Agency CMBS	6,695	Market Quotes	Non Binding Third-Party Valuation	\$ 6.45	\$ 53.85	\$ 34.12
	6,717	Discounted Cash Flows				
	13,412		Yield	7.5 %	34.8 %	16.2 %
			Projected Collateral Losses	— %	54.5 %	5.6 %
			Projected Collateral Recoveries	45.5 %	100.0 %	93.0 %
CLOs	6,480	Market Quotes	Non Binding Third-Party Valuation	\$ 0.50	\$ 84.03	\$ 57.50
	9,390	Discounted Cash Flows				
	15,870		Yield	14.6 %	222.6 %	49.4 %
Agency interest only RMBS	358	Market Quotes	Non Binding Third-Party Valuation	\$ 13.79	\$ 13.79	\$ 13.79
	3,708	Option Adjusted Spread ("OAS")				
	4,066		LIBOR OAS <sup>(1)(2)</sup>	53	4,232	595
			Projected Collateral Prepayments	22.8 %	100.0 %	52.8 %

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Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
(continued)						
ABS	\$ 1,285	Market Quotes		\$ 64.00	\$ 65.70	\$ 64.65
	80,524	Discounted Cash Flows				
	81,809		Yield	7.3 %	29.3 %	11.8 %
			Projected Collateral Prepayments	0.0 %	16.4 %	11.7 %
			Projected Collateral Losses	0.8 %	31.0 %	24.7 %
Corporate debt and equity	20,585	Discounted Cash Flows	Yield	11.6 %	44.1 %	16.8 %
Performing and re-performing residential mortgage loans	1,359,588	Discounted Cash Flows	Yield	0.2 %	19.4 %	9.0 %
Securitized residential mortgage loans <sup>(3)(4)</sup>	1,434,783	Market Quotes	Non Binding Third-Party Valuation	\$ 0.66	\$ 96.78	\$ 82.97
	103,971	Discounted Cash Flows				
	1,538,754		Yield	4.0 %	19.1 %	7.5 %
Non-performing residential mortgage loans	89,173	Discounted Cash Flows	Yield	0.2 %	104.9 %	16.4 %
			Recovery Amount	1.9 %	231.6 %	98.6 %
			Months to Resolution	7.0	106.9	22.5
Performing commercial mortgage loans	258,766	Discounted Cash Flows	Yield	9.9 %	45.9 %	13.1 %
Non-performing commercial mortgage loans	32,178	Discounted Cash Flows	Yield	12.6 %	26.2 %	18.7 %
			Recovery Amount	100.0 %	135.8 %	116.0 %
			Months to Resolution	2.0	15.0	8.9
Consumer loans	2,408	Discounted Cash Flows	Yield	10.4 %	20.4 %	17.3 %
			Projected Collateral Prepayments	0.0 %	13.9 %	7.4 %
			Projected Collateral Losses	0.5 %	50.1 %	16.6 %
Corporate loans	6,623	Discounted Cash Flows	Yield	7.0 %	25.2 %	12.5 %
Reverse Mortgage Loans—HECM	8,367,001	Discounted Cash Flows	Yield	2.2 %	7.3 %	5.1 %
			Conditional Prepayment Rate	8.5 %	45.7 %	9.7 %
Reverse Mortgage Loans—HECM buyouts	19,360	Discounted Cash Flows	Yield	8.5 %	15.0 %	10.8 %
			Months to Resolution	0.3	83.0	26.2
Reverse Mortgage Loans—Proprietary	247,021	Discounted Cash Flows	Yield	8.0 %	8.8 %	8.3 %
			Conditional Prepayment Rate	11.0 %	37.1 %	14.9 %
MSRs	29,653	Discounted Cash Flows	Yield	17.4 %	17.4 %	17.4 %
			Conditional Prepayment Rate	6.3 %	78.4 %	15.6 %
Servicing Asset	2,295	Discounted Cash Flows	Yield	15.0 %	15.0 %	15.0 %
Loan Commitments	3,752	Discounted Cash Flows	Pull-through rate	71.9 %	100.0 %	78.2 %
			Cost to originate	2.9 %	6.1 %	4.7 %
Investment in unconsolidated entities—Loan origination entities	31,568	Enterprise Value	Equity Price-to-Book <sup>(5)</sup>	0.7x	1.4x	0.9x
Investment in unconsolidated entities—Other	81,364	Enterprise Value	Net Asset Value	n/a	n/a	n/a
Investment in unconsolidated entities—Loan origination-related entities	542	Recent Transactions	Transaction Price	n/a	n/a	n/a
	113,474					

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Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
(continued)						
Total return swaps	\$ 16	Discounted Cash Flows	Yield	— %	— %	— %
Credit default swaps on asset-backed securities	76	Net Discounted Cash Flows	Projected Collateral Prepayments	22.9 %	22.9 %	22.9 %
			Projected Collateral Losses	8.6 %	8.6 %	8.6 %
			Projected Collateral Recoveries	12.3 %	12.3 %	12.3 %
Other secured borrowings, at fair value <sup>(3)</sup>	(1,404,567)	Market Quotes	Non Binding Third-Party Valuation	\$ 54.98	\$ 96.78	\$ 85.15
			Yield	5.7%	9.2%	6.4%
			Projected Collateral Prepayments	86.5%	92.6%	88.7%
HMBS-related obligations, at fair value	(8,181,922)	Discounted Cash Flows	Yield	2.1%	7.2%	5.1%
			Conditional Prepayment Rate	8.5%	45.7%	9.7%
Senior notes, at fair value	(189,735)	Market Quotes	Non Binding Third-Party Valuation	\$ 90.35	\$ 90.35	\$ 90.35

(1) Shown in basis points.

(2) For range minimum, range maximum, and the weighted average of LIBOR OAS, exclude Agency interest only securities with a negative LIBOR OAS, with a total fair value of \$0.4 million. Including these securities the weighted average was 427 basis points.

(3) Securitized residential mortgage loans and Other secured borrowings, at fair value, represent financial assets and liabilities of the Company's CFEs as discussed in Note 2.

(4) Includes \$15.2 million of non-performing securitized residential mortgage loans.

(5) Represents an estimation of where market participants might value an enterprise on a price-to-book basis. For the range minimum, the range maximum, and the weighted average yield, excludes investments in unconsolidated entities with a total fair value of \$4.7 million. Including such investments the weighted average price-to-book ratio was 6.9x.

**December 31, 2022:**

Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
Non-Agency RMBS						
	\$ 59,831	Market Quotes	Non Binding Third-Party Valuation	\$ 0.45	\$ 159.91	\$ 69.79
	72,671	Discounted Cash Flows				
	<u>132,502</u>		Yield <sup>(1)</sup>	— %	95.7 %	12.1 %
			Projected Collateral Prepayments	— %	100.0 %	52.0 %
			Projected Collateral Losses	— %	97.4 %	16.5 %
			Projected Collateral Recoveries	— %	69.5 %	15.4 %
Non-Agency CMBS	12,080	Market Quotes	Non Binding Third-Party Valuation	\$ 5.54	\$ 69.07	\$ 38.37
	569	Discounted Cash Flows				
	<u>12,649</u>		Yield	9.4 %	17.5 %	12.7 %
			Projected Collateral Losses	1.2 %	39.8 %	5.8 %
			Projected Collateral Recoveries	60.2 %	96.5 %	92.8 %
CLOs	17,925	Market Quotes	Non Binding Third-Party Valuation	\$ 3.96	\$ 92.00	\$ 57.94
	6,673	Discounted Cash Flows				
	<u>24,598</u>		Yield <sup>(2)</sup>	13.2 %	36.1 %	23.3 %
Agency interest only RMBS	2,358	Market Quotes	Non Binding Third-Party Valuation	\$ 11.83	\$ 20.44	\$ 16.54
	4,669	Option Adjusted Spread ("OAS")				
	<u>7,027</u>		LIBOR OAS <sup>(3)(4)</sup>	57	4,217	554
			Projected Collateral Prepayments	23.2 %	100.0 %	55.3 %

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Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
<i>(continued)</i>						
ABS backed by consumer loans	\$ 73,644	Discounted Cash Flows	Yield	6.7 %	27.9 %	13.5 %
			Projected Collateral Prepayments	0.0 %	18.3 %	14.4 %
			Projected Collateral Losses	0.6 %	35.2 %	21.3 %
Corporate debt and equity	18,644	Discounted Cash Flows	Yield	0.0 %	49.6 %	16.4 %
Performing and re-performing residential mortgage loans	1,416,951	Discounted Cash Flows	Yield	0.5 %	53.5 %	8.7 %
Securitized residential mortgage loans <sup>5)(6)</sup>	1,539,170	Market Quotes	Non Binding Third-Party Valuation	\$ 0.54	\$ 98.22	\$ 86.45
	125,900	Discounted Cash Flows				
	<u>1,665,070</u>		Yield	4.4 %	40.8 %	8.3 %
Non-performing residential mortgage loans	33,497	Discounted Cash Flows	Yield	3.7 %	79.6 %	13.7 %
			Recovery Amount	1.5 %	220.6 %	21.4 %
			Months to Resolution	3.0	105.6	16.8
Performing commercial mortgage loans	386,741	Discounted Cash Flows	Yield	5.2 %	16.5 %	10.5 %
Non-performing commercial mortgage loans	17,583	Discounted Cash Flows	Yield	23.0 %	25.1 %	24.8 %
			Recovery Amount	100.0 %	100.5 %	100.4 %
			Months to Resolution	1.8	5.8	2.3
Consumer loans	4,843	Discounted Cash Flows	Yield	10.6 %	28.2 %	17.6 %
			Projected Collateral Prepayments	0.1 %	21.7 %	12.2 %
			Projected Collateral Losses	0.4 %	61.2 %	13.2 %
Corporate loans	4,086	Discounted Cash Flows	Yield	6.0 %	13.0 %	7.1 %
Reverse Mortgage Loans—HECM	7,993,635	Discounted Cash Flows	Yield	4.2 %	6.3 %	5.2 %
			Conditional Prepayment Rate	1.8 %	44.6 %	9.8 %
Reverse Mortgage Loans—Proprietary	103,602	Discounted Cash Flows	Yield	6.5 %	8.6 %	8.1 %
			Conditional Prepayment Rate	11.0 %	37.1 %	13.8 %
MSRs	8,108	Discounted Cash Flows	Yield	12.0 %	12.0 %	12.0 %
			Conditional Prepayment Rate	11.0 %	37.1 %	14.7 %
Servicing Asset	999	Discounted Cash Flows	Yield	11.7 %	11.7 %	11.7 %
Loan Commitments	3,060	Discounted Cash Flows	Pull-through rate	56.2 %	100.0 %	73.7 %
			Cost to originate	2.4%	7.1%	4.4%
Investment in unconsolidated entities—Loan origination entities	37,099	Enterprise Value	Equity Price-to-Book <sup>(7)</sup>	1.0x	1.8x	1.1x
Investment in unconsolidated entities—Other	88,905	Enterprise Value	Net Asset Value	n/a	n/a	n/a
Investment in unconsolidated entities—Loan origination-related entities	1,042	Recent Transactions	Transaction Price	n/a	n/a	n/a
	<u>127,046</u>					
Credit default swaps on asset-backed securities	76	Net Discounted Cash Flows	Projected Collateral Prepayments	22.9 %	22.9 %	22.9 %
			Projected Collateral Losses	8.6 %	8.6 %	8.6 %
			Projected Collateral Recoveries	12.3 %	12.3 %	12.3 %

Description	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range		Weighted Average
				Min	Max	
(continued)						
Other secured borrowings, at fair value <sup>(5)</sup>	\$ (1,539,881)	Market Quotes	Non Binding Third-Party Valuation	\$ 54.94	\$ 98.22	\$ 87.34
			Yield	3.7%	8.5%	6.9%
			Projected Collateral Prepayments	93.3%	96.3%	94.5%
HMBS-related obligations, at fair value	(7,787,155)	Discounted Cash Flows	Yield	4.1%	6.1%	5.1%
			Conditional Prepayment Rate	7.3%	36.7%	9.8%
Senior notes, at fair value	(191,835)	Market Quotes	Non Binding Third-Party Valuation	\$ 91.35	\$ 91.35	\$ 91.35

(1) For the range minimum, the range maximum, and the weighted average yield, excludes non-Agency RMBS with a negative yield, with a total fair value of \$0.2 million. Including these securities the weighted average yield was 11.9%.

(2) For the range minimum, the range maximum, and the weighted average yield, excludes CLOs with a negative yield, with a total fair value of \$0.6 million. Including these securities the weighted average yield was 22.3%.

(3) Shown in basis points.

(4) For range minimum, range maximum, and the weighted average of LIBOR OAS, excludes Agency interest only securities with a negative LIBOR OAS, with a total fair value of \$0.6 million. Including these securities the weighted average was 437 basis points.

(5) Securitized residential mortgage loans and Other secured borrowings, at fair value, represent financial assets and liabilities of the Company's CFEs as discussed in Note 2.

(6) Includes \$9.0 million of non-performing securitized residential mortgage loans.

(7) Represent an estimation of where market participants might value an enterprise on a price-to-book basis. For the range minimum, the range maximum, and the weighted average yield, excludes investment in unconsolidated entity with a total fair value of \$7.3 million. Including such investment the weighted average price-to-book ratio was 3.2x.

Third-party non-binding valuations are validated by comparing such valuations to internally generated prices based on the Company's models and, when available, to recent trading activity in the same or similar instruments.

For those instruments valued using discounted and net discounted cash flows, collateral prepayments, losses, recoveries, and scheduled amortization are projected over the remaining life of the collateral and expressed as a percentage of the collateral's current principal balance. Averages are weighted based on the fair value of the related instrument. In the case of credit default swaps on asset-backed securities, averages are weighted based on each instrument's bond equivalent value. Bond equivalent value represents the investment amount of a corresponding position in the reference obligation, calculated as the difference between the outstanding principal balance of the underlying reference obligation and the fair value, inclusive of accrued interest, of the derivative contract. For those assets valued using the LIBOR Option Adjusted Spread ("LIBOR OAS") valuation methodology, cash flows are projected using the Company's models over multiple interest rate scenarios, and these projected cash flows are then discounted using the LIBOR rates implied by each interest rate scenario. The LIBOR OAS of an asset is then computed as the unique constant yield spread that, when added to all LIBOR rates in each interest rate scenario generated by the model, will equate (a) the expected present value of the projected asset cash flows over all model scenarios to (b) the actual current market price of the asset. LIBOR OAS is therefore model-dependent. Generally speaking, LIBOR OAS measures the additional yield spread over LIBOR that an asset provides at its current market price after taking into account any interest rate options embedded in the asset. The Company considers the expected timeline to resolution in the determination of fair value for its non-performing commercial and residential mortgage loans.

Material changes in any of the inputs above in isolation could result in a significant change to reported fair value measurements. Additionally, fair value measurements are impacted by the interrelationships of these inputs. For example, for instruments subject to prepayments and credit losses, such as non-Agency RMBS and consumer loans and ABS backed by consumer loans, a higher expectation of collateral prepayments will generally be accompanied by a lower expectation of collateral losses. Conversely, higher losses will generally be accompanied by lower prepayments. Because the Company's credit default swaps on asset-backed security holdings represent credit default swap contracts whereby the Company has purchased credit protection, such credit default swaps on asset-backed securities generally have the directionally opposite sensitivity to prepayments, losses, and recoveries as compared to the Company's long securities holdings. Prepayments do not represent a significant input for the Company's commercial mortgage-backed securities and commercial mortgage loans. Losses and recoveries do not represent a significant input for the Company's Agency RMBS interest only securities, given the guarantee of the issuing government agency or government-sponsored enterprise.

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The tables below includes a roll-forward of the Company's financial instruments for the three- and nine-month periods ended September 30, 2023 and 2022 (including the change in fair value), for financial instruments classified by the Company within Level 3 of the valuation hierarchy.

**Three-Month Period Ended September 30, 2023**

(In thousands)	Accreted							Ending			
	Beginning	Discounts /	Net Realized	Change in Net			Transfers Into		Transfers Out of		Balance as of
	Balance as of	(Amortized	Gain/	Unrealized	Purchases/Payments <sup>(1)</sup>	Sales/Issuances <sup>(2)</sup>	Level 3	Level 3	September 30,	2023	September 30,
<b>Assets:</b>											
<b>Securities, at fair value:</b>											
Agency RMBS	\$ 5,355	\$ (353)	\$ (358)	\$ 188	\$ —	\$ (597)	\$ 183	\$ (352)	\$ 4,066		
Non-Agency RMBS	168,609	(239)	(124)	(4,375)	9,739	(1,729)	534	(2,190)	170,225		
CMBS	12,308	130	26	(904)	1,314	(318)	1,576	(720)	13,412		
CLOs	19,733	(359)	(6,183)	5,729	2,069	(134)	550	(5,535)	15,870		
Asset-backed securities backed by consumer loans	77,139	(1,885)	(4,864)	11	18,070	(7,947)	—	—	80,524		
Other ABS	—	26	—	7	1,252	—	—	—	1,285		
Corporate debt securities	9,633	—	306	(107)	2,209	(1,749)	—	—	10,292		
Corporate equity securities	10,736	—	(206)	218	479	(934)	—	—	10,293		
<b>Loans, at fair value:</b>											
Residential mortgage loans	2,993,683	(2,176)	913	(25,384)	393,880	(373,401)	—	—	2,987,515		
Commercial mortgage loans	348,360	—	2	(4,647)	63,567	(116,338)	—	—	290,944		
Consumer loans	3,059	(199)	(192)	194	137	(591)	—	—	2,408		
Corporate loan	6,532	—	—	—	544	(453)	—	—	6,623		
Reverse mortgage loans <sup>(3)</sup>	8,471,061	—	—	98,686	435,094	(371,459)	—	—	8,633,382		
MSRs, at fair value <sup>(3)</sup>	7,473	—	—	22,180	—	—	—	—	29,653		
Servicing asset, at fair value	1,304	—	—	991	—	—	—	—	2,295		
Loan commitments, at fair value	3,800	—	—	(48)	—	—	—	—	3,752		
Investments in unconsolidated entities, at fair value	118,420	—	2,301	(3,279)	42,289	(46,257)	—	—	113,474		
<b>Financial derivatives—assets, at fair value:</b>											
Credit default swaps on asset-backed securities	76	—	—	—	—	—	—	—	76		
Total return swaps	—	—	30	16	—	(30)	—	—	16		
<b>Total assets, at fair value</b>	<b>\$ 12,257,281</b>	<b>\$ (5,055)</b>	<b>\$ (8,349)</b>	<b>\$ 89,476</b>	<b>\$ 970,643</b>	<b>\$ (921,937)</b>	<b>\$ 2,843</b>	<b>\$ (8,797)</b>	<b>\$ 12,376,105</b>		
<b>Liabilities:</b>											
Other secured borrowings, at fair value	(1,472,368)	(308)	—	18,660	49,449	—	—	—	(1,404,567)		
Senior notes, at fair value	(185,325)	—	—	(4,410)	—	—	—	—	(189,735)		
HMBS-related obligations, at fair value	(8,055,288)	—	—	(115,729)	357,638	(368,543)	—	—	(8,181,922)		
<b>Total liabilities, at fair value</b>	<b>\$ (9,712,981)</b>	<b>\$ (308)</b>	<b>\$ —</b>	<b>\$ (101,479)</b>	<b>\$ 407,087</b>	<b>\$ (368,543)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (9,776,224)</b>		

(1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.

(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.

(3) Change in net unrealized gain (loss) represents the net change in fair value which can include interest income and realized and unrealized gains and losses.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Condensed Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at September 30, 2023, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended September 30, 2023. For Level 3 financial instruments held by the Company at September 30, 2023, change in net unrealized gain (loss) of \$1.3 million, \$(30.1) million, \$22.2 million,

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\$1.0 million, \$(48) thousand, \$(4.0) million, \$16 thousand, \$18.7 million, \$(4.4) million, and \$(115.7) million for the three-month period ended September 30, 2023 relate to securities, loans, MSRs, servicing asset, loan commitments, investments in unconsolidated entities, financial derivative-assets, other secured borrowings, Senior notes, and HMBS-related obligations, at fair value, respectively.

At September 30, 2023, the Company transferred \$8.8 million of assets from Level 3 to Level 2 and \$ 2.8 million of assets from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

**Three-Month Period Ended September 30, 2022**

(In thousands)	Accreted							Transfers Into Level 3			Transfers Out of Level 3			Ending Balance as of September 30, 2022	
	Beginning Balance as of June 30, 2022	Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/Payments <sup>(1)</sup>	Sales/Issuances <sup>(2)</sup>									
<b>Assets:</b>															
<b>Securities, at fair value:</b>															
Agency RMBS	\$ 12,389	\$ (751)	\$ (723)	\$ (62)	—	\$ (2,214)	\$ 1,094	\$ (1,914)	\$ 7,819						
Non-Agency RMBS	131,449	(73)	216	(5,402)	—	(13,789)	3,240	(9,856)	105,785						
CMBS	9,380	54	1,932	(581)	—	(3,265)	3,230	(2,081)	8,669						
CLOs	23,378	(631)	3,324	(221)	—	(6,086)	643	(3,119)	17,288						
Asset-backed securities backed by consumer loans	78,183	(2,376)	318	(2,618)	13,063	(11,002)	—	—	75,568						
Corporate debt securities	1,767	—	133	(148)	5,391	(3,541)	—	—	3,602						
Corporate equity securities	10,276	—	(80)	188	785	—	—	—	11,169						
<b>Loans, at fair value:</b>															
Residential mortgage loans	2,995,584	(3,394)	(1,561)	(114,175)	712,965	(240,609)	—	—	3,348,810						
Commercial mortgage loans	477,378	—	11	54	77,888	(90,818)	—	—	464,513						
Consumer loans	7,410	(362)	(1,172)	986	523	(1,347)	—	—	6,038						
Corporate loan	10,448	—	—	—	100	(7,014)	—	—	3,534						
<b>Investments in unconsolidated entities, at fair value</b>	<b>192,269</b>	<b>—</b>	<b>(1,317)</b>	<b>(24,196)</b>	<b>36,928</b>	<b>(32,305)</b>	<b>—</b>	<b>—</b>	<b>171,379</b>						
<b>Financial derivatives—assets, at fair value:</b>															
Credit default swaps on asset-backed securities	202	—	(844)	717	2	—	—	—	77						
<b>Total assets, at fair value</b>	<b>\$ 3,950,113</b>	<b>\$ (7,533)</b>	<b>\$ 237</b>	<b>\$ (145,458)</b>	<b>\$ 847,645</b>	<b>\$ (411,990)</b>	<b>\$ 8,207</b>	<b>\$ (16,970)</b>	<b>\$ 4,224,251</b>						
<b>Liabilities:</b>															
<b>Financial derivatives—liabilities, at fair value:</b>															
Total return swaps	\$ —	\$ —	\$ (37)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (37)						
<b>Other secured borrowings, at fair value</b>	<b>\$ (1,448,182)</b>	<b>\$ (397)</b>	<b>\$ 79,430</b>	<b>\$ 57,864</b>	<b>\$ (324,544)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (1,635,829)</b>						
<b>Senior notes, at fair value</b>	<b>(202,650)</b>	<b>—</b>	<b>—</b>	<b>9,135</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(193,515)</b>						
<b>Total liabilities, at fair value</b>	<b>\$ (1,650,832)</b>	<b>\$ (397)</b>	<b>\$ 88,528</b>	<b>\$ 57,864</b>	<b>\$ (324,544)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (1,829,381)</b>						

(1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.

(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Condensed Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at September 30, 2022, as well as Level 3 financial instruments disposed of by the Company during the three-month period ended September 30, 2022. For Level 3 financial instruments held by the Company at September 30, 2022, change in net unrealized gain (loss) of \$(8.0) million, \$(113.1) million, \$(27.0) million, \$0.7 million, \$(37) thousand, \$79.4 million, and \$9.1 million, for the three-month period ended September 30, 2022 relate to

securities, loans, investments in unconsolidated entities, financial derivatives—assets, financial derivatives—liabilities, other secured borrowings, and Senior notes, at fair value, respectively.

At September 30, 2022, the Company transferred \$ 17.0 million of assets from Level 3 to Level 2 and \$ 8.2 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

**Nine-Month Period Ended September 30, 2023**

(In thousands)	Beginning	Accreted			Change in Net			Purchases/Payments <sup>(1)</sup>	Sales/Issuances <sup>(2)</sup>	Transfers Into Level 3	Transfers Out of Level 3	Ending				
	Balance as of December 31, 2022	Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Unrealized Gain/ (Loss)								Balance as of September 30, 2023				
<b>Assets:</b>																
<b>Securities, at fair value:</b>																
Agency RMBS	\$ 7,027	\$ (987)	\$ (669)	\$ 621	\$ 336	\$ (1,561)	\$ 1,143	\$ (1,844)	\$ 4,066							
Non-Agency RMBS	132,502	(78)	1,764	(12,268)	39,654	(32,586)	50,768	(9,531)	170,225							
CMBS	12,649	210	23	(3,337)	3,441	(459)	3,101	(2,216)	13,412							
CLOs	24,598	(289)	(5,944)	3,778	6,112	(7,009)	2,304	(7,680)	15,870							
Asset-backed securities backed by consumer loans	73,644	(4,202)	(11,573)	2,148	47,762	(27,255)	—	—	80,524							
Other ABS	—	26	—	7	1,252	—	—	—	1,285							
Corporate debt securities	7,533	—	(784)	633	13,463	(10,553)	—	—	10,292							
Corporate equity securities	11,111	—	(210)	599	1,573	(2,780)	—	—	10,293							
<b>Loans, at fair value:</b>																
Residential mortgage loans	3,115,518	(6,408)	(7,614)	13,061	1,073,182	(1,200,224)	—	—	2,987,515							
Commercial mortgage loans	404,324	—	2	(54)	127,012	(240,340)	—	—	290,944							
Consumer loans	4,843	(675)	(387)	150	587	(2,110)	—	—	2,408							
Corporate loan	4,086	—	354	10	3,961	(1,788)	—	—	6,623							
Reverse mortgage loans <sup>(3)</sup>	8,097,237	—	(3)	309,647	1,280,465	(1,053,964)	—	—	8,633,382							
MSRs, at fair value <sup>(3)</sup>	8,108	—	—	21,545	—	—	—	—	29,653							
Servicing asset, at fair value	999	—	—	1,296	—	—	—	—	2,295							
Loan commitments, at fair value	3,060	—	—	692	—	—	—	—	3,752							
<b>Investments in unconsolidated entities, at fair value</b>																
	127,046	—	2,527	(5,930)	123,891	(134,060)	—	—	113,474							
<b>Financial derivatives—assets, at fair value:</b>																
Credit default swaps on asset-backed securities	76	—	—	—	—	—	—	—	76							
Total return swaps	—	—	30	16	—	(30)	—	—	16							
<b>Total assets, at fair value</b>	<b>\$ 12,034,361</b>	<b>\$ (12,403)</b>	<b>\$ (22,484)</b>	<b>\$ 332,614</b>	<b>\$ 2,722,691</b>	<b>\$ (2,714,719)</b>	<b>\$ 57,316</b>	<b>\$ (21,271)</b>	<b>\$ 12,376,105</b>							
<b>Liabilities:</b>																
Other secured borrowings, at fair value	(1,539,881)	(972)	—	1,133	135,153	—	—	—	(1,404,567)							
Senior notes, at fair value	(191,835)	—	—	2,100	—	—	—	—	(189,735)							
HMBS-related obligations, at fair value	(7,787,155)	—	—	(271,840)	973,755	(1,096,682)	—	—	(8,181,922)							
<b>Total liabilities, at fair value</b>	<b>\$ (9,518,871)</b>	<b>\$ (972)</b>	<b>\$ —</b>	<b>\$ (268,607)</b>	<b>\$ 1,108,908</b>	<b>\$ (1,096,682)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (9,776,224)</b>							

(1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.

(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.

(3) Change in net unrealized gain (loss) represents the net change in fair value which can include interest income and realized and unrealized gains and losses.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Condensed Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both

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Level 3 financial instruments held by the Company at September 30, 2023, as well as Level 3 financial instruments disposed of by the Company during the nine-month period ended September 30, 2023. For Level 3 financial instruments held by the Company at September 30, 2023, change in net unrealized gain (loss) of \$(11.9) million, \$12.3 million, \$21.5 million, \$1.3 million, \$0.7 million, \$(6.7) million, \$16 thousand, \$1.1 million, \$2.1 million, and \$(271.8) million for the nine-month period ended September 30, 2023 relate to securities, loans, MSRs, servicing asset, loan commitments, investments in unconsolidated entities, financial derivatives-assets, other secured borrowings, Senior notes, and HMBS-related obligations, at fair value, respectively.

At September 30, 2023, the Company transferred \$21.3 million of assets from Level 3 to Level 2 and \$ 57.3 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

**Nine-Month Period Ended September 30, 2022**

	Beginning Balance as of December 31, (In thousands)	Accreted Discounts / (Amortized Premiums)	Net Realized Gain/ (Loss)	Change in Net Unrealized Gain/(Loss)	Purchases/Payments <sup>(1)</sup>	Sales/Issuances <sup>(2)</sup>	Transfers Into Level 3	Transfers Out of Level 3	Ending Balance as of September 30, 2022
<b>Assets:</b>									
<b>Securities, at fair value:</b>									
Agency RMBS	\$ 9,710	\$ (1,595)	\$ 9	\$ (1,421)	\$ 840	\$ (1,074)	\$ 3,393	\$ (2,043)	\$ 7,819
Non-Agency RMBS	134,888	743	2,167	(14,655)	18,614	(26,541)	18,916	(28,347)	105,785
CMBS	13,134	97	3,050	(2,142)	620	(5,297)	5,470	(6,263)	8,669
CLOs	26,678	(2,048)	6,231	(2,859)	—	(13,659)	8,205	(5,260)	17,288
Asset-backed securities backed by consumer loans	73,108	(4,528)	18	(8,250)	49,300	(34,080)	—	—	75,568
Corporate debt securities	5,198	—	1,666	(1,828)	10,703	(12,137)	—	—	3,602
Corporate equity securities	7,556	—	1,659	(1,176)	5,768	(2,638)	—	—	11,169
<b>Loans, at fair value:</b>									
Residential mortgage loans	2,016,228	(12,405)	56	(297,423)	2,332,444	(690,090)	—	—	3,348,810
Commercial mortgage loans	326,197	—	22	(1,170)	411,693	(272,229)	—	—	464,513
Consumer loans	62,365	(2,885)	(1,870)	615	11,505	(63,692)	—	—	6,038
Corporate loan	10,531	—	(1,000)	—	2,425	(8,422)	—	—	3,534
<b>Investment in unconsolidated entities, at fair value</b>	<b>195,643</b>	<b>—</b>	<b>(177)</b>	<b>(54,107)</b>	<b>232,838</b>	<b>(202,818)</b>	<b>—</b>	<b>—</b>	<b>171,379</b>
<b>Financial derivatives-assets, at fair value:</b>									
Credit default swaps on asset-backed securities	303	—	(853)	615	12	—	—	—	77
<b>Total assets, at fair value</b>	<b>\$ 2,881,539</b>	<b>\$ (22,621)</b>	<b>\$ 10,978</b>	<b>\$ (383,801)</b>	<b>\$ 3,076,762</b>	<b>\$ (1,332,677)</b>	<b>\$ 35,984</b>	<b>\$ (41,913)</b>	<b>\$ 4,224,251</b>
<b>Liabilities:</b>									
<b>Financial derivatives-liabilities, at fair value:</b>									
Total return swaps	\$ —	\$ —	\$ (37)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (37)
<b>Other secured borrowings, at fair value<sup>(3)</sup></b>	<b>\$ (984,168)</b>	<b>\$ (397)</b>	<b>\$ —</b>	<b>\$ 202,329</b>	<b>\$ 271,817</b>	<b>\$ (1,125,410)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (1,635,829)</b>
<b>Senior notes, at fair value</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>16,485</b>	<b>—</b>	<b>(210,000)</b>	<b>—</b>	<b>—</b>	<b>(193,515)</b>
<b>Total liabilities, at fair value</b>	<b>\$ (984,168)</b>	<b>\$ (397)</b>	<b>\$ —</b>	<b>\$ 218,777</b>	<b>\$ 271,817</b>	<b>\$ (1,335,410)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (1,829,381)</b>

(1) For Investments in unconsolidated entities, at fair value, amount represents contributions to investments in unconsolidated entities.

(2) For Investments in unconsolidated entities, at fair value, amount represents distributions from investments in unconsolidated entities.

(3) Conformed to current period presentation.

All amounts of net realized and change in net unrealized gain (loss) in the table above are reflected in the accompanying Condensed Consolidated Statement of Operations. The table above incorporates changes in net unrealized gain (loss) for both Level 3 financial instruments held by the Company at September 30, 2022, as well as Level 3 financial instruments disposed of by the Company during the nine-month period ended September 30, 2022. For Level 3 financial instruments held by the

Company at September 30, 2022, change in net unrealized gain (loss) of \$( 31.8) million, \$(297.6) million, \$(61.0) million, \$0.6 million, \$(37) thousand, \$202.3 million, and \$16.5 million, for the nine-month period ended September 30, 2022 relate to securities, loans, investments in unconsolidated entities, financial derivatives—assets, financial derivatives—liabilities, other secured borrowings, and Senior notes, at fair value, respectively.

At September 30, 2022, the Company transferred \$41.9 million of assets from Level 3 to Level 2 and \$ 36.0 million from Level 2 to Level 3. Transfers between these hierarchy levels were based on the availability of sufficient observable inputs to meet Level 2 versus Level 3 criteria. The leveling of each financial instrument is reassessed at the end of each period, and is based on pricing information received from third-party pricing sources.

The following table summarizes the estimated fair value of all other financial instruments not measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022:

(in thousands)	As of			
	September 30, 2023		December 31, 2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Other financial instruments</b>				
Assets:				
Cash and cash equivalents	\$ 174,664	\$ 174,664	\$ 217,053	\$ 217,053
Restricted cash	1,604	1,604	4,816	4,816
Due from brokers	38,870	38,870	36,761	36,761
Reverse repurchase agreements	175,197	175,197	226,444	226,444
Liabilities:				
Repurchase agreements	2,573,043	2,573,043	2,609,685	2,609,685
Other secured borrowings	301,131	301,131	276,058	276,058
Due to brokers	80,180	80,180	34,507	34,507

Cash and cash equivalents generally includes cash held in interest bearing overnight accounts, for which fair value equals the carrying value, and investments which are liquid in nature, such as investments in money market accounts or U.S. Treasury Bills, for which fair value equals the carrying value; such assets are considered Level 1. Restricted cash includes cash held in a segregated account for which fair value equals the carrying value; such assets are considered Level 1. Due from brokers and Due to brokers include collateral transferred to or received from counterparties, along with receivables and payables for open and/or closed derivative positions. These receivables and payables are short term in nature and any collateral transferred consists primarily of cash; fair value of these items is approximated by carrying value and such items are considered Level 1. The Company's reverse repurchase agreements, repurchase agreements, and other secured borrowings are carried at cost, which approximates fair value due to their short term nature. Reverse repurchase agreements, repurchase agreements, and other secured borrowings are classified as Level 2 based on the adequacy of the collateral and their short term nature. Senior notes, net are considered Level 3 liabilities given the relative unobservability of the most significant inputs to valuation estimation as well as the lack of trading activity of these instruments.

#### 4. Investment in Securities

The Company's securities portfolio primarily consists of Agency RMBS, non-Agency RMBS, CMBS, CLOs, ABS backed by consumer loans, and corporate debt and equity. The following tables detail the Company's investment in securities as of September 30, 2023 and December 31, 2022.

September 30, 2023:

(\$ in thousands)	Current Principal	Gross Unrealized						Weighted Average			
		Unamortized Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon <sup>(1)(2)</sup>	Yield	Life (Years) <sup>(3)</sup>		
<b>Long:</b>											
Agency RMBS:											
15-year fixed-rate mortgages	\$ 92,040	\$ (1,694)	\$ 90,346	\$ —	\$ (8,012)	\$ 82,334	2.57 %	2.87 %	4.00		
20-year fixed-rate mortgages	6,695	339	7,034	—	(1,481)	5,553	2.41 %	1.57 %	6.81		
30-year fixed-rate mortgages	919,485	(7,202)	912,283	3	(85,911)	826,375	4.09 %	4.07 %	8.32		
Adjustable rate mortgages	5,355	532	5,887	—	(733)	5,154	3.81 %	2.01 %	4.25		
Reverse mortgages	33,083	3,570	36,653	—	(3,124)	33,529	5.14 %	3.24 %	4.95		
Interest only securities	n/a	n/a	10,837	1,244	(740)	11,341	1.04 %	12.29 %	5.30		
Non-Agency RMBS	430,400	(131,255)	299,145	8,880	(36,785)	271,240	5.00 %	8.79 %	5.35		
CMBS	49,591	(20,650)	28,941	323	(11,371)	17,893	3.05 %	9.37 %	6.86		
Non-Agency interest only securities	n/a	n/a	36,730	6,428	(1,892)	41,266	0.17 %	13.81 %	7.80		
CLOs	n/a	n/a	39,824	2,292	(12,166)	29,950	1.87 %	10.25 %	3.94		
ABS	1,988	(710)	1,278	7	—	1,285	3.84 %	10.25 %	2.52		
ABS backed by consumer loans	140,308	(48,253)	92,055	141	(11,672)	80,524	12.00 %	12.11 %	1.48		
Corporate debt	34,408	(24,749)	9,659	971	(338)	10,292	— %	— %	1.91		
Corporate equity	n/a	n/a	8,924	3,365	(1,354)	10,935	n/a	n/a	n/a		
U.S. Treasury securities	78,030	44	78,074	—	(3,696)	74,378	3.71 %	3.71 %	6.07		
<b>Total Long</b>	<b>1,791,383</b>	<b>(230,028)</b>	<b>1,657,670</b>	<b>23,654</b>	<b>(179,275)</b>	<b>1,502,049</b>	<b>4.74 %</b>	<b>5.79 %</b>	<b>6.77</b>		
<b>Short:</b>											
Corporate equity	n/a	n/a	(143)	—	(45)	(188)	n/a	n/a	n/a		
U.S. Treasury securities	(149,454)	1,738	(147,716)	8,753	(7)	(138,970)	2.37 %	2.61 %	2.87		
European sovereign bonds	(26,005)	(1,703)	(27,708)	3,034	—	(24,674)	0.01 %	0.15 %	1.43		
<b>Total Short</b>	<b>(175,459)</b>	<b>35</b>	<b>(175,567)</b>	<b>11,787</b>	<b>(52)</b>	<b>(163,832)</b>	<b>2.02 %</b>	<b>2.22 %</b>	<b>2.65</b>		
<b>Total</b>	<b>\$ 1,615,924</b>	<b>\$ (229,993)</b>	<b>\$ 1,482,103</b>	<b>\$ 35,441</b>	<b>\$ (179,327)</b>	<b>\$ 1,338,217</b>	<b>4.49 %</b>	<b>5.44 %</b>	<b>6.36</b>		

(1) Weighted average coupon represents the weighted average coupons of the securities, rather than, in the case of collateralized securities, the coupon rates or loan rates on the underlying collateral.

(2) Total long, total short, and total weighted average coupon exclude interest only securities, CLOs, and corporate equity.

(3) Expected average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

December 31, 2022:

(\$ in thousands)	Current Principal	Gross Unrealized						Weighted Average			
		Unamortized Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon <sup>(1)(2)</sup>	Yield	Life (Years) <sup>(3)</sup>		
<b>Long:</b>											
Agency RMBS:											
15-year fixed-rate mortgages	\$ 140,409	\$ 4,613	\$ 145,022	\$ —	\$ (14,892)	\$ 130,130	2.59 %	1.73 %	4.30		
20-year fixed-rate mortgages	7,253	380	7,633	—	(1,301)	6,332	2.41 %	1.57 %	6.95		
30-year fixed-rate mortgages	846,582	20,961	867,543	228	(89,105)	778,666	3.54 %	3.12 %	8.57		
Adjustable rate mortgages	6,410	581	6,991	—	(737)	6,254	3.41 %	2.20 %	4.79		
Reverse mortgages	29,658	3,511	33,169	—	(3,180)	29,989	3.50 %	2.60 %	4.84		
Interest only securities	n/a	n/a	17,365	1,179	(1,652)	16,892	1.36 %	10.11 %	5.32		
Non-Agency RMBS	388,304	(130,167)	258,137	5,228	(24,475)	238,890	4.33 %	7.29 %	5.74		
CMBS	38,996	(17,722)	21,274	287	(6,992)	14,569	2.54 %	8.43 %	8.33		
Non-Agency interest only securities	n/a	n/a	24,588	3,566	(1,182)	26,972	0.18 %	14.21 %	7.65		
CLOs	n/a	n/a	45,240	3,217	(17,396)	31,061	2.16 %	9.37 %	3.06		
ABS backed by consumer loans	115,604	(28,282)	87,322	278	(13,956)	73,644	11.87 %	13.42 %	1.21		
Corporate debt	30,872	(23,337)	7,535	551	(553)	7,533	— %	— %	2.16		
Corporate equity	n/a	n/a	9,799	2,941	(1,629)	11,111	n/a	n/a	n/a		
U.S. Treasury securities	88,699	640	89,339	—	(1,917)	87,422	3.58 %	3.46 %	7.06		
<b>Total Long</b>	<b>1,692,787</b>	<b>(168,822)</b>	<b>1,620,957</b>	<b>17,475</b>	<b>(178,967)</b>	<b>1,459,465</b>	<b>4.12 %</b>	<b>4.70 %</b>	<b>6.93</b>		
<b>Short:</b>											
U.S. Treasury securities	(200,850)	6,132	(194,718)	10,025	(731)	(185,424)	2.18 %	2.60 %	5.16		
European sovereign bonds	(25,320)	(1,508)	(26,828)	3,049	—	(23,779)	0.01 %	0.04 %	2.17		
<b>Total Short</b>	<b>(226,170)</b>	<b>4,624</b>	<b>(221,546)</b>	<b>13,074</b>	<b>(731)</b>	<b>(209,203)</b>	<b>1.94 %</b>	<b>2.29 %</b>	<b>4.82</b>		
<b>Total</b>	<b>\$ 1,466,617</b>	<b>\$ (164,198)</b>	<b>\$ 1,399,411</b>	<b>\$ 30,549</b>	<b>\$ (179,698)</b>	<b>\$ 1,250,262</b>	<b>4.46 %</b>	<b>4.41 %</b>	<b>6.67</b>		

(1) Weighted average coupon represents the weighted average coupons of the securities, rather than, in the case of collateralized securities, the coupon rates or loan rates on the underlying collateral.

(2) Conformed to current period presentation. Total long, total short, and total weighted average coupon excludes interest only securities, CLOs, and corporate equity.

(3) Expected average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

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The following tables detail weighted average life of the Company's Agency RMBS as of September 30, 2023 and December 31, 2022.

**September 30, 2023:**

(\$ in thousands)	Agency RMBS			Agency Interest Only Securities		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>
<b>Estimated Weighted Average Life<sup>(1)</sup></b>						
Less than three years	\$ 38,408	\$ 39,972	3.94 %	\$ 1,668	\$ 1,768	0.54 %
Greater than three years and less than seven years	200,692	218,462	4.37 %	7,290	6,943	1.76 %
Greater than seven years and less than eleven years	710,970	790,249	3.88 %	2,115	1,826	2.25 %
Greater than eleven years	2,875	3,520	2.50 %	268	300	0.68 %
<b>Total</b>	<b>\$ 952,945</b>	<b>\$ 1,052,203</b>	<b>3.98 %</b>	<b>\$ 11,341</b>	<b>\$ 10,837</b>	<b>1.04 %</b>

(1) Expected average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

(2) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

**December 31, 2022:**

(\$ in thousands)	Agency RMBS			Agency Interest Only Securities		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(2)</sup>
<b>Estimated Weighted Average Life<sup>(1)</sup></b>						
Less than three years	\$ 20,547	\$ 21,976	3.57 %	\$ 2,202	\$ 2,501	0.90 %
Greater than three years and less than seven years	242,472	267,229	3.46 %	11,081	11,343	1.58 %
Greater than seven years and less than eleven years	685,742	768,041	3.38 %	3,345	3,207	1.94 %
Greater than eleven years	2,610	3,112	2.72 %	264	314	0.68 %
<b>Total</b>	<b>\$ 951,371</b>	<b>\$ 1,060,358</b>	<b>3.40 %</b>	<b>\$ 16,892</b>	<b>\$ 17,365</b>	<b>1.36 %</b>

(1) Expected average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

(2) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

The following tables detail weighted average life of the Company's long non-Agency RMBS, CMBS, and CLOs and other securities as of September 30, 2023 and December 31, 2022.

**September 30, 2023:**

(\$ in thousands)	Non-Agency RMBS and CMBS			Non-Agency IOs			CLOs and Other Securities <sup>(2)</sup>		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>
<b>Estimated Weighted Average Life<sup>(1)</sup></b>									
Less than three years	\$ 110,499	\$ 115,137	3.83 %	\$ 3,731	\$ 4,147	0.05 %	\$ 105,613	\$ 120,967	5.56 %
Greater than three years and less than seven years	99,541	103,113	7.24 %	13,528	12,676	0.30 %	78,474	86,443	4.24 %
Greater than seven years and less than eleven years	55,367	68,284	5.09 %	23,667	19,634	0.15 %	12,342	13,480	2.10 %
Greater than eleven years	23,726	41,552	2.96 %	340	273	1.11 %	—	—	— %
<b>Total</b>	<b>\$ 289,133</b>	<b>\$ 328,086</b>	<b>4.80 %</b>	<b>\$ 41,266</b>	<b>\$ 36,730</b>	<b>0.17 %</b>	<b>\$ 196,429</b>	<b>\$ 220,890</b>	<b>5.15 %</b>

(1) Expected average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

(2) Other Securities includes ABS, corporate debt, and U.S. Treasury securities.

(3) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

**December 31, 2022:**

Estimated Weighted Average Life <sup>(1)</sup>	Non-Agency RMBS and CMBS			Non-Agency IOs			CLOs and Other Securities <sup>(2)</sup>		
	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>	Fair Value	Amortized Cost	Weighted Average Coupon <sup>(3)</sup>
Less than three years	\$ 81,122	\$ 84,695	3.66 %	\$ 4,347	\$ 3,913	0.15 %	\$ 96,371	\$ 120,086	5.42 %
Greater than three years and less than seven years	109,722	115,716	5.41 %	3,723	4,247	1.47 %	53,804	59,754	3.69 %
Greater than seven years and less than eleven years	36,179	44,611	3.05 %	18,902	16,428	0.16 %	49,485	49,596	4.01 %
Greater than eleven years	26,436	34,389	3.53 %	—	—	— %	—	—	— %
<b>Total</b>	<b>\$ 253,459</b>	<b>\$ 279,411</b>	<b>4.17 %</b>	<b>\$ 26,972</b>	<b>\$ 24,588</b>	<b>0.18 %</b>	<b>\$ 199,660</b>	<b>\$ 229,436</b>	<b>4.91 %</b>

(1) Expected average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

(2) Other Securities includes ABS backed by consumer loans, corporate debt, and U.S. Treasury securities.

(3) Weighted average coupon represents the weighted average coupons of the securities, rather than the coupon rates or loan rates on the underlying collateral.

The following table details the components of interest income by security type for the three- and nine-month periods ended September 30, 2023 and 2022:

(In thousands)	Three-Month Period Ended					
	September 30, 2023			September 30, 2022		
	Coupon Interest	Net Amortization	Interest Income	Coupon Interest	Net Amortization	Interest Income
Agency RMBS	\$ 10,894	\$ (403)	\$ 10,491	\$ 11,950	\$ (1,169)	\$ 10,781
Non-Agency RMBS and CMBS	7,811	(95)	7,716	5,020	(52)	4,968
CLOs	1,205	(372)	833	1,523	(595)	928
Other securities <sup>(1)</sup>	6,107	(1,865)	4,242	5,473	(2,377)	3,096
<b>Total</b>	<b>\$ 26,017</b>	<b>\$ (2,735)</b>	<b>\$ 23,282</b>	<b>\$ 23,966</b>	<b>\$ (4,193)</b>	<b>\$ 19,773</b>

(1) Other securities includes ABS, corporate debt securities, and U.S. Treasury securities.

(In thousands)	Nine-Month Period Ended					
	September 30, 2023			September 30, 2022		
	Coupon Interest	Net Amortization	Interest Income	Coupon Interest	Net Amortization	Interest Income
Agency RMBS	\$ 29,746	\$ (4,318)	\$ 25,428	\$ 39,227	\$ (9,199)	\$ 30,028
Non-Agency RMBS and CMBS	21,629	(136)	21,493	13,878	79	13,957
CLOs	3,038	(391)	2,647	5,139	(1,800)	3,339
Other securities <sup>(1)</sup>	17,590	(4,260)	13,330	15,616	(4,525)	11,091
<b>Total</b>	<b>\$ 72,003</b>	<b>\$ (9,105)</b>	<b>\$ 62,898</b>	<b>\$ 73,860</b>	<b>\$ (15,445)</b>	<b>\$ 58,415</b>

(1) Other securities includes ABS backed by consumer loans, corporate debt securities, and U.S. Treasury securities.

For the three-month periods ended September 30, 2023 and 2022 the Catch-Up Amortization Adjustment was \$ 0.3 million and \$1.6 million, respectively. For the nine-month periods ended September 30, 2023 and 2022 the Catch-Up Amortization Adjustment was \$(0.6) million and \$3.1 million, respectively.

The following tables present proceeds from sales and the resulting realized gains and (losses) of the Company's securities for the three- and nine-month periods ended September 30, 2023 and 2022.

(In thousands)	Three-Month Period Ended				Three-Month Period Ended			
	September 30, 2023				September 30, 2022			
	Security Type	Proceeds <sup>(1)</sup>	Gross Realized Gains	Gross Realized Losses <sup>(2)</sup>	Net Realized Gain (Loss)	Proceeds <sup>(1)</sup>	Gross Realized Gains	Gross Realized Losses <sup>(2)</sup>
Agency RMBS	\$ 86,936	\$ 172	\$ (5,662)	\$ (5,490)	\$ 311,908	\$ 728	\$ (34,921)	\$ (34,193)
Non-Agency RMBS and CMBS	5,012	329	(120)	209	13,121	2,210	(372)	1,838
CLOs	—	53	—	53	992	3,324	(57)	3,267
Other securities <sup>(3)</sup>	289,990	1,071	(2,827)	(1,756)	79,510	636	(366)	270
Total	<u>\$ 381,938</u>	<u>\$ 1,625</u>	<u>\$ (8,609)</u>	<u>\$ (6,984)</u>	<u>\$ 405,531</u>	<u>\$ 6,898</u>	<u>\$ (35,716)</u>	<u>\$ (28,818)</u>

(1) Includes proceeds on sales of securities not yet settled as of period end.

(2) Excludes realized losses of \$(12.0) million and \$(2.0) million for the three-month periods ended September 30, 2023 and 2022, respectively, related to adjustments to the cost basis of certain securities for which the Company has determined all or a portion of such securities cost basis to be uncollectible.

(3) Other securities includes ABS, corporate debt and equity, exchange-traded equity, and U.S. Treasury securities.

(In thousands)	Nine-Month Period Ended				Nine-Month Period Ended			
	September 30, 2023				September 30, 2022			
	Security Type	Proceeds <sup>(1)</sup>	Gross Realized Gains	Gross Realized Losses <sup>(2)</sup>	Net Realized Gain (Loss)	Proceeds <sup>(1)</sup>	Gross Realized Gains	Gross Realized Losses <sup>(2)</sup>
Agency RMBS	\$ 474,962	\$ 1,023	\$ (46,505)	\$ (45,482)	\$ 878,629	\$ 1,923	\$ (68,939)	\$ (67,016)
Non-Agency RMBS and CMBS	46,243	2,742	(169)	2,573	20,715	6,546	(398)	6,148
CLOs	—	496	(1)	495	18,259	7,584	(747)	6,837
Other securities <sup>(3)</sup>	1,000,184	2,893	(6,012)	(3,119)	173,437	4,301	(820)	3,481
Total	<u>\$ 1,521,389</u>	<u>\$ 7,154</u>	<u>\$ (52,687)</u>	<u>\$ (45,533)</u>	<u>\$ 1,091,040</u>	<u>\$ 20,354</u>	<u>\$ (70,904)</u>	<u>\$ (50,550)</u>

(1) Includes proceeds on sales of securities not yet settled as of period end.

(2) Excludes realized losses of \$(20.4) million and \$(4.5) million, for the nine-month periods ended September 30, 2023 and 2022, respectively, related to adjustments to the cost basis of certain securities for which the Company has determined all or a portion of such securities cost basis to be uncollectible.

(3) Other securities includes ABS, corporate debt and equity, exchange-traded equity, and U.S. Treasury securities.

The following tables present the fair value and gross unrealized losses of our long securities, excluding those where there are expected credit losses as of the balance sheet date in relation to such securities' cost basis, by length of time that such securities have been in an unrealized loss position at September 30, 2023 and December 31, 2022.

**September 30, 2023:**

(In thousands)	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency RMBS	\$ 485,932	\$ (21,140)	\$ 459,339	\$ (77,737)	\$ 945,271	\$ (98,877)
Non-Agency RMBS and CMBS	3,062	(165)	42,113	(7,532)	45,175	(7,697)
CLOs	3,331	(200)	12,186	(3,069)	15,517	(3,269)
Other securities <sup>(1)</sup>	64,447	(3,022)	11,884	(2,126)	76,331	(5,148)
Total	<u>\$ 556,772</u>	<u>\$ (24,527)</u>	<u>\$ 525,522</u>	<u>\$ (90,464)</u>	<u>\$ 1,082,294</u>	<u>\$ (114,991)</u>

(1) Other securities includes ABS and corporate debt and equity securities.

**December 31, 2022:**

(In thousands) Security Type	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency RMBS	\$ 577,047	\$ (51,817)	\$ 326,223	\$ (57,564)	\$ 903,270	\$ (109,381)
Non-Agency RMBS and CMBS	46,644	(5,205)	26,194	(4,959)	72,838	(10,164)
CLOs	6,035	(466)	12,212	(3,488)	18,247	(3,954)
Other securities <sup>(1)</sup>	90,523	(2,855)	726	(693)	91,249	(3,548)
<b>Total</b>	<b>\$ 720,249</b>	<b>\$ (60,343)</b>	<b>\$ 365,355</b>	<b>\$ (66,704)</b>	<b>\$ 1,085,604</b>	<b>\$ (127,047)</b>

(1) Other securities includes corporate debt and equity securities.

As described in Note 2, the Company evaluates the cost basis of its securities for impairment on at least a quarterly basis. As of September 30, 2023 and December 31, 2022, the Company had expected future credit losses, which it tracks for purposes of calculating interest income, of \$38.9 million and \$35.1 million, respectively, related to adverse changes in estimated future cash flows on its securities.

The Company has determined for certain securities that a portion of such securities cost basis is not collectible. For the three-month periods ended September 30, 2023 and 2022, the Company recognized realized losses on these securities of \$(12.0) million and \$(2.0) million, respectively. For the nine-month periods ended September 30, 2023 and 2022, the Company recognized realized losses on these securities of \$(20.4) million and \$(4.5) million, respectively. Such losses are reflected in Net realized gains (losses) on securities and loans, net, on the Condensed Consolidated Statement of Operations.

##### 5. Investment in Loans

The Company invests in various types of loans, such as residential mortgage, commercial mortgage, consumer, corporate, and reverse mortgage loans. As discussed in Note 2, the Company has elected the FVO for its investments in loans. The following table is a summary of the Company's investments in loans as of September 30, 2023 and December 31, 2022:

(In thousands)	As of				
	September 30, 2023		December 31, 2022		
	Loan Type	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance	Fair Value
Residential mortgage loans	\$ 3,266,843	\$ 2,987,515	\$ 3,404,544	\$ 3,115,518	
Commercial mortgage loans	293,395	290,944	406,721	404,324	
Consumer loans	2,661	2,408	5,190	4,843	
Corporate loans	6,659	6,623	4,132	4,086	
Reverse mortgage loans	8,361,617	8,633,382	7,788,490	8,097,237	
<b>Total</b>	<b>\$ 11,931,175</b>	<b>\$ 11,920,872</b>	<b>\$ 11,609,077</b>	<b>\$ 11,626,008</b>	

The Company is subject to credit risk in connection with its investments in loans. The two primary components of credit risk are default risk, which is the risk that a borrower fails to make scheduled principal and interest payments, and severity risk, which is the risk of loss upon a borrower default on a mortgage loan or other secured or unsecured loan. Severity risk includes the risk of loss of value of the property or other asset, if any, securing the loan, as well as the risk of loss associated with taking over the property or other asset, if any, including foreclosure costs. Credit risk in the loan portfolio can be amplified by exogenous shocks impacting our borrowers such as man-made or natural disasters, such as the COVID-19 pandemic.

The following table provides details, by loan type, for residential and commercial mortgage and consumer loans that are 90 days or more past due as of September 30, 2023 and December 31, 2022:

(In thousands)	As of									
	September 30, 2023					December 31, 2022				
	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance	Fair Value						
<b>90 days or more past due—non-accrual status</b>										
Residential mortgage loans	\$ 112,579	\$ 105,379	\$ 50,994	\$ 47,022						
Commercial mortgage loans	32,965	32,178	17,656	17,583						
Consumer loans	92	70	170	145						

**Residential Mortgage Loans**

The tables below detail certain information regarding the Company's residential mortgage loans as of September 30, 2023 and December 31, 2022.

**September 30, 2023:**

(\$ in thousands)	Gross Unrealized							Weighted Average		
	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield	Life (Years) <sup>(1)</sup>	
Residential mortgage loans, held-for-investment <sup>(2)</sup>	\$ 3,266,843	\$ 40,685	\$ 3,307,528	\$ 2,224	\$ (322,237)	\$ 2,987,515	6.89 %	6.50 %	5.70	

(1) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

(2) Includes \$1.539 billion of non-QM loans that have been securitized and are held in consolidated securitization trusts. Such loans had \$(272.5) million of gross unrealized losses. See Residential Mortgage Loan Securitizations in Note 12 for additional information.

**December 31, 2022:**

(\$ in thousands)	Gross Unrealized							Weighted Average		
	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield	Life (Years) <sup>(1)</sup>	
Residential mortgage loans, held-for-investment <sup>(2)</sup>	\$ 3,225,997	\$ 43,806	\$ 3,269,803	\$ 2,143	\$ (327,316)	\$ 2,944,630	6.39 %	5.97 %	3.57	
Residential mortgage loans, held-for-sale	178,547	311	178,858	464	(8,434)	170,888	6.68	6.44 %	3.99	
Total residential mortgage loans	<u>\$ 3,404,544</u>	<u>\$ 44,117</u>	<u>\$ 3,448,661</u>	<u>\$ 2,607</u>	<u>\$ (335,750)</u>	<u>\$ 3,115,518</u>	<u>6.41 %</u>	<u>5.99 %</u>	<u>3.59</u>	

(1) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

(2) Includes \$1.665 billion of non-QM loans that have been securitized and are held in consolidated securitization trusts. Such loans had \$(291.7) million of gross unrealized losses. See Residential Mortgage Loan Securitizations in Note 12 for additional information.

The table below summarizes the geographic distribution of the real estate collateral underlying the Company's residential mortgage loans as a percentage of total outstanding unpaid principal balance as of September 30, 2023 and December 31, 2022:

Property Location by U.S. State	September 30, 2023	December 31, 2022
California	32.2 %	33.2 %
Florida	19.6 %	17.2 %
Texas	9.4 %	10.3 %
Utah	3.3 %	3.4 %
Arizona	2.9 %	3.1 %
Pennsylvania	2.9 %	2.3 %
Georgia	2.7 %	2.6 %
North Carolina	2.6 %	2.8 %
New Jersey	2.2 %	1.8 %
Illinois	1.8 %	1.6 %
Tennessee	1.7 %	2.1 %
Massachusetts	1.6 %	1.9 %
Washington	1.6 %	1.7 %
Colorado	1.5 %	1.7 %
Nevada	1.5 %	1.8 %
New York	1.4 %	1.4 %
Oregon	1.3 %	1.3 %
Ohio	1.0 %	1.1 %
Maryland	0.8 %	1.0 %
Other	8.0 %	7.7 %
	100.0 %	100.0 %

The following table presents information on the Company's residential mortgage loans by re-performing or non-performing status, as of September 30, 2023 and December 31, 2022.

(In thousands)	As of			
	September 30, 2023		December 31, 2022	
	Unpaid Principal Balance	Fair Value	Unpaid Principal Balance	Fair Value
Re-performing	\$ 8,652	\$ 7,236	\$ 9,903	\$ 8,8
Non-performing	111,488	104,377	49,144	45,1

As described in Note 2, the Company evaluates the cost basis of its residential mortgage loans for impairment on at least a quarterly basis. As of September 30, 2023 and December 31, 2022, the Company had expected future credit losses related to adverse changes in estimated future cash flows, which it tracks for purposes of calculating interest income, of \$26.0 million and \$23.7 million, respectively, related to its residential mortgage loans.

As of September 30, 2023 and December 31, 2022, the Company had residential mortgage loans that were in the process of foreclosure with a fair value of \$ 72.4 million and \$27.7 million, respectively.

*Commercial Mortgage Loans*

The tables below detail certain information regarding the Company's commercial mortgage loans as of September 30, 2023 and December 31, 2022:

**September 30, 2023:**

(\$ in thousands)	Unpaid Principal Balance	Gross Unrealized				Weighted Average		
		Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield <sup>(1)</sup>
Commercial mortgage loans, held-for-investment	\$ 293,395	\$ —	\$ 293,395	\$ 26	\$ (2,477)	\$ 290,944	11.55 %	11.39 %

(1) Excludes non-performing commercial mortgage loans, in non-accrual status, with a fair value of \$32.2 million.

(2) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

**December 31, 2022:**

(\$ in thousands)	Unpaid Principal Balance	Gross Unrealized				Weighted Average		
		Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield <sup>(1)</sup>
Commercial mortgage loans, held-for-investment	\$ 406,721	\$ —	\$ 406,721	\$ 1	\$ (2,398)	\$ 404,324	10.76 %	10.66 %

(1) Excludes non-performing commercial mortgage loans, in non-accrual status, with a fair value of \$17.6 million.

(2) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

The table below summarizes the geographic distribution of the real estate collateral underlying the Company's commercial mortgage loans as a percentage of total outstanding unpaid principal balance as of September 30, 2023 and December 31, 2022:

Property Location by U.S. State	September 30, 2023	December 31, 2022
Florida	20.3 %	20.5 %
Texas	18.3 %	13.4 %
New York	11.3 %	9.4 %
Arizona	9.6 %	9.0 %
Illinois	6.4 %	4.6 %
Oklahoma	5.8 %	4.2 %
Ohio	5.3 %	3.8 %
Georgia	5.1 %	5.4 %
Michigan	4.3 %	5.5 %
New Jersey	3.6 %	6.2 %
Connecticut	3.1 %	2.2 %
North Carolina	2.6 %	3.7 %
Alabama	2.2 %	— %
Louisiana	2.1 %	1.5 %
Massachusetts	— %	5.5 %
New Hampshire	— %	2.2 %
Pennsylvania	— %	1.5 %
Other	— %	1.4 %
	100.0 %	100.0 %

As of September 30, 2023, the Company had three non-performing commercial mortgage loans with an unpaid principal balance and fair value of \$ 33.0 million and \$32.2 million, respectively. As of December 31, 2022, the Company had two non-performing commercial mortgage loans with an unpaid principal balance and fair value of \$ 17.7 million and \$17.6 million, respectively.

As described in Note 2, the Company evaluates the cost basis of its commercial mortgage loans for impairment on at least a quarterly basis. As of September 30, 2023 and December 31, 2022, the expected future credit losses, which the Company tracks for purposes of calculating interest income, of \$2.5 million and \$2.4 million, related to adverse changes in estimated future cash flows on its commercial mortgage loans.

The Company did not have any commercial mortgage loans in the process of foreclosure as of September 30, 2023 or December 31, 2022.

*Consumer Loans*

The tables below detail certain information regarding the Company's consumer loans as of September 30, 2023 and December 31, 2022:

**September 30, 2023:**

(\$ in thousands)	Gross Unrealized						Weighted Average	
	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value <sup>(1)</sup>	Life (Years) <sup>(2)</sup>	Delinquency (Days)
Consumer loans, held-for-investment	\$ 2,661	\$ (99)	\$ 2,562	\$ 226	\$ (380)	\$ 2,408	0.78	13

(1) Includes \$0.1 million of charged-off loans for which the Company has determined that it is probable the servicer will be able to collect principal and interest.

(2) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

**December 31, 2022:**

(\$ in thousands)	Gross Unrealized						Weighted Average	
	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value <sup>(1)</sup>	Life (Years) <sup>(2)</sup>	Delinquency (Days)
Consumer loans, held-for-investment	\$ 5,190	\$ (43)	\$ 5,147	\$ 341	\$ (645)	\$ 4,843	0.81	10

(1) Includes \$0.2 million of charged-off loans for which the Company has determined that it is probable the servicer will be able to collect principal and interest.

(2) Average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

The table below provides details on the delinquency status as a percentage of total unpaid principal balance of the Company's consumer loans, which the Company uses as an indicator of credit quality, as of September 30, 2023 and December 31, 2022.

Days Past Due	September 30, 2023	December 31, 2022
Current	88.3 %	90.3 %
30-59 Days	5.2 %	4.2 %
60-89 Days	3.0 %	2.3 %
90-119 Days	3.0 %	3.1 %
>120 Days	0.5 %	0.1 %
	100.0 %	100.0 %

During the three-month periods ended September 30, 2023 and 2022, the Company charged off \$ 0.1 million and \$0.3 million, respectively, of unpaid principal balance of consumer loans that were greater than 120 days delinquent. During the nine-month periods ended September 30, 2023 and 2022, the Company charged off \$0.4 million and \$2.9 million, respectively, of unpaid principal balance of consumer loans that were greater than 120 days delinquent. As of September 30, 2023 and December 31, 2022, the Company held charged-off consumer loans with an aggregate fair value of \$0.1 million and \$0.2 million, respectively, for which the Company has determined that it is probable the servicer will be able to collect principal and interest.

As described in Note 2, the Company evaluates the cost basis of its consumer loans for impairment on at least a quarterly basis. As of both September 30, 2023 and December 31, 2022, the Company had expected future credit losses, which it tracks

for purposes of calculating interest income, of \$0.4 million and \$0.5 million, respectively, on its consumer loans. The Company has determined for certain of its consumer loans that a portion of such loans' cost basis is not collectible. For the three-month periods ended September 30, 2023 and 2022, the Company recognized realized losses on these loans of \$(0.3) million and \$(1.3) million, respectively. For the nine-month periods ended September 30, 2023 and 2022, the Company recognized realized losses on these loans of \$(0.7) million and \$(1.8) million, respectively.

**Corporate Loans**

The tables below detail certain information regarding the Company's corporate loans as of September 30, 2023 and December 31, 2022:

**September 30, 2023:**

(\$ in thousands)	Unpaid Principal Balance	Fair Value	Weighted Average	
			Rate	Remaining Term (Years)
Corporate loans, held-for-investment <sup>(1)</sup>	\$ 6,659	\$ 6,623	9.39 %	1.44

(1) See Note 23 for further details on the Company's unfunded commitments related to certain of its corporate loans.

**December 31, 2022:**

(\$ in thousands)	Unpaid Principal Balance	Fair Value	Weighted Average	
			Rate	Remaining Term (Years)
Corporate loans, held-for-investment <sup>(1)</sup>	\$ 4,132	\$ 4,086	5.47 %	2.74

(1) See Note 23 for further details on the Company's unfunded commitments related to certain of its corporate loans.

**Reverse Mortgage Loans**

The table below details certain information regarding the Company's reverse mortgage loans as of September 30, 2023 and December 31, 2022.

**September 30, 2023:**

(\$ in thousands)	Unpaid Principal Balance	Fair Value	Weighted Average	
			Coupon	Life (Years)
Reverse mortgage loans, held-for-investment				
HECM loans collateralizing HMBS	\$ 7,991,920	\$ 8,251,300	6.60 %	4.99
Unsecuritized HECM loans <sup>(1)</sup>	134,272	135,061	7.25 %	6.52
Total reverse mortgage loans, held-for-investment	8,126,192	8,386,361	6.61 %	5.01
Reverse mortgage loans, held-for-sale	235,425	247,021	10.58 %	17.66
Total reverse mortgage loans	\$ 8,361,617	\$ 8,633,382	6.72 %	5.37

(1) Includes unpoolable HECM loans with an unpaid principal balance of \$30.7 million.

**December 31, 2022:**

(\$ in thousands)	Unpaid Principal Balance	Fair Value	Weighted Average	
			Coupon	Life (Years)
Reverse mortgage loans, held-for-investment				
HECM loans collateralizing HMBS	\$ 7,577,139	\$ 7,873,964	5.80 %	4.99
Unsecuritized HECM loans	110,911	119,671	6.53 %	7.15
Total reverse mortgage loans, held-for-investment	7,688,050	7,993,635	5.81 %	5.02
Reverse mortgage loans, held-for-sale	100,440	103,602	10.35 %	17.63
Total reverse mortgage loans	\$ 7,788,490	\$ 8,097,237	5.87 %	5.18

Unpoolable HECM loans can include unsecuritized subsequent tail loans on inactive HECM loans as well as HECM loans that have reached 98% of their respective maximum claim amount, or the "MCA," and repurchased from the HMBS pool, or "HECM Buyout Loans." The MCA is equal to the lesser of a home's appraised value at the point in time that the conditional commitment is issued or the maximum loan limit that can be insured by FHA. Unpoolable HECM loans are not eligible for securitization into HMBS.

HECM loans where the borrower is deceased, no longer occupies the property, or is delinquent on tax and/or insurance payments, are categorized as "inactive." Active HECM loans that have reached the MCA and have been repurchased from the HMBS pool, or "ABOs," are subsequently assigned to the U.S. Department of Housing and Urban Development, or "HUD," which then reimburses the Company for the outstanding debt on the repurchased loan, up to the MCA. For inactive HECM Buyout Loans, or "NABOs," following resolution of the loan the Company files a claim with HUD for any recoverable remaining principal and advance balances. The timing and amount of the Company obligations with respect to MCA repurchases is uncertain as repurchase is dependent largely on circumstances outside of the Company's control, including the amount and timing of future draws and the status of the loan.

The following table provides details on the Company's unpoolable HECM loans as of September 30, 2023:

(In thousands)

Unpoolable HECM Loan Type	September 30, 2023		
	Unpaid Principal Balance		Fair Value
ABOs	\$ 8,742	\$ 7,251	
NABOs	17,191	12,138	
Other HECM loans <sup>(1)</sup>	4,726	4,742	
<b>Total unpoolable HECM loans</b>	<b>\$ 30,659</b>	<b>\$ 24,131</b>	

(1) Includes HECM tail loans where the borrower is not in compliance with the terms of the underlying loan.

In March 2023, the Company entered into various agreements including a Master Loan Purchase and Servicing Agreement (the "MLPS Agreement") with a third party (the "MLPS Counterparty"), whereby it agreed to purchase and service HECM Buyout Loans with an unpaid principal balance of \$80.1 million that had been previously repurchased from various HMBS pools by a third party HMBS issuer, and simultaneously finance such loans with the MLPS Counterparty. As of September 30, 2023, the Company held HECM Buyout Loans purchased under the MLPS Agreement with a fair value of \$11.5 million, which are included in Loans, at fair value on the Condensed Consolidated Balance Sheet.

As of September 30, 2023, the Company had \$ 311.4 million in unpaid principal balance of inactive reverse mortgage loans, of which \$ 303.3 million related to HECM loans and the remainder related to proprietary reverse mortgage loans. As of December 31, 2022, the Company had \$267.0 million in unpaid principal balance of inactive reverse mortgage loans, of which \$ 265.9 million related to HECM loans and the remainder related to proprietary reverse mortgage loans.

The table below summarizes the geographic distribution of the real estate collateral underlying the Company's reverse mortgage loans as a percentage of total outstanding unpaid principal balance, as of September 30, 2023 and December 31, 2022.

Property Location by U.S. State	September 30, 2023	December 31, 2022
California	28.4 %	31.5 %
Florida	8.9 %	9.1 %
Colorado	7.0 %	6.4 %
Arizona	6.2 %	5.7 %
Washington	5.3 %	4.9 %
Utah	5.0 %	4.5 %
Texas	4.6 %	4.0 %
Oregon	3.0 %	2.8 %
Idaho	2.7 %	2.3 %
Massachusetts	2.5 %	2.4 %
New York	2.2 %	2.2 %
Nevada	2.2 %	2.1 %
North Carolina	2.1 %	1.9 %
Virginia	1.7 %	1.7 %
Ohio	1.5 %	1.5 %
Georgia	1.5 %	1.3 %
South Carolina	1.4 %	1.4 %
New Jersey	1.4 %	1.4 %
Tennessee	1.2 %	1.1 %
Maryland	1.2 %	1.4 %
Pennsylvania	1.2 %	1.2 %
Other	8.8 %	9.2 %
	<u>100.0 %</u>	<u>100.0 %</u>

## 6. Mortgage Servicing Rights

Certain of the reverse mortgage loans originated by the Company are ineligible for inclusion in HMBS, and are not guaranteed by the FHA ("Proprietary reverse mortgage loans"). The Company has entered into a Sale and Servicing Agreement (the "Sale and Servicing Agreement") with a third party (the "Proprietary Loan Purchaser") whereby the Company originated reverse mortgage loans based on specific proprietary criteria and committed to sell such loans to the Proprietary Loan Purchaser. Upon the sale of such loans to the Proprietary Loan Purchaser, the Company retained the rights and obligations of servicing such loans and an MSR asset was recorded.

Additionally, on July 1, 2023, the Company, through Longbridge, assumed the role as servicer for various private label securitization trusts collateralized by either proprietary reverse mortgage loans or HECM buyout loans. Longbridge was appointed servicer through the bankruptcy proceedings of the previous servicer, and the Company assumed the rights and obligations of servicing such loans. Such MSRs related to underlying reverse mortgage loans with an aggregate unpaid principal balance of \$2.1 billion on July 1, 2023. For the three- and nine-month periods ended September 30, 2023, the Company recognized a change in unrealized gain (loss) of \$23.9 million related to the MSRs it assumed which is included in Other, net on the Condensed Consolidated Statement of Operations.

As of September 30, 2023, the Company's MSRs related to underlying reverse mortgage loans with an aggregate unpaid principal balance of \$ 2.8 billion, and the fair value of such MSRs was \$29.7 million. As of December 31, 2022, the Company's MSRs related to underlying reverse mortgage loans with an aggregate unpaid principal balance of \$ 774.6 million, and the fair value of such MSRs was \$8.1 million.

The value of the Company's MSRs is driven by the net cash flows associated with servicing activities, which include contractually specified servicing fees, late fees, and other ancillary servicing revenue. The Company recognized a gain of \$22.2 million and \$21.5 million related to its MSRs for the three- and nine-month periods ended September 30, 2023, respectively, which is included in Other (net) on the Condensed Consolidated Statement of Operations. The Company did not hold any MSRs during the nine-month period ended September 30, 2022.

## 7. Investments in Unconsolidated Entities

The Company has various equity investments in entities where it has the ability to exert significant influence over such entity, but does not control such entity. In these cases the criteria for consolidation have not been met and the Company is required to account for such investments under ASC 323-10; the Company has elected the FVO for its investments in unconsolidated entities. As of September 30, 2023 and December 31, 2022, the Company's investments in unconsolidated entities had an aggregate fair value of \$113.5 million and \$127.0 million, respectively, which is included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value. For the three-month periods ended September 30, 2023 and 2022, the Company recognized \$(1.0) million and \$(25.5) million, respectively, and for the nine-month periods ended September 30, 2023 and 2022, the Company recognized \$( 3.4) million and \$(54.3) million, respectively, in Earnings (losses) from investments in unconsolidated entities, on its Condensed Consolidated Statement of Operations. Certain of the entities that the Company accounts for under ASC 323-10 are deemed to be VIEs, and the maximum amount at risk is generally limited to the Company's investment in the VIE. As of September 30, 2023 and December 31, 2022, the fair value of the Company's investments in unconsolidated entities that have been deemed to be VIEs was \$82.9 million and \$82.4 million, respectively.

The following table provides details about the Company's investments in unconsolidated entities as of September 30, 2023 and December 31, 2022:

Investment in Unconsolidated Entity	Form of Investment	Percentage Ownership of Unconsolidated Entity	
		September 30, 2023	December 31, 2022
<b>Loan Originators:</b>			
LendSure Mortgage Corp. <sup>(1)(2)</sup>	Common shares	49.9%	49.9%
Other <sup>(1)</sup>	Various	45.0%–50.0%	24.7%–80.0%
<b>Co-investments with Ellington affiliate(s)<sup>(1)</sup>:</b>			
Elizon DB 2015-1 LLC <sup>(3)(4)</sup>	Membership Interest	25.8%	14.6%
Elizon NM CRE 2020-1 LLC <sup>(3)(5)</sup>	Membership Interest	8.7%	20.2%
Elizon CH CRE 2021-1 LLC <sup>(3)(6)</sup>	Membership Interest	29.2%	34.2%
Elizon NAT CRE 2021-1 LLC <sup>(3)(7)</sup>	Membership Interest	—%	15.5%
<b>Equity investments in securitization-related vehicles, including risk retention vehicles<sup>(8)</sup></b>			
Other:	Membership Interest	24.6%–84.5%	24.6%–84.5%
Jepson Holdings Limited <sup>(1)(3)</sup>	Membership Interest	7.0%	1.9%
Other <sup>(1)(3)(9)</sup>	Various	6.1%–79.0%	9.9%–79.0%

(1) See Note 15 for additional details on the Company's related party transactions.

(2) Excludes investment in equity interests convertible into non-voting common shares; including such interests the Company's additional non-voting stake in the entity was 13.8% as of both September 30, 2023 and December 31, 2022. See Note 15 Related Party Transactions—*Transactions Involving Certain Loan Originators* for additional information.

(3) The Company has evaluated this entity and determined that it meets the definition of a VIE. The Company evaluated its interest in the VIE and determined that the Company does not have the power to direct the activities of the VIE and does not have control of the underlying assets, where applicable. As a result, the Company determined that it is not the primary beneficiary of this VIE and therefore has not consolidated the VIE.

(4) As discussed in Note 15 Related Party Transactions—*Participation in Multi-Borrower Financing Facilities*, the Company and the Affiliated Entities (as defined in Note 15) each consolidate their segregated silos of the Joint Entity (as defined in Note 15). The Company's effective percentage ownership before the effects of consolidation of both its and the Affiliated Entities' respective segregated silos of the Joint Entity, was 58.6% and 62.4% as of September 30, 2023 and December 31, 2022, respectively.

(5) As discussed in Note 15 Related Party Transactions—*Participation in Multi-Borrower Financing Facilities*, the Company and the Affiliated Entities (as defined in Note 15) each consolidate their segregated silos of the Joint Entity (as defined in Note 15). The Company's effective percentage ownership before the effects of consolidation of both its and the Affiliated Entities' respective segregated silos of the Joint Entity, was 57.3% and 54.2% as of September 30, 2023 and December 31, 2022, respectively.

(6) As discussed in Note 15 Related Party Transactions—*Participation in Multi-Borrower Financing Facilities*, the Company and the Affiliated Entities (as defined in Note 15) each consolidate their segregated silos of the Joint Entity (as defined in Note 15). The Company's effective percentage ownership before the effects of consolidation of both its and the Affiliated Entities' respective segregated silos of the Joint Entity, was 50.2% and 57.4% as of September 30, 2023 and December 31, 2022, respectively.

(7) As discussed in Note 15 Related Party Transactions—*Participation in Multi-Borrower Financing Facilities*, the Company and the Affiliated Entities (as defined in Note 15) each consolidate their segregated silos of the Joint Entity (as defined in Note 15). The Company's effective percentage ownership before the effects of consolidation of both its and the Affiliated Entities' respective segregated silos of the Joint Entity, was 66.6% as of December 31, 2022.

(8) Includes interests in Consumer Risk Retention Vehicles, as defined in Note 12—*Participation in Multi-Seller Consumer Loan Securitizations*, and Participated Risk Retention Vehicle and Residential Loan JV, as defined in Note 12—*Residential Mortgage Loan Securitizations*. The Company has evaluated these entities and determined that they do not meet the definition of a VIE. The Company evaluated its interest in the entity under the voting interest model outlined in ASC 810, and has determined that the Company does not control these entities. As a result, the Company has not consolidated the entity. See Note 12 for additional details on the Company's securitization transactions.

(9) Includes interest in warehouse facilities; see Note 15—*Participation in CLO Transactions*, for additional details.

As of September 30, 2023 and December 31, 2022, the Company had non-controlling equity interests in various loan originators, including LendSure Mortgage Corp., or "LendSure," a mortgage loan originator. The Company's investment in LendSure was considered significant pursuant to Regulation S-X for the nine-month period ended September 30, 2022. For the three-month periods ended September 30, 2023 and 2022, the Company recognized \$(0.4) million and \$(6.9) million, respectively, and for the nine-month periods ended September 30, 2023 and 2022, the Company recognized \$(3.5) million and \$(18.9) million, respectively, of unrealized gains (losses) from its investment in LendSure, which is included in Earnings (losses) from investments in unconsolidated entities on the Condensed Consolidated Statement of Operations. As of September 30, 2023 and December 31, 2022, the fair value of the Company's investment in LendSure was \$23.2 million and \$26.7 million, respectively, which is included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value. The following table provides a summary of the results of operations of LendSure for the three- and nine- month periods ended September 30, 2023 and 2022.

(In thousands)	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenue	\$ 12,968	\$ 15,715	\$ 29,615	\$ 45,734
Net income (loss)	\$ 1,660	\$ 1,299	\$ 510	\$ 2,453

#### 8. Real Estate Owned

As discussed in Note 2, the Company obtains possession of REO as a result of foreclosures on the associated mortgage loans. The following tables detail activity in the Company's carrying value of REO for the three- and nine-month periods ended September 30, 2023 and 2022:

	Three-Month Period Ended			
	September 30, 2023		September 30, 2022	
	Number of Properties	Carrying Value (In thousands)	Number of Properties	Carrying Value (In thousands)
Beginning Balance (June 30, 2023 and 2022, respectively)	78	\$ 21,076	6	\$ 20,866
Transfers from mortgage loans	25	9,764	—	—
Capital expenditures and other adjustments to cost		(85)		62
Adjustments to record at the lower of cost or fair value		(2,226)		(121)
Dispositions	(24)	(4,959)	(1)	(69)
Ending Balance (September 30, 2023 and 2022, respectively)	<u>79</u>	<u>\$ 23,570</u>	<u>5</u>	<u>\$ 20,738</u>

  

	Nine-Month Period Ended			
	September 30, 2023		September 30, 2022	
	Number of Properties	Carrying Value (In thousands)	Number of Properties	Carrying Value (In thousands)
Beginning Balance (December 31, 2022 and 2021, respectively)	97	\$ 28,403	7	\$ 24,681
Transfers from mortgage loans	71	21,398	3	1,018
Capital expenditures and other adjustments to cost		587		137
Adjustments to record at the lower of cost or fair value		(2,333)		(539)
Dispositions	(89)	(24,485)	(5)	(4,559)
Ending Balance (September 30, 2023 and 2022, respectively)	<u>79</u>	<u>\$ 23,570</u>	<u>5</u>	<u>\$ 20,738</u>

During the three-month period ended September 30, 2023, the Company sold twenty-four REO properties, realizing a net gain (loss) of approximately \$( 0.2) million. During the three-month period ended September 30, 2022, the Company sold one REO property, realizing a net gain (loss) of approximately \$( 18) thousand. During the nine-month period ended September 30, 2023, the Company sold eighty-nine REO properties, realizing a net gain (loss) of approximately \$( 1.5) million. During the nine-month period ended September 30, 2022, the Company sold five REO properties, realizing a net gain (loss) of approximately \$0.5 million. Such realized gains (losses) are included in Realized gains (losses) on real estate owned, net, on the Company's Condensed Consolidated Statement of Operations. As of both September 30, 2023 and December 31, 2022, all of the Company's REO had been obtained as a result of obtaining physical possession through foreclosure. Of the Company's total

REO holdings, \$21.7 million and \$20.6 million, were measured at fair value on a non-recurring basis as of September 30, 2023 and December 31, 2022, respectively.

## 9. Financial Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages certain risks associated with its investments and borrowings, including interest rate, credit, liquidity, and foreign exchange rate risk primarily by managing the amount, sources, and duration of its investments and borrowings, and through the use of derivative financial instruments. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of its known or expected cash receipts and its known or expected cash payments principally related to its investments and borrowings.

The following table details the fair value of the Company's holdings of financial derivatives as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
<i>(In thousands)</i>		
<b>Financial derivatives—assets, at fair value:</b>		
TBA securities sale contracts	\$ 6,826	\$ 7,985
Fixed payer interest rate swaps	176,648	116,768
Fixed receiver interest rate swaps	640	254
Credit default swaps on asset-backed securities	76	76
Credit default swaps on asset-backed indices	3,574	3,366
Credit default swaps on corporate bond indices	2,298	83
Total return swaps	16	—
Futures	6,165	2,772
Forwards	263	77
Warrants	1,517	1,137
<b>Total financial derivatives—assets, at fair value</b>	<b>198,023</b>	<b>132,518</b>
<b>Financial derivatives—liabilities, at fair value:</b>		
TBA securities purchase contracts	(681)	(2,007)
TBA securities sale contracts	(2)	—
Fixed payer interest rate swaps	(67)	(1,408)
Fixed receiver interest rate swaps	(28,396)	(48,882)
Credit default swaps on asset-backed indices	(33)	(33)
Credit default swaps on corporate bonds	(268)	(259)
Credit default swaps on corporate bond indices	(8,891)	(1,513)
Futures	(163)	(96)
Forwards	(19)	—
<b>Total financial derivatives—liabilities, at fair value</b>	<b>(38,520)</b>	<b>(54,198)</b>
<b>Total</b>	<b>\$ 159,503</b>	<b>\$ 78,320</b>

**Interest Rate Swaps**

The following tables provide information about the Company's fixed payer interest rate swaps as of September 30, 2023 and December 31, 2022:

**September 30, 2023:**

Maturity	Notional Amount (In thousands)	Fair Value	Weighted Average		
			Pay Rate	Receive Rate	Remaining Years to Maturity
2024	\$ 629,547	\$ 13,213	3.18 %	5.34 %	0.86
2025	222,190	8,655	3.19	5.31	1.74
2026	84,637	2,170	3.91	5.31	2.62
2027	209,841	13,960	2.78	5.31	3.70
2028	795,474	31,199	3.58	5.30	4.72
2029	53,011	6,068	2.19	5.31	5.57
2030	123,317	7,742	3.31	5.32	6.78
2031	157,766	30,813	1.51	5.31	7.71
2032	181,867	21,002	2.80	5.31	8.81
2033	369,690	29,585	3.33	5.10	9.56
2035	500	170	0.78	5.33	12.06
2036	1,102	342	1.19	5.31	12.39
2037	45,000	7,113	2.81	5.31	13.91
2038	32,500	980	4.01	4.50	14.92
2040	500	208	0.90	5.33	17.07
2049	5,729	1,382	2.63	5.31	25.28
2050	500	254	0.98	5.33	27.07
2052	5,000	1,725	2.07	5.31	28.52
<b>Total</b>	<b>\$ 2,918,171</b>	<b>\$ 176,581</b>	<b>3.17 %</b>	<b>5.28 %</b>	<b>5.01</b>

December 31, 2022:

Maturity	Notional Amount (In thousands)	Fair Value	Weighted Average		
			Pay Rate	Receive Rate	Remaining Years to Maturity
2023	\$ 664,398	\$ 13,576	0.64 %	4.51 %	0.38
2024	817,850	17,326	3.03	4.35	1.55
2025	382,793	11,747	2.89	4.32	2.51
2026	100	12	0.79	4.41	3.58
2027	264,500	8,218	3.01	4.30	4.53
2028	114,119	14,230	1.44	4.37	5.49
2029	54,428	4,485	2.45	4.65	6.31
2030	68,300	5,763	2.30	4.36	7.39
2031	161,009	23,799	1.71	4.48	8.46
2032	236,277	10,161	2.98	4.30	9.63
2035	500	142	0.78	4.33	12.81
2036	1,100	267	1.45	4.67	13.13
2037	45,000	3,578	2.81	4.30	14.66
2040	500	171	0.90	4.33	17.82
2049	5,796	630	2.89	3.74	26.02
2050	500	203	0.98	4.33	27.82
2052	5,000	1,052	2.07	4.30	29.27
Total	\$ 2,822,170	\$ 115,360	2.27 %	4.39 %	3.47

The following tables provide information about the Company's fixed receiver interest rate swaps as of September 30, 2023 and December 31, 2022:

September 30, 2023:

Maturity	Notional Amount (In thousands)	Fair Value	Weighted Average		
			Pay Rate	Receive Rate	Remaining Years to Maturity
2024	\$ 427,234	\$ (1,056)	5.33 %	5.17 %	0.50
2025	138,918	(943)	5.31	4.88	1.46
2026	410,298	(17,440)	5.32	3.37	2.46
2027	11,591	(425)	5.31	3.74	4.13
2028	257,796	(4,036)	5.31	4.14	4.57
2030	27,000	(901)	5.31	3.78	6.84
2033	51,428	(2,302)	5.32	3.76	9.68
2035	500	(174)	5.31	0.74	12.06
2040	500	(215)	5.31	0.84	17.07
2050	500	(264)	5.31	0.90	27.07
Total	\$ 1,325,765	\$ (27,756)	5.32 %	4.28 %	2.54

December 31, 2022:

Maturity	Notional Amount (In thousands)	Fair Value	Pay Rate	Weighted Average	
				Receive Rate	Remaining Years to Maturity
2023	\$ 41,407	\$ (84)	4.74 %	2.00 %	0.22
2024	818,037	(25,569)	4.27	2.39	1.40
2025	328,775	(5,468)	4.30	3.48	2.84
2026	215,852	(11,312)	4.32	2.26	3.25
2027	311,007	(1,067)	4.30	3.67	4.89
2032	59,155	(4,596)	4.30	2.58	9.58
2035	500	(145)	4.30	0.74	12.81
2040	500	(175)	4.30	0.84	17.82
2050	500	(212)	4.30	0.90	27.82
Total	\$ 1,775,733	\$ (48,628)	4.30 %	2.79 %	2.76

**Credit Default Swaps**

The following table provides information about the Company's credit default swaps as of September 30, 2023 and December 31, 2022:

Type <sup>(1)</sup> (\$ in thousands)	As of					
	September 30, 2023			December 31, 2022		
	Notional	Fair Value	Weighted Average Remaining Term (Years)	Notional	Fair Value	Weighted Average Remaining Term (Years)
<b>Asset:</b>						
<b>Long:</b>						
Credit default swaps on asset-backed indices	\$ 234	\$ 12	14.25	\$ 253	\$ 4	14.99
Credit default swaps on corporate bonds	31	—	0.22	—	—	—
Credit default swaps on corporate bond indices	148,953	2,298	4.67	2,037	40	0.97
<b>Short:</b>						
Credit default swaps on asset-backed securities	(220)	76	11.86	(220)	76	12.61
Credit default swaps on asset-backed indices	(42,770)	3,562	35.32	(58,004)	3,362	35.70
Credit default swaps on corporate bond indices	—	—	—	(1,498)	43	0.97
<b>Liability:</b>						
<b>Long:</b>						
Credit default swaps on asset-backed indices	65	(33)	25.73	65	(33)	26.48
<b>Short:</b>						
Credit default swaps on corporate bonds	(16,400)	(268)	3.31	(16,400)	(259)	4.06
Credit default swaps on corporate bond indices	(716,384)	(8,891)	5.11	(165,006)	(1,513)	4.94
	<u>\$ (626,491)</u>	<u>\$ (3,244)</u>	<u>7.23</u>	<u>\$ (238,773)</u>	<u>\$ 1,720</u>	<u>12.35</u>

(1) Long notional represents contracts where the Company has written protection and short notional represents contracts where the Company has purchased protection.

**Futures**

The following table provides information about the Company's long and short positions in futures as of September 30, 2023 and December 31, 2022:

Description	As of					
	September 30, 2023			December 31, 2022		
	Notional Amount	Fair Value	Remaining Months to Expiration	Notional Amount	Fair Value	Remaining Months to Expiration
(In thousands)						
<b>Assets:</b>						
<b>Short Contracts:</b>						
U.S. Treasury futures	\$ (276,600)	\$ 6,165	2.73	\$ (267,300)	\$ 2,772	2.70
<b>Liabilities:</b>						
<b>Long Contracts:</b>						
U.S. Treasury futures	1,900	(163)	2.67	1,900	(65)	2.70
<b>Short Contracts:</b>						
U.S. Treasury futures	—	—	—	(49,800)	(31)	3.00
<b>Total, net</b>	<b>\$ (274,700)</b>	<b>\$ 6,002</b>	<b>2.73</b>	<b>\$ (315,200)</b>	<b>\$ 2,676</b>	<b>2.75</b>

**Warrants**

The following table provides information about the Company's warrants contracts to purchase shares as of September 30, 2023 and December 31, 2022:

Description	September 30, 2023			December 31, 2022		
	Number of Shares Underlying Warrant	Fair Value		Remaining Years to Expiration	Number of Shares Underlying Warrant	Fair Value
		(In thousands)				
Warrants	566	\$ 1,517		1.27	3,105	\$ 1,137

**TBAs**

The Company transacts in the forward settling TBA market. Pursuant to these TBA transactions, the Company agrees to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. TBAs are generally liquid, have quoted market prices, and represent the most actively traded class of MBS. The Company uses TBAs to mitigate interest rate risk, usually by taking short positions. The Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for investment purposes, including holding long positions.

The Company does not usually take delivery of TBAs; rather, it settles the associated receivable and payable with its trading counterparties on a net basis. Transactions with the same counterparty for the same TBA that result in a reduction of the position are treated as extinguished.

As of September 30, 2023 and December 31, 2022, the Company had outstanding TBA purchase and sale contracts as follows:

TBA Securities	September 30, 2023				December 31, 2022			
	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>	Notional Amount <sup>(1)</sup>	Cost Basis <sup>(2)</sup>	Market Value <sup>(3)</sup>	Net Carrying Value <sup>(4)</sup>
<i>(In thousands)</i>								
Purchase contracts:								
Liabilities	\$ 46,102	\$ 44,391	\$ 43,710	\$ (681)	\$ 163,127	\$ 157,096	\$ 155,089	\$ (2,007)
Sale contracts:								
Assets	(341,311)	(304,426)	(297,600)	6,826	(691,568)	(652,049)	(644,064)	7,985
Liabilities	(1,280)	(1,181)	(1,183)	(2)	—	—	—	—
	(342,591)	(305,607)	(298,783)	6,824	(691,568)	(652,049)	(644,064)	7,985
Total TBA securities, net	\$ (296,489)	\$ (261,216)	\$ (255,073)	\$ 6,143	\$ (528,441)	\$ (494,953)	\$ (488,975)	\$ 5,978

(1) Notional amount represents the principal balance of the underlying Agency RMBS.

(2) Cost basis represents the forward price to be paid (received) for the underlying Agency RMBS.

(3) Market value represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of period end.

(4) Net carrying value represents the difference between the market value of the TBA contract as of period end and the cost basis, and is reported in Financial derivatives-assets, at fair value and Financial derivatives-liabilities, at fair value on the Condensed Consolidated Balance Sheet.

Gains and losses on the Company's derivative contracts for the three- and nine-month periods ended September 30, 2023 and 2022 are summarized in the tables below:

Derivative Type	Primary Risk Exposure	Three-Month Period Ended September 30, 2023						
		Net Realized Gains (Losses) on Financial			Change in Net Unrealized Gains (Losses) on Financial		Change in Net Unrealized Gains (Losses) on Derivatives	
		Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Derivatives Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	(Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps <sup>(1)</sup>	Change in Net Unrealized Gains (Losses) on Financial Derivatives <sup>(1)</sup>	Change in Net Unrealized Gains (Losses) on Derivatives <sup>(1)</sup>
<i>(In thousands)</i>								
Interest rate swaps	Interest Rate	\$ 7,462	\$ 3,405	\$ 10,867	\$ 6,656	\$ 38,828	\$ 45,484	
Credit default swaps on asset-backed indices	Credit		(975)	(975)		224	224	
Credit default swaps on corporate bond indices	Credit		(3,982)	(3,982)		3,531	3,531	
Credit default swaps on corporate bonds	Credit		(42)	(42)		15	15	
Total return swaps	Equity Market/Credit		30	30		16	16	
TBAs	Interest Rate		13,015	13,015		3,786	3,786	
Futures	Interest Rate/Currency		7,253	7,253		2,214	2,214	
Forwards	Currency		429	429		203	203	
Warrants	Credit		(312)	(312)		312	312	
Total		\$ 7,462	\$ 18,821	\$ 26,283	\$ 6,656	\$ 49,129	\$ 55,785	

(1) Includes foreign currency remeasurement on financial derivatives in the amount of \$(9) thousand for the three-month period ended September 30, 2023, which is included on the Condensed Consolidated Statement of Operations in Other, net.

Three-Month Period Ended September 30, 2022

Derivative Type	Primary Risk Exposure							Change in Net Unrealized Gains (Losses) on Financial Derivatives		
		Net Realized Gains (Losses) on Financial Derivatives			Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps			Change in Net Unrealized Gains (Losses) on Financial Derivatives		
		Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Derivatives Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Periodic Settlements of Interest Rate Swaps	Accrued Periodic Settlements of Interest Rate Swaps <sup>(1)</sup>	Change in Net Unrealized Gains (Losses) on Financial Derivatives	Net Realized Gains (Losses) on Financial Derivatives	Accrued Periodic Settlements of Interest Rate Swaps <sup>(1)</sup>	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>										
Interest rate swaps	Interest Rate	\$ 2,841	\$ 5,442	\$ 8,283	\$ 361	\$ 22,845	\$ 23,206			
Credit default swaps on asset-backed securities	Credit		(844)	(844)			717	717		
Credit default swaps on asset-backed indices	Credit		375	375			(514)	(514)		
Credit default swaps on corporate bond indices	Credit		811	811			(1,281)	(1,281)		
Credit default swaps on corporate bonds	Credit		(57)	(57)			(18)	(18)		
Total return swaps	Credit		—	—			(37)	(37)		
TBAs	Interest Rate		9,085	9,085			27,926	27,926		
Futures	Interest Rate		445	445			365	365		
Forwards	Currency		897	897			17	17		
Warrants	Equity Market/Credit		—	—			(140)	(140)		
Total		\$ 2,841	\$ 16,154	\$ 18,995	\$ 361	\$ 49,880	\$ 50,241			

(1) Includes foreign currency remeasurement on financial derivatives in the amount of \$(18) thousand for the three-month period ended September 30, 2022, which is included on the Condensed Consolidated Statement of Operations in Other, net.

Nine-Month Period Ended September 30, 2023

Derivative Type	Primary Risk Exposure							Change in Net Unrealized Gains (Losses) on Financial Derivatives		
		Net Realized Gains (Losses) on Financial Derivatives			Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps			Change in Net Unrealized Gains (Losses) on Financial Derivatives		
		Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Derivatives Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Periodic Settlements of Interest Rate Swaps	Accrued Periodic Settlements of Interest Rate Swaps <sup>(1)</sup>	Change in Net Unrealized Gains (Losses) on Financial Derivatives	Net Realized Gains (Losses) on Financial Derivatives	Accrued Periodic Settlements of Interest Rate Swaps <sup>(1)</sup>	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>										
Interest rate swaps	Interest Rate	\$ 22,489	\$ (5,729)	\$ 16,760	\$ 13,421	\$ 44,706	\$ 58,127			
Credit default swaps on asset-backed indices	Credit		(1,215)	(1,215)			2,156	2,156		
Credit default swaps on corporate bond indices	Credit		(6,071)	(6,071)			2,565	2,565		
Credit default swaps on corporate bonds	Credit		(124)	(124)			(9)	(9)		
Total return swaps	Equity Market/Credit		30	30			16	16		
TBAs	Interest Rate		17,287	17,287			165	165		
Futures	Interest Rate/Currency		4,189	4,189			3,326	3,326		
Forwards	Currency		73	73			167	167		
Warrants	Credit		(312)	(312)			381	381		
Total		\$ 22,489	\$ 8,128	\$ 30,617	\$ 13,421	\$ 53,473	\$ 66,894			

(1) Includes foreign currency remeasurement on financial derivatives in the amount of \$(3) thousand for the nine-month period ended September 30, 2023, which is included on the Condensed Consolidated Statement of Operations in Other, net.

Derivative Type	Primary Risk Exposure	Nine-Month Period Ended September 30, 2022							
		Net Realized Gains (Losses) on Financial Derivatives		Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps		Net Realized Gains (Losses) on Financial Derivatives		Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	
		Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Periodic Settlements of Interest Rate Swaps	Periodic Settlements of Interest Rate Swaps <sup>(1)</sup>	Change in Net Unrealized Gains (Losses) on Financial Derivatives Other Than on Accrued Periodic Settlements of Interest Rate Swaps		
<i>(In thousands)</i>									
Interest rate swaps	Interest Rate	\$ 640	\$ 15,514	\$ 16,154	\$ 1,759	\$ 62,879	\$ 64,638		
Credit default swaps on asset-backed securities	Credit		(854)	(854)			615	615	
Credit default swaps on asset-backed indices	Credit		40	40			1,190	1,190	
Credit default swaps on corporate bond indices	Credit		1,048	1,048			2,376	2,376	
Credit default swaps on corporate bonds	Credit		(76)	(76)			89	89	
Total return swaps	Credit		—	—			(37)	(37)	
Options	Credit		147	147			148	148	
TBAs	Interest Rate		55,876	55,876			27,997	27,997	
Futures	Interest Rate		15,493	15,493			183	183	
Forwards	Currency		1,693	1,693			468	468	
Warrants	Equity Market/Credit		(413)	(413)			372	372	
<b>Total</b>		<b>\$ 640</b>	<b>\$ 88,468</b>	<b>\$ 89,108</b>	<b>\$ 1,759</b>	<b>\$ 96,280</b>	<b>\$ 98,039</b>		

(1) Includes foreign currency remeasurement on financial derivatives in the amount of \$(43) thousand for the nine-month period ended September 30, 2022, which is included on the Condensed Consolidated Statement of Operations in Other, net.

The table below details the average notional values of the Company's financial derivatives, using absolute value of month end notional values, for the nine-month period ended September 30, 2023 and the year ended December 31, 2022:

Derivative Type	Nine-Month Period Ended September 30, 2023		Year Ended December 31, 2022	
	(In thousands)			
Interest rate swaps	\$ 4,203,641		\$ 3,292,2	
TBAs	624,337		796,0	
Credit default swaps	433,155		130,8	
Futures	229,170		186,4	
Forwards	13,489		13,6	
Warrants	2,371		3,3	
Total return swaps	599		6	
Options	—		13,8	

From time to time the Company enters into credit derivative contracts for which the Company sells credit protection ('written credit derivatives'). As of September 30, 2023 and December 31, 2022, all of the Company's open written credit derivatives were credit default swaps on either mortgage/asset-backed indices (ABX and CMBX indices) or corporate bond indices (CDX), collectively referred to as credit indices, or on individual corporate bonds, for which the Company receives periodic payments at fixed rates from credit protection buyers, and is obligated to make payments to the credit protection buyer upon the occurrence of a "credit event" with respect to underlying reference assets.

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Written credit derivatives held by the Company at September 30, 2023 and December 31, 2022 are summarized below:

Credit Derivatives	September 30, 2023	December 31, 2022
<i>(In thousands)</i>		
Fair Value of Written Credit Derivatives, Net	\$ 2,277	\$ 11
Notional Value of Written Credit Derivatives <sup>(1)</sup>	149,283	2,355

(1) The notional value is the maximum amount that a seller of credit protection would be obligated to pay, and a buyer of credit protection would receive, upon occurrence of a "credit event." Movements in the value of credit default swap transactions may require the Company or the counterparty to post or receive collateral. Amounts due or owed under credit derivative contracts with an International Swaps and Derivatives Association, or "ISDA," counterparty may be offset against amounts due or owed on other credit derivative contracts with the same ISDA counterparty. As a result, the notional value of written credit derivatives involving a particular underlying reference asset or index has been reduced (but not below zero) by the notional value of any contracts where the Company has purchased credit protection on the same reference asset or index with the same ISDA counterparty.

A credit default swap on a credit index or a corporate bond typically terminates at the stated maturity date in the case of corporate indices or bonds, or, in the case of ABX and CMBX indices, the date that all of the reference assets underlying the index are paid off in full, retired, or otherwise cease to exist. Implied credit spreads may be used to determine the market value of such contracts and are reflective of the cost of buying/selling credit protection. Higher spreads would indicate a greater likelihood that a seller will be obligated to perform (i.e., make protection payments) under the contract. In situations where the credit quality of the underlying reference assets has deteriorated, the percentage of notional values that would be paid up front to enter into a new such contract ("points up front") is frequently used as an indication of credit risk. Credit protection sellers entering the market in such situations would expect to be paid points up front corresponding to the approximate fair value of the contract. As of September 30, 2023, the implied credit spread on the Company's outstanding written credit derivative ranged between 60 and 515 basis points; as of December 31, 2022, implied credit spread on the Company's written credit derivative was 310 basis points. Excluded from these spread ranges are contracts outstanding for which the individual spread is greater than 2,000 basis points. The Company believes that these contracts would be quoted based on estimated points up front. The total fair value of contracts with individual implied credit spreads in excess of 2,000 basis points was \$(33) thousand as of both September 30, 2023 and December 31, 2022. Estimated points up front on these contracts as of both September 30, 2023 and December 31, 2022 ranged between 46.3 and 88.8. Total net up-front payments (paid) or received relating to written credit derivatives outstanding as of September 30, 2023 and December 31, 2022 was \$(1.8) million and \$0.8 million, respectively.

## 10. Other Assets

The following table provides additional details of the Company's assets included in Other assets on the Condensed Consolidated Balance Sheet at September 30, 2023 and December 31, 2022.

Other Assets	September 30, 2023	December 31, 2022
<i>(In thousands)</i>		
Receivables and claims related to reverse mortgage loans repurchased from HMBS <sup>(1)</sup>	\$ 65,029	54,357
Prepaid expenses and deferred offering costs	9,987	7,541
Accounts receivable	7,149	2,418
Leases—right of use assets <sup>(2)</sup>	3,329	3,838
Intangible assets	2,798	3,275
Prepaid scheduled draws on reverse mortgage loans and amounts due from sub-servicer	2,304	2,105
Servicing asset, at fair value <sup>(3)</sup>	2,295	999
Property and equipment <sup>(4)</sup>	1,422	1,406
Certificates of deposit, security deposits, and escrow cash	1,080	460
Other	473	392
	<b>\$ 95,866</b>	<b>\$ 76,791</b>

(1) Represents receivables from third-parties and claims to HUD related to loans repurchased from HMBS. See Note 12, Issuance of HMBS for discussion on the maximum claim amount related to reverse mortgage loans in HMBS.

(2) See Note 23 for additional details on the Company's leases and ROU assets.

(3) See Note 12 for details on the Servicing asset.

(4) Net of accumulated depreciation.

On October 3, 2022, the Company completed the Longbridge Transaction as discussed in Note 24. In connection with the Longbridge Transaction, the Company identified and recognized various intangible assets. The following table details the Company's intangible assets as of September 30, 2023 and December 31, 2022.

	September 30, 2023					December 31, 2022				
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Useful Life		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Useful Life	
	(In thousands)		(In months)			(In thousands)		(In months)		
<b>Intangible Asset:</b>										
Internally developed software	\$ 1,400	\$ (467)	\$ 933	36	\$ 1,400	\$ (116)	\$ 1,284	36		
Trademarks/trade names	1,200	—	1,200	Indefinite	1,200	—	1,200	Indefinite		
Customer relationships	700	(35)	665	240	700	(9)	691	240		
Non-compete agreements	200	(200)	—	6	200	(100)	100	6		
<b>Total identified intangible assets</b>	<b>\$ 3,500</b>	<b>\$ (702)</b>	<b>\$ 2,798</b>		<b>\$ 3,500</b>	<b>\$ (225)</b>	<b>\$ 3,275</b>			

The following table summarizes changes in the net carrying value of the Company's intangible assets for the three- and nine-month periods ended September 30, 2023. The Company did not have any intangible assets during the nine-month period ended September 30, 2022.

	Three-Month Period Ended September 30, 2023				
	Internally Developed Software		Trademarks/Trade Names		Customer Relationships
	(In thousands)				Total
Net carrying value of intangible assets—Beginning Balance (June 30, 2023)	\$ 1,050		\$ 1,200	\$ 674	\$ 2,924
Accumulated Amortization	(117)		—	(9)	(126)
<b>Net carrying value of intangible assets—Ending Balance (September 30, 2023)</b>	<b>\$ 933</b>		<b>\$ 1,200</b>	<b>\$ 665</b>	<b>\$ 2,798</b>

	Nine-Month Period Ended September 30, 2023				
	Internally Developed Software		Trademarks/Trade Names		Customer Relationships
	(In thousands)				Non-Compete Agreements
Net carrying value of intangible assets—Beginning Balance (December 31, 2022)	\$ 1,284		\$ 1,200	\$ 691	\$ 100
Accumulated Amortization	(351)		—	(26)	(100)
<b>Net carrying value of intangible assets—Ending Balance (September 30, 2023)</b>	<b>\$ 933</b>		<b>\$ 1,200</b>	<b>\$ 665</b>	<b>\$ —</b>

The following table summarizes the Company's estimated future amortization expense on its intangible assets.

	September 30, 2023	
	(In thousands)	
2023	\$ 125	
2024		502
2025		385
2026		35
2027		35
Thereafter		516
<b>Total</b>	<b>\$ 1,598</b>	

## 11. Consolidated VIEs

As discussed in Note 2, the Company has interests in entities that it has determined to be VIEs. The following table summarizes the assets and liabilities of the Company's consolidated VIEs that are included on the Company's Consolidated Balance Sheet as of September 30, 2023 and December 31, 2022. See Note 12 and Note 15 for additional information on the Company's consolidated VIEs.

(In thousands)	September 30, 2023	December 31, 2022
<b>Assets</b>		
Cash and cash equivalents	\$ 243	\$ 2,444
Securities, at fair value	80,524	73,644
Loans, at fair value	3,280,868	3,524,685
Investments in unconsolidated entities, at fair value	68,874	68,574
Real estate owned	19,011	21,121
Investment related receivables	98,204	21,893
Other assets	1,657	1,577
<b>Total Assets</b>	\$ 3,549,381	\$ 3,713,938
<b>Liabilities</b>		
Repurchase agreements	\$ 1,265,848	\$ 1,333,098
Other secured borrowings	29,542	37,812
Other secured borrowings, at fair value	1,404,567	1,539,881
Interest payable	1,477	2,012
Accrued expenses and other liabilities	875	1,460
<b>Total Liabilities</b>	2,702,309	2,914,263
<b>Total Stockholders' Equity</b>	837,435	789,625
Non-controlling interests	9,637	10,050
<b>Total Equity</b>	847,072	799,675
<b>Total Liabilities and Equity</b>	\$ 3,549,381	\$ 3,713,938

## 12. Securitization Transactions

### Participation in CLO Transactions

Since June 2017, an affiliate of Ellington has sponsored four CLO securitization transactions (the "Ellington-sponsored CLO Securitizations"), collateralized by corporate loans and managed by an affiliate of Ellington (the "CLO Manager"). Ellington, the Company, several other affiliates of Ellington, and in certain cases, third parties, participated in the Ellington-sponsored CLO Securitizations (collectively, the "CLO Co-Participants").

Pursuant to each Ellington-sponsored CLO Securitization, a newly formed securitization trust (each a "CLO Issuer") issued various classes of notes, which were in turn sold to unrelated third parties and the applicable CLO Co-Participants.

The CLO Issuers are each deemed to be a VIE. The Company evaluates its interests in the CLO Issuers under ASC 810, and while the Company retains credit risk in each of the securitization trusts through its beneficial ownership of a portion of the subordinated interests of each of the securitization trusts, which are the first to absorb credit losses on the securitized assets, the Company does not retain control of these assets or the power to direct the activities of the CLO Issuers that most significantly impact the CLO Issuers' economic performance. As a result, the Company determined that it is not the primary beneficiary of the CLO Issuers, and therefore the Company has not consolidated the CLO Issuers. The Company's maximum amount at risk is limited to the Company's investment in each of the CLO Issuers. As of September 30, 2023 and December 31, 2022, the fair value of the Company's investment in the notes issued by the CLO Issuers was \$6.3 million and \$11.3 million, respectively.

See Note 15 for further details on the Company's participation in CLO transactions.

#### **Residential Mortgage Loan Securitizations**

Since November 2017, the Company has participated in securitizations of non-QM loans (each, a "non-QM securitization"). In each case, the applicable sponsor of such securitization (the "Sponsor") transferred a pool of non-QM loans (each, a "Collateral Pool") to a wholly-owned subsidiary of such Sponsor (each, a "Depositor"), and on the closing date such Collateral Pool was deposited into a newly created securitization trust (such trusts collectively, the "Issuing Entities"). Pursuant to the securitizations, the Issuing Entities issued various classes of mortgage pass-through certificates (the "Certificates") which are backed by the cash flows from the underlying non-QM loans.

For the non-QM securitizations in which the Company participated between November 2017 and July 2022, the Sponsor and the Depositor are wholly-owned subsidiaries of the Company. The Company has subsequently participated in non-QM securitizations with other entities managed by Ellington (each a "Non-QM Co-Participant"), and in such cases the Sponsor and the Depositor are not subsidiaries of the Company.

Under the Dodd-Frank Act, sponsors of securitizations are generally required to retain at least 5% of the economic interest in the credit risk of the securitized assets (the "Risk Retention Rules"). In order to comply with the Risk Retention Rules, in each non-QM securitization for which the applicable Sponsor was a wholly-owned subsidiary of the Company, the Company purchased and intends to hold, at a minimum, the requisite amount of the most subordinated classes of Certificates and the excess cash flow certificates. The applicable Sponsor also purchased the Certificates entitled to excess servicing fees in each securitization, while the remaining classes of Certificates were purchased by unrelated parties. In the non-QM securitizations for which the Sponsor was not a wholly-owned subsidiary of the Company, the Company and the applicable Non-QM Co-Participants have membership interests in an entity formed for such purpose (the "Participated Risk Retention Vehicle") which purchased, and intends to hold, the requisite amount of each class of Certificate for each applicable non-QM securitization. The Participated Risk Retention Vehicle also purchased the Certificates entitled to excess servicing fees of such Issuing Entities. The remaining Certificates were purchased by the Company, the Non-QM Co-Participants, and/or various unrelated parties.

Notwithstanding that the Certificates carry final scheduled distribution dates in November 2059 or later, the applicable Depositor may, at its sole option, purchase all of the outstanding Certificates (an "Optional Redemption") following the earlier of (1) the applicable anniversary of the closing date (typically two or three years) of the respective securitization or (2) the date on which the aggregate unpaid principal balance of the applicable Collateral Pool has declined below 30% of the aggregate unpaid principal balance of the applicable Collateral Pool as of the date as of which such loans were originally transferred to the applicable Issuing Entity. The purchase price that the Depositor is required to pay in connection with an Optional Redemption is equal to the sum of the unpaid principal balance of each class of Certificates as of the redemption date and any accrued and unpaid interest thereon. These Optional Redemption rights are held by the applicable Depositor and are deemed to give such Depositor effective control over the loans. In cases where the Depositor was a wholly-owned subsidiary of the Company, the transfers of non-QM loans to each of the Issuing Entities do not qualify as sales under ASC 860-10, and the Company continues to reflect the loans on its Condensed Consolidated Balance Sheet in Loans, at fair value. In cases where the Depositor was not wholly-owned or consolidated by the Company, the transfers of non-QM loans to the Issuing Entities did qualify as sales in accordance with ASC 860-10.

In the event that certain breaches of representations or warranties are discovered with respect to any underlying non-QM loans, the Company could be required to repurchase or replace such loans.

Each Sponsor also serves as the servicing administrator of its respective securitization, for which it is entitled to receive a monthly fee equal to one-twelfth of the product of (a) 0.03% and (b) the unpaid principal balance of the underlying non-QM loans as of the first day of the related due period. Each Sponsor in its role as servicing administrator provides direction and consent for certain loss mitigation activities to the third-party servicer of the underlying non-QM loans. In certain circumstances, the servicing administrator will be required to reimburse the servicer for principal and interest advances and servicing advances made by the servicer.

#### **Consolidated Residential Mortgage Loan Securitizations**

For non-QM securitizations in which the Company owned 100% of the interests in both the Sponsor and Depositor ("Consolidated Residential Mortgage Loan Securitizations"), the Company is deemed to be the primary beneficiary of the Issuing Entities, which are VIEs, and has consolidated the Issuing Entities ("Consolidated Issuing Entities") given the Company's retained interests in each of the securitizations, together with the Optional Redemption rights held by the wholly-owned Depositor and the Company's ability to direct the third-party servicer regarding certain loss mitigation activities. Interest income from these loans and the expenses related to the servicing of these loans are included in Interest income and Investment related expenses—Servicing expense, respectively, on the Condensed Consolidated Statement of Operations.

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Each of the Consolidated Issuing Entities meet the definition of a CFE as defined in Note 2, and as a result the assets of each of the Issuing Entities have been valued using the fair value of the liabilities of the respective Issuing Entity, as such liabilities have been assessed to be more observable than such assets.

The debt of the Consolidated Issuing Entities is included in Other secured borrowings, at fair value, on the Condensed Consolidated Balance Sheet and is shown net of the Certificates held by the Company.

The following table details the Company's outstanding consolidated residential mortgage loan securitizations:

Issuing Entity	Closing Date	Principal Balance of Loans		Total Face Amount of Certificates Issued <sup>(1)</sup>
		Transferred to the Depositor	(In thousands)	
Ellington Financial Mortgage Trust 2019-2	11/19	\$ 267,255	\$ 267,255	
Ellington Financial Mortgage Trust 2020-1	6/20	259,273	259,273	
Ellington Financial Mortgage Trust 2020-2	10/20	219,732	219,732	
Ellington Financial Mortgage Trust 2021-1	2/21	251,771	251,771	
Ellington Financial Mortgage Trust 2021-2	6/21	331,777	331,777	
Ellington Financial Mortgage Trust 2021-3	10/21	257,645	257,645	
Ellington Financial Mortgage Trust 2022-1	1/22	417,188	417,188	
Ellington Financial Mortgage Trust 2022-2	4/22	425,651	425,651	
Ellington Financial Mortgage Trust 2022-3	7/22	345,652	345,652	

(1) The Sponsor purchased various classes of Certificates issued by each Issuing Entity in order to comply with the Risk Retention Rules.

The following table details the assets and liabilities of the consolidated securitization trusts included in the Company's Condensed Consolidated Balance Sheet as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
<b>Assets:</b>		
Loans, at fair value		
Loans, at fair value	\$ 1,538,754	\$ 1,665,070
Investment related receivables	8,082	4,464
<b>Liabilities:</b>		
Other secured borrowings, at fair value	1,404,567	1,539,881

*Non-Consolidated Residential Mortgage Loan Securitizations*

As described above, the Company has also participated in non-QM securitizations with various Non-QM Co-Participants. For the non-QM securitization which closed in December 2022, the Company and the Non-QM Co-Participant each sold loans to a jointly held entity (the "Residential Loan JV") which then transferred the loans to the respective series of the applicable Sponsor, which is wholly-owned by the Residential Loan JV, for further transfer to the applicable Depositor. For the non-QM securitization which closed in February 2023, the Company and the Non-QM Co-Participants each sold loans directly to the respective series of the applicable Sponsor, for further transfer to the applicable Depositor. The sales by the Company in each instance were accounted for as sales in accordance with ASC 860-10.

The following table provides details on outstanding non-consolidated residential mortgage loan securitizations in which the Company has participated:

Issuing Entity	Closing Date	Principal Balance of Loans		Total Face Amount of Certificates Issued <sup>(1)</sup>
		Principal Balance of Loans Sold By the Company	Sold By the Non-QM Co-Participants	
Ellington Financial Mortgage Trust 2022-4	12/22	\$ 309,998	\$ 55,264	\$ 365,262
Ellington Financial Mortgage Trust 2023-1	2/23	176,218	154,149	330,367

In order to comply with the Risk Retention Rules, the Participated Risk Retention Vehicle purchased a percentage of each of the classes of Certificates issued by the respective Issuing Entities. The aggregate fair value of the Company's ownership interests in the Residential Loan JV, and respective series of both the Participated Risk Retention Vehicle and Sponsor, was \$7.0 million as of September 30, 2023 and \$2.6 million as of December 31, 2022. Such interests are included on the Condensed

Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value. In addition, the Company and the non-QM Co-Participants have also purchased directly certain of the Certificates issued by the non-consolidated Issuing Entities. As of September 30, 2023 and December 31, 2022, the fair value of the Company's investment in such Certificates was \$31.2 million and \$37.6 million, respectively, and is included on the Condensed Consolidated Balance Sheet in Securities, at fair value.

The Company has evaluated its interests in the Residential Loan JV, the Participated Risk Retention Vehicle, and the Sponsor, which are each VIEs. Because the Company does not control the assets of such entities nor does it have the power to direct the activities that most significantly impact such entities' economic performance, the Company determined that the Company is not the primary beneficiary of these VIEs, and therefore the Company has not consolidated these VIEs.

**Participation in Multi-Seller Consumer Loan Securitizations**

The Company has participated in various securitizations whereby the Company, together with certain other entities managed by Ellington (the "Consumer Co-Participants"), sold consumer loans to newly formed securitization trusts (each a "Consumer Securitization Issuer"). The sales were accounted for as sales in accordance with ASC 860-10. The following table provides additional details for each such securitization.

Securitization Closing	UPB of Loans Sold to Consumer Securitization Issuer	% Contributed by the Company	Principal Amount of Notes Issued <sup>(1)</sup>	% Ownership of Consumer Risk Retention Vehicle
November 2020	\$ 205,088	56.3 %	\$ 193,650	56.3 %
March 2022 <sup>(2)</sup>	193,450	24.7 %	400,000	24.6 %

(1) Total principal amount of notes issued by the Consumer Securitization Issuer pursuant to the securitization.

(2) UPB of loans sold to the Consumer Securitization Issuer represent the UPB of consumer loans sold by the Company and the Consumer Co-Participants. Such amount excludes \$27.6 million of UPB of consumer loans sold to the Consumer Securitization Issuer by a third-party.

As shown in the above table, pursuant to each of the securitizations, the respective Consumer Securitization Issuer issued senior and subordinated notes. Trust certificates representing beneficial ownership of each of the Consumer Securitization Issuers were also issued. In connection with each transaction, through a jointly owned newly formed entity (each a "Consumer Risk Retention Vehicle"), the Company and the Consumer Co-Participants acquired certain of the subordinated notes as well as the trust certificates in the respective Consumer Securitization Issuer. As of September 30, 2023 and December 31, 2022, the Company's total interest in the Consumer Risk Retention Vehicles, for which the Company has elected the FVO, was \$2.7 million and \$9.7 million, respectively. The fair value of the Consumer Risk Retention Vehicles is included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities, at fair value.

The notes and trust certificates issued by each of the Consumer Securitization Issuers are backed by the cash flows from the underlying consumer loans. If there are breaches of representations and warranties with respect to any underlying consumer loans, the Company could, under certain circumstances, be required to repurchase or replace such loans. Absent such breaches, the Company has no obligation to repurchase or replace any underlying consumer loans that become delinquent or otherwise default. In addition, another affiliate of Ellington acts as the administrator for these securitizations and is paid a monthly fee for its services.

The Consumer Securitization Issuers are each deemed to be a VIE. The Company has evaluated its interest in each of the Consumer Securitization Issuers under ASC 810, and while the Company retains credit risk in each of the securitization trusts through its beneficial ownership of most of the subordinated interests of each of the securitization trusts, which are the first to absorb credit losses on the securitized assets, neither the Company nor the Consumer Risk Retention Vehicles retain control of these assets or the power to direct the activities of the Consumer Securitization Issuers that most significantly impact the Consumer Securitization Issuers' economic performance. As a result, the Company determined that neither the Company nor the Consumer Risk Retention Vehicles are the primary beneficiary of the respective Consumer Securitization Issuer, and therefore the Company has not consolidated the Consumer Securitization Issuers. Additionally, the Company evaluated its interest in each of the Consumer Risk Retention Vehicles, which do not meet the criteria to be deemed a VIE, under the voting interest model provided by ASC 810 and determined the Company does not control the Consumer Risk Retention Vehicles. As a result, the Company has not consolidated the Consumer Risk Retention Vehicles.

**Issuance of HMBS**

Longbridge is approved as a Title II, non-supervised direct endorsement mortgagee with HUD. Longbridge is also an approved issuer of HMBS whereby it pools HECM loans and issues HMBS securities which are sold to third-parties with only the servicing rights retained. As discussed in Note 5, HMBS are structured whereby the HMBS issuer is required to repurchase loans whenever the outstanding principal balance of such loan reaches the MCA. In accordance with ASC 860-10, the transfer of the loans to the HMBS securitization vehicle does not qualify as a sale as the Company has not surrendered control over transferred financial assets. As a result, the transfer of the loans is accounted for as secured borrowings for which the Company

has elected the FVO. Such secured borrowings are included in HMBS-related obligations, at fair value, and the related collateral is included as a component of Loans, at fair value, on the Condensed Consolidated Balance Sheet. The Company recognizes interest expense on such HMBS-related obligations based on the stated coupon rate of the respective HMBS. Interest expense and changes in fair value are recorded in net change related to HMBS obligations, at fair value on the Condensed Consolidated Statement of Operations. During the three- and nine-month period ended September 30, 2023, the Company pooled HECM loans with an unpaid principal balance of \$352.1 million and \$1.0 billion, respectively, into HMBS. As of September 30, 2023, the Company was servicing 938 pools of HMBS with an unpaid principal balance of \$ 8.0 billion. As of December 31, 2022, the Company was servicing 832 pools of HMBS with an unpaid principal balance of \$7.6 billion.

The Company has entered into a Collaboration and Transfer Agreement, or the "HECM CT Agreement" with a third party. Pursuant to the HECM CT Agreement, the Company purchased HECM loans and the associated MSR from the third party and securitized such loans into HMBS. While the Company is the legal owner and servicer of the HMBS, under the HECM CT Agreement, the third party receives a portion of the cash flows generated from the HMBS. The Company retains a base participation fee, along with the right to premiums on subsequent HECM tail securitizations. Additionally, in the event Company is required to repurchase a loan from the HMBS pool, there is a put option repurchase guarantee from the third-party whereby they are required to repurchase such HECM loans from the Company. The Company recognizes the amount due to/from the third party under the HECM CT Agreement as an asset or a liability (the "Servicing Asset" or "Servicing Liability") which is included in Accrued expenses and other liabilities or Other Assets on the Condensed Consolidated Balance Sheet. The Company has elected the FVO on its Servicing Asset/Liability and changes in value are included in Other Income (Loss). As of September 30, 2023 and December 31, 2022, the Company has a servicing asset related to the HECM CT Agreement of \$2.3 million and \$1.0 million, respectively, which is included in Other Assets on the Condensed Consolidated Balance Sheet.

During the three-month period ended September 30, 2023, the Company repurchased HECM loans, including loans subject to the MCA requirement, from HMBS pools with an unpaid principal balance of \$217.4 million, of which \$211.2 million was subsequently transferred to a third party in accordance with the HECM CT Agreement. During the nine-month period ended September 30, 2023, the Company repurchased HECM loans from HMBS pools with an unpaid principal balance of \$ 583.5 million including loans subject to the MCA requirement, of which \$571.4 million was subsequently transferred to a third party in accordance with the HECM CT Agreement.

### **13. Borrowings**

#### **Secured Borrowings**

The Company's secured borrowings consist of repurchase agreements, Other secured borrowings, Other secured borrowings, at fair value, and HMBS-related obligations, at fair value. As of September 30, 2023 and December 31, 2022, the Company's total secured borrowings were \$12.5 billion and \$12.2 billion, respectively.

#### *Repurchase Agreements*

The Company enters into repurchase agreements. A repurchase agreement involves the sale of an asset to a counterparty together with a simultaneous agreement to repurchase the transferred asset or similar asset from such counterparty at a future date. The Company accounts for its repurchase agreements as collateralized borrowings, with the transferred assets effectively serving as collateral for the related borrowing. The Company's repurchase agreements typically range in term from 30 to 364 days, although the Company also has repurchase agreements that provide for longer or shorter terms. The principal economic terms of each repurchase agreement—such as loan amount, interest rate, and maturity date—are typically negotiated on a transaction-by-transaction basis. Other terms and conditions, such as those relating to events of default, are typically governed under the Company's master repurchase agreements. Absent an event of default, the Company maintains beneficial ownership of the transferred securities during the term of the repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and for most repurchase agreements, interest is generally paid at the termination of the repurchase agreement, at which time the Company may enter into a new repurchase agreement at prevailing market rates with the same counterparty, repay that counterparty and possibly negotiate financing terms with a different counterparty, or choose to no longer finance the related asset. Some repurchase agreements provide for periodic payments of interest, such as monthly payments. In response to a decline in the fair value of the transferred securities, whether as a result of changes in market conditions, security paydowns, or other factors, repurchase agreement counterparties will typically make a margin call, whereby the Company will be required to post additional securities and/or cash as collateral with the counterparty in order to re-establish the agreement upon collateralization requirements. In the event of increases in fair value of the transferred securities, the Company can generally require the counterparty to post collateral with it in the form of cash or securities. The Company is generally permitted to sell or re-pledge any securities posted by the counterparty as collateral; however, upon termination of the repurchase agreement, or other circumstance in which the counterparty is no longer required to post such margin, the Company must return to the counterparty the same security that had been posted.

At any given time, the Company seeks to have its outstanding borrowings under repurchase agreements with several different counterparties in order to reduce the exposure to any single counterparty. The Company had outstanding borrowings under repurchase agreements with 26 counterparties as of both September 30, 2023 and December 31, 2022.

As of September 30, 2023, remaining days to maturity on the Company's open repurchase agreements ranged from 2 days to 605 days. Interest rates on the Company's open repurchase agreements ranged from 4.73% to 9.32% as of September 30, 2023. As of December 31, 2022, remaining days to maturity on the Company's open repurchase agreements ranged from 3 days to 263 days. Interest rates on the Company's open repurchase agreements ranged from 0.63% to 7.97% as of December 31, 2022.

The following table details the Company's outstanding borrowings under repurchase agreements for Agency RMBS, credit assets (which can include non-Agency RMBS, CMBS, CLOs, consumer loans, corporate debt, residential mortgage loans, and commercial mortgage loans and REO), and reverse mortgage loans, by remaining maturity as of September 30, 2023 and December 31, 2022:

Remaining Maturity	September 30, 2023			December 31, 2022		
	Outstanding Borrowings (In thousands)	Weighted Average		Outstanding Borrowings (In thousands)	Weighted Average	
		Interest Rate	Remaining Days to Maturity		Interest Rate	Remaining Days to Maturity
<b>Agency RMBS:</b>						
30 Days or Less	\$ 614,695	5.46 %	13	\$ 668,924	4.09 %	14
31-60 Days	206,726	5.44 %	45	91,048	2.32 %	45
61-90 Days	20,943	5.63 %	76	158,782	3.96 %	73
91-120 Days	—	— %	—	4,751	5.20 %	118
121-150 Days	—	— %	—	16,148	4.76 %	131
151-180 Days	5,062	6.22 %	155	—	— %	—
<b>Total Agency RMBS</b>	<b>847,426</b>	<b>5.46 %</b>	<b>23</b>	<b>939,653</b>	<b>3.91 %</b>	<b>29</b>
<b>Credit:</b>						
30 Days or Less	136,059	7.23 %	12	462,284	6.40 %	7
31-60 Days	185,690	6.81 %	44	119,619	6.00 %	48
61-90 Days	57,501	6.93 %	77	119,471	6.13 %	77
91-120 Days	792,056	7.53 %	106	358,010	6.30 %	116
121-150 Days	23,268	8.15 %	124	142,939	7.12 %	144
151-180 Days	28,506	7.20 %	163	6,981	6.72 %	156
181-364 Days	83,707	8.34 %	274	391,381	6.74 %	240
> 364 Days	263,656	7.69 %	435	—	— %	—
<b>Total Credit Assets</b>	<b>1,570,443</b>	<b>7.47 %</b>	<b>155</b>	<b>1,600,685</b>	<b>6.48 %</b>	<b>110</b>
<b>Reverse Mortgage Loans:</b>						
30 Days or Less	78,447	7.80 %	10	—	— %	—
<b>Total Reverse Mortgage Loans</b>	<b>78,447</b>	<b>7.80 %</b>	<b>10</b>	<b>—</b>	<b>— %</b>	<b>—</b>
<b>U.S. Treasury Securities:</b>						
30 Days or Less	76,727	5.42 %	2	69,347	4.31 %	3
<b>Total U.S. Treasury Securities</b>	<b>76,727</b>	<b>5.42 %</b>	<b>2</b>	<b>69,347</b>	<b>4.31 %</b>	<b>3</b>
<b>Total</b>	<b>\$ 2,573,043</b>	<b>6.76 %</b>	<b>103</b>	<b>\$ 2,609,685</b>	<b>5.50 %</b>	<b>78</b>

Repurchase agreements involving underlying investments that the Company sold prior to period end, for settlement following period end, are shown using their contractual maturity dates even though such repurchase agreements may be expected to be terminated early upon settlement of the sale of the underlying investment.

As of both September 30, 2023 and December 31, 2022, the fair value of investments transferred as collateral under outstanding borrowings under repurchase agreements was \$ 3.2 billion. Collateral transferred under outstanding borrowings under repurchase agreements as of September 30, 2023 and December 31, 2022, include investments in the amount of \$5.1 million and \$9.2 million, respectively, that were sold prior to period end but for which such sale had not yet settled. In addition, as of September 30, 2023 and December 31, 2022, the Company posted net cash collateral of \$25.4 million and \$20.3 million, respectively, to its counterparties.

Amount at risk represents the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repurchase agreements. The following table provides details by counterparty for such counterparties for which the amounts at risk relating to our repurchase agreements was greater than 10% of total equity as of September 30, 2023 and December 31, 2022.

**September 30, 2023:**

Counterparty	Amount at Risk (In thousands)	Weighted Average Remaining Days to Maturity	Percentage of Equity
Nomura Holdings Inc.	\$ 207,771	100	15.5 %

**December 31, 2022:**

Counterparty	Amount at Risk (In thousands)	Weighted Average Remaining Days to Maturity	Percentage of Equity
Nomura Holdings Inc.	\$ 208,812	13	17.1 %
Royal Bank of Canada	135,233	100	11.1 %

*Other Secured Borrowings*

The Company has entered into an agreement to finance a portfolio of ABS backed by consumer loans through a recourse secured borrowing facility. The facility includes a revolving borrowing period ending in September 2024 (or earlier following a trigger event), whereby the Company can vary its borrowings based on the size of its portfolio, subject to certain maximum limits. Following the revolving borrowing period, the facility amortizes, with a final termination date in September 2026. The facility accrues interest on a floating rate basis. As of September 30, 2023 and December 31, 2022, the Company had outstanding borrowings under this facility in the amount of \$29.5 million and \$37.8 million, respectively, which is included under the caption Other secured borrowings, on the Company's Condensed Consolidated Balance Sheet. The effective interest rate on this facility, was 9.74% and 8.68% as of September 30, 2023 and December 31, 2022, respectively. As of September 30, 2023 and December 31, 2022, the fair value of ABS backed by consumer loans collateralizing this borrowing was \$76.4 million and \$70.3 million, respectively. There are a number of covenants, including several financial covenants, associated with this borrowing; as of both September 30, 2023 and December 31, 2022, the Company was in compliance with all of its covenants.

The Company has completed securitization transactions, as discussed in Note 12, whereby it financed portfolios of non-QM loans. As of September 30, 2023 and December 31, 2022, the fair value of the Company's outstanding liabilities associated with the Company's Consolidated Residential Mortgage Loan Securitizations was \$1.40 billion and \$1.54 billion, respectively, representing the fair value of the securitization trust certificates held by third parties as of such date, and is included on the Company's Condensed Consolidated Balance Sheet in Other secured borrowings, at fair value. The weighted average coupon of the Certificates held by third parties was 3.03% and 3.00% as of September 30, 2023 and December 31, 2022, respectively. As of September 30, 2023 and December 31, 2022, the fair value of non-QM loans held in the consolidated securitization trusts was \$1.5 billion and \$1.7 billion, respectively.

The Company has various warehouse lines of credit which it uses to finance its portfolio of reverse mortgage loans prior to them being sold or pooled into HMBS. There are a number of covenants, including several financial covenants, associated with these lines of credit; as of September 30, 2023 and December 31, 2022, the Company was in compliance with all of these covenants. As of September 30, 2023 and December 31, 2022, the Company had outstanding borrowings under these financing lines of \$200.1 million and \$172.9 million, respectively, which is included on the Company's Condensed Consolidated Balance Sheet in Other secured borrowings. The following table provides details for each of the warehouse lines of credit.

Maturity	September 30, 2023			December 31, 2022		
	Outstanding Borrowings	Fair Value of Underlying Collateral	Effective Interest Rate	Outstanding Borrowings	Fair Value of Underlying Collateral	Effective Interest Rate
		(In thousands)			(In thousands)	
Facility A	May 2024	\$ 61,595	\$ 68,728	8.63 %	\$ 59,640	\$ 65,652
Facility B	April 2024	93,104	101,358	8.14 %	64,278	59,933
Facility C	October 2023	45,429	65,726	7.92 %	48,954	63,644
		\$ 200,128	\$ 235,812	8.24 %	\$ 172,872	\$ 189,229

The Company entered into an agreement to finance a portfolio of HECM tail draws prior to being sold or pooled into HMBS. This facility matures in January 2024 and accrues interest on a floating-rate basis. As of September 30, 2023 and December 31, 2022, the Company's outstanding borrowings under this facility was \$22.9 million and \$22.6 million, respectively, which are included on the Company's Condensed Consolidated Balance Sheet in Other secured borrowings. The effective interest rate was 9.00% and 8.00%, as of September 30, 2023 and December 31, 2022, respectively. As of September 30, 2023 and December 31, 2022, the fair value of HECM tail draws collateralizing this borrowing was \$33.7 million and \$35.1 million, respectively, which are included in Loans, at fair value on the Condensed Consolidated Balance Sheet. There are a number of covenants, including several financial covenants, associated with this borrowing; as of both September 30, 2023 and December 31, 2022, the Company was in compliance with all of its covenants.

The Company entered into a line of credit agreement to finance its portfolio of HMBS-related MSRs. This facility matures in January 2025 and accrues interest on a floating-rate basis. As of September 30, 2023 and December 31, 2022, the Company's outstanding borrowings under this facility were \$32.7 million and \$42.8 million, respectively, which are included on the Company's Condensed Consolidated Balance Sheet in Other secured borrowings. The effective interest rate was 10.44% and 9.37% as of September 30, 2023 and December 31, 2022, respectively. As of September 30, 2023 and December 31, 2022, the fair value of MSRs collateralizing this borrowing was \$75.0 million and \$95.6 million, respectively. There are a number of covenants, including several financial covenants, associated with this borrowing; as of both September 30, 2023 and December 31, 2022, the Company was in compliance with all of its covenants.

As discussed in Note 5, the Company is a party to various agreement with the MLPS Counterparty, which provide for the financing of certain HECM Buyout Loans. This facility was executed in March 2023 with a three-year term and accrues interest on a floating-rate basis. As of September 30, 2023, the Company's outstanding borrowings under this facility were \$15.8 million, which are included on the Company's Condensed Consolidated Balance Sheet in Other secured borrowings. The effective interest rate was 7.50% and the fair value of HECM Buyout Loans collateralizing this borrowing was \$16.2 million. There are a number of covenants, including several financial covenants, associated with this borrowing; as of September 30, 2023, the Company was in compliance with all of its covenants.

#### *HMBS-related Obligations*

As discussed in Note 12, the Company issues pools of HMBS which are accounted for as secured borrowings. As of September 30, 2023 and December 31, 2022, the Company had HMBS-related obligations, at fair value of \$8.2 billion and \$7.8 billion, respectively. As of September 30, 2023 and December 31, 2022, such HMBS-related obligations are secured by \$ 8.3 billion and \$7.9 billion, respectively, of HECM loans, REO, and HMBS-related claims or other receivables. The weighted average interest rate on the Company's HMBS-related obligations was 6.24% and 5.23% as of September 30, 2023 and December 31, 2022, respectively.

#### **Unsecured Borrowings**

##### *Senior Notes*

The Company issued \$86.0 million in aggregate principal amount of unsecured long-term debt, which was structured as a joint and several co-issuance by certain of the Company's consolidated subsidiaries and fully guaranteed by the Company (the "5.50% Senior Notes"). The 5.50% Senior Notes bore interest at a rate of 5.50%. The 5.50% Senior Notes were repaid at maturity on September 1, 2022. The 5.50% Senior Notes were carried at amortized cost and were included in Senior Notes, net, on the Condensed Consolidated Balance Sheet. The 5.50% Senior Notes had an effective interest rate of approximately 5.80%, inclusive of debt issuance costs.

In addition to the 5.50% Senior Notes, the Company has also issued \$ 210.0 million in aggregate principal amount of unsecured long-term debt, which is structured as a joint and several co-issuance by certain of the Company's consolidated subsidiaries and fully guaranteed by the Company (the "5.875% Senior Notes"). The 5.875% Senior Notes bear interest at a rate of 5.875%, subject to adjustment based on changes, if any, in the ratings of the 5.875% Senior Notes. Interest on the 5.875% Senior Notes is payable semi-annually in arrears on April 1 and October 1 of each year. The 5.875% Senior Notes mature on April 1, 2027. Prior to April 1, 2026, the Company may redeem the 5.875% Senior Notes, at its option, in whole or in part, at a premium as detailed in the indenture dated March 31, 2022. On or after April 1, 2026, the Company may redeem all or a part of the 5.875% Senior Notes at a redemption price of 100%, plus accrued and unpaid interest.

The Company has elected the FVO for the 5.875% Senior Notes which are included in Senior Notes, at fair value on the Condensed Consolidated Balance Sheet. Change in unrealized gains and losses on the Company's Senior Notes, at fair value are included in Other, net, on the Condensed Consolidated Statement of Operations.

There are a number of covenants, including several financial covenants, associated with the 5.875% Senior Notes; as of both September 30, 2023 and December 31, 2022, the Company was in compliance with all of its covenants for the outstanding

5.875% Senior Notes. The 5.875% Senior Notes are unsecured and are effectively subordinated to secured indebtedness of the Company, to the extent of the value of the collateral securing such indebtedness.

#### Schedule of Principal Repayments

The following table details the Company's principal repayment schedule, over the next 5 years, for outstanding borrowings as of September 30, 2023:

Year (In thousands)	Repurchase Agreements <sup>(1)</sup>	Other Secured Borrowings <sup>(2)</sup>	HMBS-related Obligations <sup>(3)</sup>	Senior Notes <sup>(1)</sup>	Total
Next Twelve Months	\$ 2,497,601	\$ 385,620	\$ 1,340,298	\$ —	\$ 4,223,519
Year 2	75,442	239,332	924,089	—	1,238,863
Year 3	—	175,047	866,154	—	1,041,201
Year 4	—	155,582	840,308	210,000	1,205,890
Year 5	—	127,954	822,358	—	950,312
Total	<u>\$ 2,573,043</u>	<u>\$ 1,083,535</u>	<u>\$ 4,793,207</u>	<u>\$ 210,000</u>	<u>\$ 8,659,785</u>

(1) Reflects the Company's contractual principal repayment dates.

(2) Includes \$782.4 million of expected principal repayments related to the Company's consolidated non-QM securitizations, which are projected based upon the underlying assets' expected repayments and may be prior to the stated contractual maturities.

(3) Represents expected principal repayments projected based upon the expected repayments of the underlying HECM loans, which may be prior to the stated contractual maturities of the related HMBS.

#### 14. Income Taxes

The Company has elected to be taxed as a REIT under the Code. A REIT is generally not subject to U.S. federal, state, and local income tax on the portion of its income that is distributed to its owners if it distributes at least 90% of its REIT taxable income within the prescribed time frames, determined without regard to the deduction for dividends paid and excluding any net capital gains. The Company intends to operate in a manner which will allow it to continue to meet the requirements for qualification as a REIT. Accordingly, Ellington Financial Inc. does not believe that it will be subject to U.S. federal, state, and local income tax on the portion of its net taxable income that is distributed to its stockholders as long as certain asset, income, and share ownership tests are met.

Cash dividends declared by the Company that do not exceed its current or accumulated earnings and profits will be considered ordinary income to stockholders for income tax purposes unless all or a portion of a dividend is designated by the Company as a capital gain dividend. Distributions in excess of the Company's current and accumulated earnings and profits will be characterized as return of capital or capital gains.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*, or "ASC 740." Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities under U.S. GAAP and the carrying amounts used for income tax purposes. For the three-month periods ended September 30, 2023 and 2022, the Company recorded income tax expense (benefit) of \$0.2 million and \$(0.1) million, respectively. For the nine-month periods ended September 30, 2023 and 2022, the Company recorded income tax expense (benefit) of \$0.3 million and \$(14.9) million, respectively. Income tax benefit for the three- and nine-month periods ended September 30, 2022 was related to net realized and unrealized losses on investments held in a domestic TRS. Based upon the available evidence at September 30, 2023, the Company determined that it was more likely than not that the deferred tax assets of its TRS would not be utilized in future periods; a valuation allowance of \$10.0 million was recorded to fully reserve against these deferred tax assets.

#### 15. Related Party Transactions

The Company is party to the Management Agreement (which may be amended from time to time), pursuant to which the Manager manages the assets, operations, and affairs of the Company, in consideration of which the Company pays the Manager management and incentive fees. The descriptions of the Base Management Fees and Incentive Fees are detailed below.

#### **Base Management Fees**

The Operating Partnership pays the Manager 1.50% per annum of total equity of the Operating Partnership calculated in accordance with U.S. GAAP as of the end of each fiscal quarter (before deductions for base management fees and incentive fees payable with respect to such fiscal quarter), provided that total equity is adjusted to exclude one-time events pursuant to changes in U.S. GAAP, as well as non-cash charges after discussion between the Manager and the Company's independent directors, and approval by a majority of the Company's independent directors in the case of non-cash charges.

Pursuant to the Management Agreement, if the Company invests at issuance in the equity of any collateralized debt obligation that is managed, structured, or originated by Ellington or one of its affiliates, or if the Company invests in any other investment fund or other investment for which Ellington or one of its affiliates receives management, origination, or structuring fees, then, unless agreed otherwise by a majority of the Company's independent directors, the base management and incentive fees payable by the Company to its Manager will be reduced by an amount equal to the applicable portion (as described in the Management Agreement) of any such management, origination, or structuring fees.

For the three-month period ended September 30, 2023, the total base management fee incurred was \$ 4.9 million, consisting of \$5.0 million of total gross base management fee incurred, less \$0.1 million of management fee rebates. For the three-month period ended September 30, 2022, the total base management fee incurred was \$ 4.0 million, consisting of \$4.4 million of total gross base management fee incurred, less \$0.4 million of management fee rebates. For the nine-month period ended September 30, 2023, the total base management fee incurred was \$ 14.8 million, consisting of \$15.1 million of total gross base management fee incurred, less \$ 0.4 million of management fee rebates. For the nine-month period ended September 30, 2022, the total base management fee incurred was \$12.2 million, consisting of \$13.9 million of total gross base management fee incurred, less \$ 1.7 million of management fee rebates. See "*— Participation in CLO Transactions*" below for details on management fee rebates.

#### **Incentive Fees**

The Manager is entitled to receive a quarterly incentive fee equal to the positive excess, if any, of (i) the product of (A) 25% and (B) the excess of (1) Adjusted Net Income (described below) for the Incentive Calculation Period (which means such fiscal quarter and the immediately preceding three fiscal quarters) over (2) the sum of the Hurdle Amounts (described below) for the Incentive Calculation Period, over (ii) the sum of the incentive fees already paid or payable for each fiscal quarter in the Incentive Calculation Period preceding such fiscal quarter.

For purposes of calculating the incentive fee, "Adjusted Net Income" for the Incentive Calculation Period means the net increase in equity from operations of the Operating Partnership, after all base management fees but before any incentive fees for such period, and excluding any non-cash equity compensation expenses for such period, as reduced by any Loss Carryforward (as described below) as of the end of the fiscal quarter preceding the Incentive Calculation Period.

For purposes of calculating the incentive fee, the "Loss Carryforward" as of the end of any fiscal quarter is calculated by determining the excess, if any, of (1) the Loss Carryforward as of the end of the immediately preceding fiscal quarter over (2) the Company's net increase in equity from operations (expressed as a positive number) or net decrease in equity from operations (expressed as a negative number) of the Operating Partnership for such fiscal quarter. As of September 30, 2023 and December 31, 2022, there was a Loss Carryforward of \$35.0 million and \$85.0 million, respectively.

For purposes of calculating the incentive fee, the "Hurdle Amount" means, with respect to any fiscal quarter, the product of (i) one-fourth of the greater of (A) 9% and (B) 3% plus the 10-year U.S. Treasury rate for such fiscal quarter, (ii) the sum of (A) the weighted average gross proceeds per share of all common stock and OP Unit issuances since inception of the Company and up to the end of such fiscal quarter, with each issuance weighted by both the number of shares of common stock and OP Units issued in such issuance and the number of days that such issued shares of common stock and OP Units were outstanding during such fiscal quarter, using a first-in first-out basis of accounting (i.e. attributing any share of common stock and OP Unit repurchases to the earliest issuances first) and (B) the result obtained by dividing (I) retained earnings attributable to shares of common stock and OP Units at the beginning of such fiscal quarter by (II) the average number of shares of common stock and OP Units outstanding for each day during such fiscal quarter, and (iii) the sum of (x) the average number of shares of common stock and long term incentive plan units of the Company outstanding for each day during such fiscal quarter, and (y) the average number of Convertible Non-controlling Interests outstanding for each day during such fiscal quarter. For purposes of determining the Hurdle Amount, issuances of common stock, and Convertible Non-controlling Interests (a) as equity incentive awards, (b) to the Manager as part of its base management fee or incentive fee and (c) to the Manager or any of its affiliates in privately negotiated transactions, are excluded from the calculation. The payment of the incentive fee will be in a combination of shares of common stock and cash, provided that at least 10% of any quarterly payment will be made in shares of common stock.

The Company did not accrue an incentive fee for either of the three- or nine-month periods ended September 30, 2023 and 2022, since on a rolling four quarter basis, the Company's income did not exceed the prescribed hurdle amount.

**Termination Fees**

The Management Agreement requires the Company to pay a termination fee to the Manager in the event of (1) the Company's termination or non-renewal of the Management Agreement without cause or (2) the Company's termination of the Management Agreement based on unsatisfactory performance by the Manager that is materially detrimental to the Company or (3) the Manager's termination of the Management Agreement upon a default by the Company in the performance of any material term of the Management Agreement. Such termination fee will be equal to the amount of three times the sum of (i) the average annual quarterly base management fee amounts paid or payable with respect to the two 12-month periods ending on the last day of the latest fiscal quarter completed on or prior to the date of the notice of termination or non-renewal and (ii) the average annual quarterly incentive fee amounts paid or payable with respect to the two 12-month periods ending on the last day of the latest fiscal quarter completed on or prior to the date of the notice of termination or non-renewal.

**Expense Reimbursement**

Under the terms of the Management Agreement the Company is required to reimburse the Manager for operating expenses related to the Company that are incurred by the Manager, including expenses relating to legal, accounting, due diligence, other services, and all other costs and expenses. The Company's reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash within 60 days following delivery of the expense statement by the Manager; provided, however, that such reimbursement may be offset by the Manager against amounts due to the Company from the Manager. The Company will not reimburse the Manager for the salaries and other compensation of the Manager's personnel except that the Company will be responsible for expenses incurred by the Manager in employing certain dedicated or partially dedicated personnel as further described below.

The Company reimburses the Manager for the allocable share of the compensation, including, without limitation, wages, salaries, and employee benefits paid or reimbursed, as approved by the Compensation Committee of the Board of Directors to certain dedicated or partially dedicated personnel who spend all or a portion of their time managing the Company's affairs, based upon the percentage of time devoted by such personnel to the Company's affairs. In their capacities as officers or personnel of the Manager or its affiliates, such personnel will devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business.

For the nine-month periods ended September 30, 2023 and 2022, the Company reimbursed the Manager \$ 14.4 million and \$12.3 million, respectively, for previously incurred operating expenses. As of September 30, 2023 and December 31, 2022, the outstanding payable to the Manager for operating expenses was \$5.8 million and \$4.1 million, respectively, which are included in Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet.

**Transactions Involving Certain Loan Originators**

As of September 30, 2023 and December 31, 2022, the loan originators in which the Company holds equity investments represent related parties. Transactions that have been entered into with these related party loan originators are summarized below.

The Company is a party to a mortgage loan purchase and sale flow agreement, with a mortgage loan originator in which the Company holds a non-controlling equity investment, whereby the Company purchases residential mortgage loans that satisfy certain specified criteria. The Company has also provided a \$5.0 million line of credit to the mortgage originator. Under the terms of this line of credit, the Company has agreed to make advances to the mortgage originator solely for the purpose of funding specifically identified residential mortgage loans designated for sale to the Company. To the extent the advances are drawn by the mortgage originator, it must pay interest, at a rate of 15% per annum, on the outstanding balance of each advance from the date the advance is made until such advance is repaid in full. The mortgage originator is required to repay advances in full no later than two business days following the date that the Company purchases the related residential mortgage loans from the mortgage originator. As of both September 30, 2023 and December 31, 2022, there were no advances outstanding. The Company has also entered into agreements whereby it guarantees the performance of such mortgage originator under third-party master repurchase agreements. See Note 23, Commitments and Contingencies, for further information on the Company's guarantees of the third-party borrowing arrangements. Additionally, as of both September 30, 2023 and December 31, 2022, the Company held warrants to purchase 8.28 million shares; such warrants have a fair value of \$ 10.0 million and \$11.5 million, respectively, and are included in Investments in unconsolidated entities on the Condensed Consolidated Balance Sheet.

The Company, through a related party of Ellington, or the "Loan Purchaser," is a party to a consumer loan purchase and sale flow agreement with a consumer loan originator in which the Company holds an investment in common and preferred stock and warrants to purchase additional preferred stock, whereby the Loan Purchaser purchases consumer loans that satisfy

certain specified criteria. The Company has investments in participation certificates related to consumer loans titled in the name of the Loan Purchaser. Through its participation certificates, the Company has beneficial interests in the loan cash flows, net of servicing-related fees and expenses. The total fair value of the Company's participation certificates was \$80.5 million and \$70.2 million as of September 30, 2023 and December 31, 2022, respectively, which is included in Securities, at fair value on the Condensed Consolidated Balance Sheet. Additionally, in December 2022, the Company extended a two-year revolving line of credit to the consumer loan originator; see table below for additional details. An employee of Ellington has a less-than-10% equity interest in, and serves on the board of, this consumer loan originator. Another employee of Ellington, who serves as an officer of the Company, also serves on the board, as the Company's representative.

The following table provides details of financing that the Company has provided, in the form of secured promissory notes, to certain loan origination-related entities in which the Company also holds equity investments:

Effective Date of Promissory Note	Maturity Date of Promissory Note	Maximum Borrowing (In thousands)	Interest Rate as of		Outstanding Borrowings as of		Fair Value <sup>(1)</sup> as of	
			September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
May 2021 <sup>(2)</sup>	December 31, 2025	\$ 6,000	9.0%	6.0%	\$ 2,335	\$ 3,000	\$ 2,335	\$ 3,000
February 2022	January 31, 2025	750	7.0%	7.0%	575	475	575	475
November 2022 <sup>(3)</sup>	January 31, 2025	500	n/a	10.0%	n/a	50	n/a	50
December 2022	December 16, 2024	3,500	15.0%	15.0%	2,291	515	2,291	515

(1) Classified as a Corporate loan and is included in Loans, at fair value on the Condensed Consolidated Balance Sheet.

(2) Convertible into non-voting equity interests, at the option of the borrower, at any time prior to maturity.

(3) During the nine-month period ended September 30, 2023, the Company's debt and equity investments in this origination-related entity were written off as the Company determined its cost basis was non-recoverable; the Company recognized a net loss on its debt and equity investments of \$(0.5) million (included in Realized gains (losses) on securities and loans, net on the Condensed Consolidated Statement of Operations) and \$(0.1) million (included in Earnings (losses) from investments in unconsolidated entities on the Condensed Consolidated Statement of Operations), respectively.

#### **Consumer, Residential, and Commercial Loan Transactions with Affiliates**

The Company purchased certain of its consumer loans through an affiliate, or the "Purchasing Entity," under various purchase agreements. The Company's beneficial interests in the consumer loans purchased through the Purchasing Entity are evidenced by participation certificates issued by trusts that hold legal title to the loans. These trusts are owned by a related party of Ellington and were established to hold such loans. Through its participation certificates, the Company participates in the cash flows of the underlying loans held by each trust. The total amount of consumer loans underlying the Company's participation certificates and held in the related party trusts was \$2.2 million and \$4.3 million as of September 30, 2023 and December 31, 2022, respectively.

The Company has beneficial interests in residential mortgage loans and REO held in a trust owned by a related party of Ellington. Through these beneficial interests, the Company participates in the cash flows of the underlying loans held by such trust. The total amount of residential mortgage loans and REO underlying the Company's beneficial interests and held in the related party trust was \$1.5 billion as of both September 30, 2023 and December 31, 2022.

The Company is a co-investor in a commercial mortgage loan with several other investors, including an unrelated third party and an affiliate of Ellington. This loan is beneficially owned by a consolidated subsidiary of the Company. As of September 30, 2023 and December 31, 2022, the fair value of this commercial loan was \$7.2 million and \$2.2 million, respectively. As of September 30, 2023, the non-controlling interests held by the unrelated third party and the Ellington affiliate were \$1.2 million and \$1.9 million, respectively. As of December 31, 2022, the non-controlling interests held by the unrelated third party and the Ellington affiliate were \$0.3 million and \$0.4 million, respectively.

The Company is also a co-investor in certain commercial mortgage loans and REO with other investors, including various unrelated third parties and various affiliates of Ellington. Each co-investor in a particular loan has an interest in the limited liability company that owns such loan or REO. As of September 30, 2023 and December 31, 2022, the aggregate fair value of the Company's investments in the jointly owned limited liability companies was approximately \$65.3 million and \$68.5 million, respectively. Such investments are included in Investments in unconsolidated entities, on the Condensed Consolidated Balance Sheet.

The consumer, residential mortgage, and certain commercial mortgage loans that are the subject of the foregoing loan transactions are held in trusts, each of which the Company has determined to be a VIE. The Company has evaluated each of these VIEs and determined that the Company has the power to direct the activities of each VIE that most significantly impact such VIE's economic performance and the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. As a result the Company has determined it is the primary beneficiary of each of these VIEs and has consolidated each VIE.

**Equity Investment in Unconsolidated Entity**

The Company is a co-investor, together with other affiliates of Ellington, in Jepson Holdings Limited ("Jepson"), the parent of an entity (the "Jepson Risk Retention Vehicle") that has sponsored various European mortgage loan securitizations. The Jepson Risk Retention Vehicle is expected to hold certain of the notes it issues for each securitization it completes in order to comply with European risk retention rules. As of September 30, 2023 and December 31, 2022, the Company's equity investment in Jepson Holdings Limited had a fair value of \$0.6 million and \$0.6 million, respectively. See Note 7 for additional details on this equity investment.

**Participation in Multi-Borrower Financing Facilities**

The Company is a co-participant with certain other entities managed by Ellington or its affiliates (the "Affiliated Entities") in various entities (each, a "Joint Entity"), which were formed in order to facilitate the financing of commercial mortgage loans, residential mortgage loans, and REO (collectively, the "Mortgage Loan and REO Assets"), through repurchase agreements. Each Joint Entity has a master repurchase agreement with a particular financing counterparty.

In connection with the financing of the Mortgage Loan and REO Assets under repurchase agreements, each of the Company and the Affiliated Entities transferred certain of their respective Mortgage Loan and REO Assets to one of the Joint Entities in exchange for its pro rata share of the financing proceeds that the respective Joint Entity received from the financing counterparty. While the Company's Mortgage Loan and REO Assets were transferred to the Joint Entity, the Company's Mortgage Loan and REO Assets and the related debt were not derecognized for financial reporting purposes, in accordance with ASC 860-10, because the Company continued to retain the risks and rewards of ownership of its Mortgage Loan and REO Assets. As of September 30, 2023 and December 31, 2022, the Joint Entities had aggregate outstanding issued debt under the repurchase agreements in the amount of \$642.7 million and \$872.5 million, respectively. The Company's segregated silo of this debt as of September 30, 2023 and December 31, 2022 was \$185.3 million and \$274.4 million, respectively, and is included under the caption Repurchase agreements on the Company's Condensed Consolidated Balance Sheet. To the extent that there is a default under the repurchase agreements, all of the assets of each respective Joint Entity, including those beneficially owned by any non-defaulting owners of such Joint Entity, could be used to satisfy the outstanding obligations under such repurchase agreement. As of both September 30, 2023 and December 31, 2022, no party to any of the repurchase agreements was in default.

Each of the Joint Entities has been determined to be a VIE. The Company has evaluated each of these VIEs and determined that it continued to retain the risks and rewards of ownership of certain of the Mortgage Loan and REO Assets, where such Mortgage Loan and REO Assets and the related debt are segregated for the Company and each of the Affiliated Entities. On account of the segregation of certain of each co-participant's assets and liabilities within each of the Joint Entities, as well as the retention by each co-participant of control over its segregated Mortgage Loan and REO Assets within the Joint Entities, the Company has determined that it is the primary beneficiary of, and has consolidated its segregated silo of assets and liabilities within, each of the Joint Entities. See Note 11 and Note 13 for additional information.

**Participation in CLO Transactions**

As discussed in Note 12, the Company participated in a number of CLO securitization transactions, all managed by the CLO Manager.

The CLO Manager is entitled to receive management and incentive fees in accordance with the respective management agreements between the CLO Manager and the respective CLO Issuers. In accordance with the Management Agreement, the Manager rebates to the Company the portion of the management fees payable by each CLO Issuer to the CLO Manager that are allocable to the Company's participating interest in the unsecured subordinated notes issued by such CLO Issuer. For the three-month periods ended September 30, 2023 and 2022, the amount of such management fee rebates was \$0.1 million and \$0.4 million, respectively. For the nine-month periods ended September 30, 2023 and 2022, the amount of such management fee rebates was \$0.4 million and \$1.7 million, respectively.

In addition, from time to time, the Company along with various other affiliates of Ellington, and in certain cases various third parties, advance funds in the form of loans ("Initial Funding Loans") to securitization vehicles to enable them to establish

warehouse facilities for the purpose of acquiring the assets to be securitized. Pursuant to the terms of the warehouse facilities and the Initial Funding Loans, the applicable securitization trust is required, at the closing of each respective CLO securitization, first to repay the warehouse facility, then to repay the Initial Funding Loans, and then to distribute interest earned, net of any necessary reserves and/or interest expense, and the aggregate realized or unrealized gains, if any, on assets purchased into the warehouse facility. In the event that such CLO securitization fails to close, the assets held by the respective securitization vehicle would, subject to a cure period, be liquidated. As of September 30, 2023 and December 31, 2022, the Company's investment in such warehouse facilities was \$0.9 million and \$0.5 million, respectively, which are included on the Condensed Consolidated Balance Sheet in Investments in unconsolidated entities.

During the nine-month period ended September 30, 2023, the Company purchased \$0.7 million of various underperforming corporate debt and equity securities from certain of the Ellington-sponsored CLO Securitizations; there were no such purchases during the three-month period ended September 30, 2023. During the three- and nine-month periods ended September 30, 2022, the Company purchased \$2.3 million and \$7.3 million, respectively, of various underperforming corporate debt and equity securities from certain of the Ellington-sponsored CLO Securitizations. Such purchases are effected at market prices determined through the procedures set forth in the indentures of the respective Ellington-sponsored CLO Securitizations.

#### 16. Long-Term Incentive Plan Units

OP LTIP Units issued under the Company's incentive plans are generally exercisable by the holder at any time after vesting. Each OP LTIP Unit is convertible into an OP Unit on a one-for-one basis. Subject to certain conditions, the OP Units are redeemable by the holder for an equivalent number of shares of common stock of the Company or for the cash value of such shares of common stock, at the Company's election. Costs associated with the OP LTIP Units issued under the Company's incentive plans are measured as of the grant date and expensed ratably over the vesting period. Total expense associated with OP LTIP Units issued under the Company's incentive plans is presented under Compensation and benefits on the Statement of Operations. Total expense associated with OP LTIP Units issued under the Company's incentive plans for the three-month periods ended September 30, 2023 and 2022 was \$0.3 million and \$0.4 million, respectively. Total expense associated with OP LTIP Units issued under the Company's incentive plans for each of the nine-month periods ended September 30, 2023 and 2022 was \$1.0 million.

The below table details unvested OP LTIP Units as of September 30, 2023:

Grant Recipient	Number of OP LTIP Units		Grant Date	Vesting Date <sup>(1)</sup>
	Granted			
Dedicated or partially dedicated personnel:				
	15,789		December 16, 2021	December 16, 2023
	40,254		March 7, 2022	December 31, 2023
	18,068		December 15, 2022	December 15, 2023
	14,708		December 15, 2022	December 15, 2024
Total unvested OP LTIP Units at September 30, 2023		88,819		

(1) Date at which such OP LTIP Units will vest and become non-forfeitable.

The following tables summarize issuance and exercise activity of OP LTIP Units for the three- and nine-month periods ended September 30, 2023 and 2022:

	Three-Month Period Ended September 30,					
	2023			2022		
	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total
OP LTIP Units Outstanding (6/30/2023 and 6/30/2022, respectively)	365,518	404,055	769,573	365,518	350,549	716,067
Granted	—	—	—	—	24,796	24,796
Exercised	—	(6,199)	(6,199)	—	(4,066)	(4,066)
OP LTIP Units Outstanding (9/30/2023 and 9/30/2022, respectively)	365,518	397,856	763,374	365,518	371,279	736,797
OP LTIP Units Unvested and Outstanding (9/30/2023 and 9/30/2022, respectively)	—	88,819	88,819	—	128,672	128,672
OP LTIP Units Vested and Outstanding (9/30/2023 and 9/30/2022, respectively)	365,518	309,037	674,555	365,518	242,607	608,125

	Nine-Month Period Ended September 30,					
	2023			2022		
	Manager	Director/ Employee	Total	Manager	Director/ Employee	Total
OP LTIP Units Outstanding (12/31/2022 and 12/31/2021, respectively)	365,518	404,055	769,573	365,518	310,295	675,813
Granted	—	—	—	—	65,050	65,050
Exercised	—	(6,199)	(6,199)	—	(4,066)	(4,066)
OP LTIP Units Outstanding (9/30/2023 and 9/30/2022, respectively)	<u>365,518</u>	<u>397,856</u>	<u>763,374</u>	<u>365,518</u>	<u>371,279</u>	<u>736,797</u>
OP LTIP Units Unvested and Outstanding (9/30/2023 and 9/30/2022, respectively)	—	88,819	88,819	—	128,672	128,672
OP LTIP Units Vested and Outstanding (9/30/2023 and 9/30/2022, respectively)	365,518	309,037	674,555	365,518	242,607	608,125

There were an aggregate of 1,509,481 shares of common stock of the Company underlying awards, including OP LTIP Units, available for future issuance under the Company's 2017 Equity Incentive Plan as of both September 30, 2023 and December 31, 2022.

## 17. Non-controlling Interests

### *Operating Partnership*

Non-controlling interests include the Convertible Non-controlling Interests in the Operating Partnership owned by an affiliate of our Manager, our directors, and certain current and former Ellington employees and their related parties in the form of OP LTIP Units. Income allocated to Convertible Non-controlling Interests is based on the non-controlling interest owners' ownership percentage of the Operating Partnership during the period, calculated using a daily weighted average of all shares of common stock of the Company and Convertible Non-controlling Interests outstanding during the period. Holders of Convertible Non-controlling Interests are entitled to receive the same distributions that holders of shares of common stock of the Company receive. Convertible Non-controlling Interests are non-voting with respect to matters as to which holders of common stock of the Company are entitled to vote.

As of September 30, 2023, the Convertible Non-controlling Interests consisted of the outstanding 763,374 OP LTIP Units and 46,360 OP Units, and represented an interest of approximately 0.9% in the Operating Partnership. As of December 31, 2022, the Convertible Non-controlling Interests consisted of the outstanding 769,573 OP LTIP Units and 46,360 OP Units, and represented an interest of approximately 1.0% in the Operating Partnership. As of September 30, 2023 and December 31, 2022, non-controlling interests related to all outstanding Convertible Non-controlling Interests was \$11.7 million and \$12.4 million, respectively.

### *Joint Venture Interests*

Non-controlling interests also include the interests of joint venture partners in various consolidated subsidiaries of the Company. These subsidiaries hold the Company's investments in certain commercial mortgage loans and REO. The joint venture partners participate in the income, expense, gains and losses of such subsidiaries as set forth in the related operating agreements of the subsidiaries. The joint venture partners make capital contributions to the subsidiaries as new approved investments are purchased by the subsidiaries, and are generally entitled to distributions when investments are sold or otherwise disposed of. As of September 30, 2023 and December 31, 2022, the joint venture partners' interests in subsidiaries of the Company were \$9.6 million and \$10.0 million, respectively.

The joint venture partners' interests are not convertible into shares of common stock of the Company or OP Units, nor are the joint venture partners entitled to receive distributions that holders of shares of common stock of the Company receive.

### *Non-Controlling Interests in Longbridge*

As of September 30, 2023 and December 31, 2022, the Company owned 99.6% and 99.5%, respectively, of Longbridge; the remainder relates to units held by various executives at Longbridge (the "Longbridge Executive Unit Holders") and stock options issued to various Longbridge employees (collectively, the "Longbridge Minority Holders"). Units held by the Longbridge Executive Unit Holders and exercised stock options participate in the income, expense, gains and losses of Longbridge but do not participate in the income, expense, gains and losses of the Operating Partnership. The Longbridge Minority Holders' interests are not convertible into shares of common stock of the Company or OP Units, nor are the Longbridge Minority Holders' entitled to receive distributions that holders of shares of common stock of the Company receive.

Total expense associated with such options is presented under Compensation and benefits on the Statement of Operations. As of both September 30, 2023 and December 31, 2022, the Longbridge Minority Holders' interests in Longbridge were \$2.4 million.

## 18. Equity

### Preferred Stock

The Company has authorized 100,000,000 shares of preferred stock, \$0.001 par value per share. As of September 30, 2023 and December 31, 2022, the total amount of cumulative preferred dividends in arrears was \$4.0 million and \$2.5 million, respectively.

As of both September 30, 2023 and December 31, 2022, there were 4,600,000 shares of 6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series A Preferred Stock") outstanding.

As of both September 30, 2023 and December 31, 2022, there were 4,820,421 shares of 6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series B Preferred Stock") outstanding.

As of September 30, 2023, there were 4,000,000 shares of 8.625% Series C Fixed-Rate Reset Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series C Preferred Stock") outstanding. The 4,000,000 shares of Series C Preferred Stock were issued during the nine-month period ended September 30, 2023 and provided \$ 96.5 million of net proceeds after \$3.5 million of commissions and offering costs.

On January 20, 2022, the Company commenced an "at-the-market" offering for our preferred stock, or the "Preferred ATM Program," by entering into equity distribution agreements with sales agents under which it is authorized to offer and sell up to \$100.0 million of Series A Preferred Stock and/or Series B Preferred Stock from time to time. During the nine-month period ended September 30, 2022, the Company issued 20,421 shares of Series B Preferred Stock, which provided \$ 0.5 million of net proceeds after \$23 thousand of commissions and offering costs. The Company did not issue any shares of preferred stock under the Preferred ATM Program during either of the three- or nine-month periods ended September 30, 2023 or the three-month period ended September 30, 2022.

#### Series A

The Company's Series A Preferred Stock ranks senior to its common stock and Convertible Non-controlling Interests but on a parity with the Company's Series B Preferred Stock and Series C Preferred Stock with respect to the payment of dividends and the distribution of assets upon a voluntary or involuntary liquidation, dissolution or winding up of the Company. Additionally, the Company's Series A Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. The Series A Preferred Stock is not redeemable by the Company prior to October 30, 2024, except under circumstances where it is necessary to allow the Company to maintain its qualification as a REIT for U.S. federal income tax purposes and except in certain instances upon the occurrence of a change of control. Holders of the Company's Series A Preferred Stock generally do not have any voting rights.

Holders of the Series A Preferred Stock are entitled to receive cumulative cash dividends (i) from and including the original issue date to, but excluding, October 30, 2024, at a fixed rate equal to 6.750% per annum of the \$25.00 per share liquidation preference and (ii) from and including October 30, 2024, at a floating rate equal to three-month LIBOR plus a spread of 5.196% per annum of the \$25.00 per share liquidation preference. Dividends are payable quarterly in arrears on or about the 30th day of each January, April, July, and October.

#### Series B

The Company's Series B Preferred Stock ranks senior to its common stock and Convertible Non-controlling Interests but on a parity with the Company's Series A Preferred Stock and Series C Preferred Stock with respect to the payment of dividends and the distribution of assets upon a voluntary or involuntary liquidation, dissolution or winding up of the Company. Additionally, the Company's Series B Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. The Series B Preferred Stock is not redeemable by the Company prior to January 30, 2027, except under circumstances where it is necessary to allow the Company to maintain its qualification as a REIT for U.S. federal income tax purposes and except in certain instances upon the occurrence of a change of control. Holders of the Company's Series B Preferred Stock generally do not have any voting rights.

Holders of the Series B Preferred Stock are entitled to receive cumulative cash dividends from and including the original issue date to, but excluding, January 30, 2027 (the "Series B First Reset Date"), at a fixed rate equal to 6.250% per annum of the \$25.00 per share liquidation preference. The applicable fixed rate resets on the First Reset Date and again on the fifth anniversary of the preceding reset date (each a "Series B Reset Date"), at a rate equal to the five-year treasury rate as measured

three business days prior to the Series B Reset Date plus 4.99% per annum of the \$25.00 per share liquidation preference. Dividends are payable quarterly in arrears on or about the 30th day of each January, April, July, and October.

#### *Series C*

The Company's Series C Preferred Stock ranks senior to its common stock and Convertible Non-controlling Interests but on a parity with the Company's Series A Preferred Stock and Series B Preferred Stock with respect to the payment of dividends and the distribution of assets upon a voluntary or involuntary liquidation, dissolution or winding up of the Company. Additionally, the Company's Series C Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption. The Series C Preferred Stock is not redeemable by the Company prior to April 30, 2028, except under circumstances where it is necessary to allow the Company to maintain its qualification as a REIT for U.S. federal income tax purposes and except in certain instances upon the occurrence of a change of control. Holders of the Company's Series C Preferred Stock generally do not have any voting rights.

Holders of the Series C Preferred Stock are entitled to receive cumulative cash dividends from and including the original issue date to, but excluding, April 30, 2028 (the "Series C First Reset Date"), at a fixed rate equal to 8.625% per annum of the \$25.00 per share liquidation preference. The applicable fixed rate resets on the First Reset Date and again on the fifth anniversary of the preceding reset date (each a "Series C Reset Date"), at a rate equal to the five-year treasury rate as measured three business days prior to the Series C Reset Date plus 5.13% per annum of the \$25.00 per share liquidation preference. Dividends are payable quarterly in arrears on or about the 30th day of each January, April, July, and October.

#### *Common Stock*

As of September 30, 2023 and December 31, 2022, the Company has authorized 200,000,000 and 100,000,000 shares of common stock, \$0.001 par value per share, respectively. The Board of Directors may authorize the issuance of additional shares, subject to the approval of the holders of at least a majority of the shares of common stock then outstanding present in person or represented by proxy at a meeting of the stockholders. As of September 30, 2023 and December 31, 2022, there were 68,234,160 and 63,812,215 shares of common stock outstanding, respectively.

On August 6, 2021, the Company commenced an "at-the-market" offering program for shares of its common stock, or "2021 Common ATM Program," by entering into equity distribution agreements with sales agents under which the Company was authorized to offer and sell up to 10.0 million shares of common stock from time to time. On January 24, 2023, the Company amended the equity distribution agreements (the "EDA Amendments") with each of the sales agents. Such amendments authorize the Company to offer and sell up to \$225.0 million of common stock from time to time (the "2023 Common ATM Program"); the 2021 Common ATM Program and 2023 Common ATM Program are collectively referred to as the "Common ATM Programs." During the three-month period ended September 30, 2023, the Company issued 1,066,221 shares of common stock under the Common ATM Programs which provided \$ 14.5 million of net proceeds after \$0.2 million of agent commissions and offering costs. During the nine-month period ended September 30, 2023, the Company issued 5,500,082 shares of common stock under the Common ATM Programs which provided \$75.0 million of net proceeds after \$0.9 million of agent commissions and offering costs. During the three-month period ended September 30, 2022, the Company issued 516,942 shares of common stock under the 2021 Common ATM Program which provided \$ 8.0 million of net proceeds after \$0.1 million of agent commissions and offering costs. During the nine-month period ended September 30, 2022, the Company issued 3,085,642 shares of common stock under the 2021 Common ATM Program which provided \$ 53.2 million of net proceeds after \$0.8 million of agent commissions and offering costs.

The following table summarizes issuance, repurchase, and other activity with respect to the Company's common stock for the three- and nine-month periods ended September 30, 2023 and 2022:

	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Shares of Common Stock Outstanding (as of 6/30/2023, 6/30/2022, 12/31/2022, and 12/31/2021, respectively)	67,161,740	59,957,779	63,812,215	57,458,169
<b>Share Activity:</b>				
Shares of common stock issued	1,066,221	516,942	5,500,082	3,085,642
Shares of common stock issued in connection with incentive fee payment	—	—	—	19,094
Shares of common stock repurchased	—	(40,000)	(1,084,336)	(128,184)
OP Units exercised	6,199	4,066	6,199	4,066
Shares of Common Stock Outstanding (as of 9/30/2023, 9/30/2022, 9/30/2023, and 9/30/2022, respectively)	<b>68,234,160</b>	<b>60,438,787</b>	<b>68,234,160</b>	<b>60,438,787</b>

If all Convertible Non-controlling Interests that have been previously issued were to become fully vested and exchanged for shares of common stock as of September 30, 2023 and December 31, 2022, the Company's issued and outstanding shares of common stock would increase to 69,043,894 and 64,628,148 shares, respectively.

On June 13, 2018, the Board of Directors approved the adoption of a share repurchase program under which the Company is authorized to repurchase up to 1.55 million shares of common stock (the "2018 Repurchase Plan"). On March 21, 2023, the Board of Directors approved the adoption of a share repurchase program under which the Company is authorized to repurchase up to \$50 million of the Company's common stock (the "2023 Repurchase Plan"), extending the Company's ability to repurchase common stock beyond the 1.55 million shares previously authorized in 2018. Both the 2018 Repurchase Plan and 2023 Repurchase Plan are open-ended in duration and allow the Company to make repurchases from time to time on the open market or in negotiated transactions, including under Rule 10b5-1 plans. Repurchases under the plans are at the Company's discretion, subject to applicable law, share availability, price and financial performance, among other considerations. During the nine-month period ended September 30, 2023, the Company repurchased 1,084,336 shares at an average price per share of \$ 11.39 and a total cost of \$12.4 million. During the three-month period ended September 30, 2022, the Company repurchased 40,000 shares at an average price per share of \$ 12.38 and a total cost of \$ 0.5 million. During the nine-month period ended September 30, 2022, the Company repurchased 128,184 shares at an average price per share of \$ 12.94 and a total cost of \$ 1.7 million. The Company did not repurchase any common shares during the three-month period ended September 30, 2023. As of September 30, 2023, the Company has authorization to repurchase an additional \$45.8 million of the Company's common stock under the 2023 Repurchase Plan; all shares authorized under the 2018 Repurchase Plan have been repurchased.

## 19. Earnings Per Share

The components of the computation of basic and diluted EPS are as follows:

(In thousands except share amounts)	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net income (loss) attributable to common stockholders	\$ 6,591	\$ (33,290)	\$ 48,405	\$ (108,073)
Add: Net income (loss) attributable to Convertible Non-controlling Interests <sup>(1)</sup>	80	(424)	591	(1,374)
Net income (loss) attributable to common stockholders and Convertible Non-controlling Interests	6,671	(33,714)	48,996	(109,447)
<b>Dividends declared:</b>				
Common stockholders	(30,626)	(27,131)	(91,146)	(80,328)
Convertible Non-controlling Interests	(366)	(346)	(1,100)	(1,020)
Total dividends declared to common stockholders and Convertible Non-controlling Interests	(30,992)	(27,477)	(92,246)	(81,348)
<b>Undistributed (Distributed in excess of) earnings:</b>				
Common stockholders	(24,035)	(60,421)	(42,741)	(188,401)
Convertible Non-controlling Interests	(286)	(770)	(509)	(2,394)
Total undistributed (distributed in excess of) earnings attributable to common stockholders and Convertible Non-controlling Interests	\$ (24,321)	\$ (61,191)	\$ (43,250)	\$ (190,795)
Weighted average shares outstanding (basic and diluted):				
Weighted average shares of common stock outstanding	67,789,827	60,215,948	67,212,137	59,295,566
Weighted average Convertible Non-controlling Interest Units outstanding	814,855	766,527	815,570	754,224
Weighted average shares of common stock and Convertible Non-controlling Interest Units outstanding	68,604,682	60,982,475	68,027,707	60,049,790
<b>Basic earnings per share of common stock and Convertible Non-controlling Interest Unit:</b>				
Distributed	\$ 0.45	\$ 0.45	\$ 1.35	\$ 1.35
Undistributed (Distributed in excess of)	(0.35)	(1.00)	(0.63)	(3.17)
	<hr style="border: 0.5px solid black;"/>			
<b>Diluted earnings per share of common stock and Convertible Non-controlling Interest Unit:</b>				
Distributed	\$ 0.45	\$ 0.45	\$ 1.35	\$ 1.35
Undistributed (Distributed in excess of)	(0.35)	(1.00)	(0.63)	(3.17)
	<hr style="border: 0.5px solid black;"/>			

(1) For the three-month periods ended September 30, 2023 and 2022, excludes net income (loss) of \$0.4 million and \$0.2 million, respectively, and for the nine-month periods ended September 30, 2023 and 2022, excludes net income (loss) of \$2.5 million and \$0.3 million, respectively, attributable to joint venture partners and Longbridge, as applicable, which have non-participating interests as described in Note 17.

## 20. Restricted Cash

Restricted cash represents cash that the Company can use only for specific purposes. As of September 30, 2023 and December 31, 2022, the Company had \$ 1.6 million and \$4.8 million, respectively, of restricted cash including cash balances that are restricted under a warehouse line of credit agreement.

## 21. Offsetting of Assets and Liabilities

The Company generally records financial instruments at fair value as described in Note 2. Financial instruments are generally recorded on a gross basis on the Condensed Consolidated Balance Sheet. In connection with the vast majority of its derivative, reverse repurchase and repurchase agreements, and the related trading agreements, the Company and its counterparties are required to pledge collateral. Cash or other collateral is exchanged as required with each of the Company's counterparties in connection with open derivative positions, and reverse repurchase and repurchase agreements.

The Company has not entered into master netting agreements with any of its counterparties. Certain of the Company's reverse repurchase and repurchase agreements and financial derivative transactions are governed by underlying agreements that generally provide a right of net settlement, as well as a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

The following tables present information about certain assets and liabilities representing financial instruments as of September 30, 2023 and December 31, 2022.

**September 30, 2023:**

Description	Amount of Assets (Liabilities) Presented in the Condensed Consolidated Balance Sheet <sup>(1)</sup>		Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral <sup>(2)(3)</sup>	Cash Collateral (Received) Pledged <sup>(2)(3)</sup>		Net Amount
	(In thousands)						
<b>Assets</b>							
Financial derivatives—assets	\$	198,023	\$ (38,383)	\$ —	\$ (77,941)	\$ 81,699	
Reverse repurchase agreements		175,197	—	(175,197)	—	—	—
<b>Liabilities</b>							
Financial derivatives—liabilities		(38,520)	38,383	—	99	(38)	
Repurchase agreements		(2,573,043)	—	2,547,662	25,381	—	—

(1) In the Company's Condensed Consolidated Balance Sheet, all balances associated with repurchase agreements, reverse repurchase agreements, and financial derivatives are presented on a gross basis.

(2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of September 30, 2023 was \$3.2 billion. As of September 30, 2023, total cash collateral on financial derivative assets and liabilities excludes excess net cash collateral pledged (received) of \$(0.3) million and \$40 thousand, respectively.

(3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a particular asset or liability. As a result, in preparing the above tables, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

**December 31, 2022:**

Description	Amount of Assets (Liabilities) Presented in the Condensed Consolidated Balance Sheet <sup>(1)</sup>		Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral <sup>(2)(3)</sup>	Cash Collateral (Received) Pledged <sup>(2)(3)</sup>		Net Amount
	(In thousands)						
<b>Assets</b>							
Financial derivatives—assets	\$	132,518	\$ (53,229)	\$ —	\$ (32,044)	\$ 47,245	
Reverse repurchase agreements		226,444	(152,946)	(73,498)	—	—	—
<b>Liabilities</b>							
Financial derivatives—liabilities		(54,198)	53,229	—	534	(435)	
Repurchase agreements		(2,609,685)	152,946	2,436,472	20,267	—	—

(1) In the Company's Condensed Consolidated Balance Sheet, all balances associated with repurchase agreements, reverse repurchase agreements, and financial derivatives are presented on a gross basis.

(2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of December 31, 2022 was \$3.2 billion. As of December 31, 2022, total cash collateral on financial derivative assets and liabilities excludes excess net cash collateral pledged of \$0.4 million and \$1.8 million, respectively.

(3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a particular asset or liability. As a result, in preparing the above tables, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

## 22. Counterparty Risk

The Company is exposed to concentrations of counterparty risk. It seeks to mitigate such risk by diversifying its exposure among various counterparties, when appropriate. The following table summarizes the Company's exposure to counterparty risk as of September 30, 2023 and December 31, 2022.

**September 30, 2023:**

	<u>Amount of Exposure</u> (In thousands)	<u>Number of Counterparties with Exposure</u>	<u>Maximum Percentage of Exposure to a Single Counterparty<sup>(1)</sup></u>
Cash and cash equivalents	\$ 174,664	12	30.5 %
Collateral on repurchase agreements held by dealers <sup>(2)</sup>	3,178,526	26	22.6 %
Due from brokers	38,870	25	18.8 %
Receivable for securities sold <sup>(3)</sup>	17,165	6	58.2 %

(1) Each counterparty is a financial institution that the Company believes to be creditworthy as of September 30, 2023.

(2) Includes securities, loans, and REO as well as cash posted as collateral for repurchase agreements.

(3) Included in Investment related receivables on the Condensed Consolidated Balance Sheet.

**December 31, 2022:**

	<u>Amount of Exposure</u> (In thousands)	<u>Number of Counterparties with Exposure</u>	<u>Maximum Percentage of Exposure to a Single Counterparty</u>
Cash and cash equivalents	\$ 217,053	13	41.3 %
Collateral on repurchase agreements held by dealers <sup>(1)</sup>	3,247,276	26	21.6 %
Due from brokers	36,761	20	22.8 %
Receivable for securities sold <sup>(2)</sup>	21,439	6	36.4 %

(1) Includes securities, loans, and REO as well as cash posted as collateral for repurchase agreements.

(2) Included in Investment related receivables on the Condensed Consolidated Balance Sheet.

## 23. Commitments and Contingencies

The Company provides current directors and officers with a limited indemnification against liabilities arising in connection with the performance of their duties to the Company.

In the normal course of business the Company may also enter into contracts that contain a variety of representations, warranties, and general indemnifications. The Company's maximum exposure under these arrangements, including future claims that may be made against the Company that have not yet occurred, is unknown. The Company has not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. As of both September 30, 2023 and December 31, 2022, the Company has no liabilities recorded for these agreements.

The Company's maximum risk of loss from credit events on its securities (excluding Agency securities, which are guaranteed by the issuing government agency or government-sponsored enterprise), loans, and investments in unconsolidated entities is limited to the amount paid for such investment.

### *Commitments and Contingencies Related to Investments in Residential Mortgage Loans*

In connection with certain of the Company's investments in residential mortgage loans, the Company has unfunded commitments in the amount of \$ 230.2 million and \$175.7 million as of September 30, 2023 and December 31, 2022, respectively.

### *Commitments and Contingencies Related to Investments in Loan Originators*

In connection with certain of its investments in mortgage and consumer loan originators, the Company has outstanding commitments and contingencies as described below.

As described in Note 15, the Company is party to a flow mortgage loan purchase and sale agreement with a mortgage loan originator. The Company has entered into agreements whereby it guarantees the performance of this mortgage loan originator under master repurchase agreements. The Company's maximum guarantees were capped at \$15.0 million as of both September 30, 2023 and December 31, 2022 and there were no such borrowings outstanding as of either date. The Company's

obligations under these arrangements are deemed to be guarantees under ASC 460-10. The Company has elected the FVO for its guarantees, which are included in Accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet. As of September 30, 2023 and December 31, 2022, the estimated fair value of such guarantee was insignificant.

The Company is party to a flow mortgage loan purchase and sale agreement with a mortgage loan originator in which it holds an equity investment and as well as an investment in the Convertible Note, as discussed in Note 15. In addition, in May 2021, the Company committed to purchase \$650.0 million of eligible residential mortgage loans from this originator. As of September 30, 2023 and December 31, 2022, the Company had unfunded commitments related to such investments in the amount of \$38.0 million and \$181.4 million, respectively.

As described in Note 15, the Company entered into various secured promissory notes with certain loan originators in which it also holds an equity interest. As of September 30, 2023 and December 31, 2022, the Company had unfunded commitments related to such secured promissory notes of \$4.9 million and \$6.5 million, respectively.

#### *Commitments and Contingencies Related to Investments in Unconsolidated Entities*

The Company has entered into agreements whereby it guarantees the performance of a securitization-related risk retention vehicle, in which it has an equity investment, under a promissory note. The Company's maximum guarantees were capped at \$15.5 million. As of September 30, 2023 and December 31, 2022, the amount of the promissory note outstanding, for which the Company provided a guarantee, was \$2.3 million and \$10.8 million, respectively.

#### *Commitments and Contingencies Related to Corporate Loans*

The Company has investments in certain corporate loans whereby the borrowers can request additional funds under the respective agreements. As of September 30, 2023 and December 31, 2022, the Company had unfunded commitments related to such investments in the amount of \$3.1 million and \$4.2 million, respectively.

The Company has extended a line of credit whereby the borrower can draw funds up to \$ 1.0 million. As of both September 30, 2023 and December 31, 2022, the Company had unfunded commitments related to such line of credit in the amount of \$0.9 million.

#### *Commitments to Extend Credit*

The Company enters into loan commitment arrangements with borrowers who have applied for reverse mortgage loans that have not yet closed. As of September 30, 2023 and December 31, 2022, the fair value of such commitments was \$3.8 million and \$3.1 million, respectively, which is reflected in Loan commitments on the Condensed Consolidated Balance Sheet.

The Company is required to fund further borrower advances for loans where the borrower has not fully drawn down all of the HECM loan proceeds available to them. As of September 30, 2023 and December 31, 2022, the Company had unfunded commitments related to such HECM loans of \$1.9 billion and \$1.7 billion, respectively. Additionally, the Company has the obligation to advance various other HECM loan related amounts such as the borrowers' monthly insurance premiums to FHA and property taxes.

#### *Mandatory Repurchase Obligations*

As detailed in Note 12, the Company is required to purchase from HMBS pools any HECM loan that has reached the MCA. For active loans, the Company subsequently assigns such loan to HUD, which then reimburses the Company up to the MCA. For inactive loans, following resolution of the loan, the Company files a claim with HUD for any recoverable remaining principal and advance balances.

#### *Lease Commitments*

Longbridge, a consolidated subsidiary of the Company, leases office space under various operating lease arrangements, which expire on various dates through December 2029. As discussed in Note 2, the Company makes various assumption and estimates in recognizing the operating lease ROU asset and corresponding lease liabilities, including the expected lease term, incremental borrowing rate, and identifying lease and non-lease components. Total expense under all operating leases amounted to \$ 0.3 million and \$0.8 million for the three- and nine-month periods ended September 30, 2023, respectively, and is included in Other expenses on the Condensed Consolidated Statement of Operations. The Company did not incur any expenses related to operating leases for the three- or nine-month periods ended September 30, 2022.

The following table provides details of the Company's outstanding leases as of September 30, 2023 and December 31, 2022.

(\$ in thousands)	September 30, 2023	December 31, 2022
ROU assets	\$ 3,329	\$ 3,838
Lease liabilities	3,575	4,058
Weighted average remaining term (in years)	5.3	5.8
Weighted average discount rate	7.20 %	7.20 %

The following table details contractual future minimum lease payments as of September 30, 2023.

	Minimum Payments (In thousands)
Year ended December 31, 2023	\$ 244
Year ended December 31, 2024	844
Year ended December 31, 2025	799
Year ended December 31, 2026	793
Year ended December 31, 2027	695
Thereafter	953
<b>Total</b>	4,328
Less: implied interest payments	(753)
<b>Lease Liability</b>	\$ 3,575

#### 24. Segment Reporting

On October 3, 2022, the Company completed the acquisition of a controlling interest in Longbridge, a reverse mortgage loan originator and servicer. As a result of the Longbridge Transaction, the Company determined that it has two reportable segments, the Investment Portfolio Segment and the Longbridge Segment, for each of which the chief operating decision maker receives and reviews separate financial information. As discussed in Note 1, the Investment Portfolio Segment includes a diverse array of the Company's financial assets, as well as associated financing, hedging, and various allocable expenses. The Longbridge Segment consists of the stand-alone origination and servicing business of Longbridge, including associated financial assets, financing, hedging, and allocated expenses. The Longbridge segment may also include certain reverse mortgage loans and reverse MSRs that are owned by subsidiaries of the Company other than Longbridge, along with their related assets, liabilities, and hedging instruments.

Income and expense items that are not directly allocated to either segment are included in Corporate/Other as reconciling items to our consolidated financial statements. These unallocated items include: (i) all income and expense items related to the Company's Senior Notes and preferred stock outstanding, including any hedges related thereto; (ii) management and incentive fees; (iii) income tax expense (benefit); (iv) certain compensation and benefits expenses, professional fees, administrative and custody fees, non-cash equity compensation; and (v) interest income (expense) on cash margin.

Prior to the consolidation of Longbridge, the Company had one reportable segment; the Company has conformed prior periods to present items of income and expense shown in Corporate/Other.

The following tables present the Company's results of operations by reportable segment for the three- and nine-month periods ended September 30, 2023 and 2022, and various reconciling items to the Company's results of operations overall.

(In thousands)	Three-Month Period Ended September 30, 2023			
	Investment Portfolio Segment	Longbridge Segment	Corporate/ Other	Total
	\$ 89,445	\$ 5,190	\$ 1,581	\$ 96,216
Interest income	\$ (58,045)	(7,540)	(3,117)	(68,702)
Total other income (loss)	(11,969)	31,752	6,437	26,220
Total expenses	3,771	25,319	10,362	39,452
<b>Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities</b>	15,660	4,083	(5,461)	14,282
Income tax expense (benefit)	—	—	224	224
Earnings (losses) from investments in unconsolidated entities	(978)	—	—	(978)
<b>Net Income (Loss)</b>	<b>14,682</b>	<b>4,083</b>	<b>(5,685)</b>	<b>13,080</b>
Net income (loss) attributable to non-controlling interests	438	(12)	83	509
Dividends on preferred stock	—	—	5,980	5,980
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ 14,244</b>	<b>\$ 4,095</b>	<b>\$ (11,748)</b>	<b>\$ 6,591</b>
<b>Non-cash items:</b>				
Amortization and depreciation expense	\$ —	\$ 149	\$ —	\$ 149
Three-Month Period Ended September 30, 2022				
(In thousands)	Investment Portfolio			
	Segment	Corporate/ Other	Total	
	\$ 77,887	\$ 705	\$ 78,592	
Interest income	\$ (38,121)	(3,959)	(42,080)	
Total other income (loss)	(24,514)	(1,834)	(26,348)	
Total expenses	7,120	7,343	14,463	
<b>Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities</b>	8,132	(12,431)	(4,299)	
Income tax expense (benefit)	—	(81)	(81)	
Earnings (losses) from investments in unconsolidated entities	(25,513)	—	(25,513)	
<b>Net Income (Loss)</b>	<b>(17,381)</b>	<b>(12,350)</b>	<b>(29,731)</b>	
Net income (loss) attributable to non-controlling interests	156	(420)	(264)	
Dividends on preferred stock	—	3,823	3,823	
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ (17,537)</b>	<b>\$ (15,753)</b>	<b>\$ (33,290)</b>	

	Nine-Month Period Ended September 30, 2023			
(In thousands)	Investment Portfolio Segment	Longbridge Segment	Corporate/ Other	Total
Interest income	\$ 254,932	\$ 11,862	\$ 4,688	\$ 271,482
Interest expense	(164,388)	(18,003)	(9,361)	(191,752)
Total other income (loss)	12,314	95,779	4,466	112,559
Total expenses	11,140	76,583	32,263	119,986
<b>Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities</b>	<b>91,718</b>	<b>13,055</b>	<b>(32,470)</b>	<b>72,303</b>
Income tax expense (benefit)	—	—	328	328
Earnings (losses) from investments in unconsolidated entities	(3,403)	—	—	(3,403)
<b>Net Income (Loss)</b>	<b>88,315</b>	<b>13,055</b>	<b>(32,798)</b>	<b>68,572</b>
Net income (loss) attributable to non-controlling interests	2,522	(35)	603	3,090
Dividends on preferred stock	—	—	17,077	17,077
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ 85,793</b>	<b>\$ 13,090</b>	<b>\$ (50,478)</b>	<b>\$ 48,405</b>
<b>Non-cash items:</b>				
Amortization and depreciation expense	\$ —	\$ 859	\$ —	\$ 859
	Nine-Month Period Ended September 30, 2022			
(In thousands)	Investment Portfolio Segment	Longbridge Segment	Corporate/ Other	Total
Interest income	\$ 191,329	\$ 1,059	\$ 192,388	
Interest expense	(72,432)	(9,689)	(82,121)	
Total other income (loss)	(118,832)	(2,566)	(121,398)	
Total expenses	20,187	26,945	47,132	
<b>Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities</b>	<b>(20,122)</b>	<b>(38,141)</b>	<b>(58,263)</b>	
Income tax expense (benefit)	—	(14,867)	(14,867)	
Earnings (losses) from investments in unconsolidated entities	(54,284)	—	(54,284)	
<b>Net Income (Loss)</b>	<b>(74,406)</b>	<b>(23,274)</b>	<b>(97,680)</b>	
Net income (loss) attributable to non-controlling interests	287	(1,362)	(1,075)	
Dividends on preferred stock	—	11,468	11,468	
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ (74,693)</b>	<b>\$ (33,380)</b>	<b>\$ (108,073)</b>	

The following tables present our balance sheet by reportable segment as of September 30, 2023 and December 31, 2022, which reconciles to the Company's financial position overall.

	September 30, 2023			
(In thousands)	Investment Portfolio Segment	Longbridge Segment	Corporate/ Other	Total
<b>Total Assets</b>	<b>\$ 5,443,151</b>	<b>\$ 8,822,286</b>	<b>\$ 179,604</b>	<b>\$ 14,445,041</b>
<b>Total Liabilities</b>	<b>4,246,945</b>	<b>8,565,506</b>	<b>295,173</b>	<b>13,107,624</b>
<b>Total Equity</b>	<b>1,196,206</b>	<b>256,780</b>	<b>(115,569)</b>	<b>1,337,417</b>
	December 31, 2022			
(In thousands)	Investment Portfolio Segment	Longbridge Segment	Corporate/ Other	Total
<b>Total Assets</b>	<b>\$ 5,635,657</b>	<b>\$ 8,227,509</b>	<b>\$ 222,720</b>	<b>\$ 14,085,886</b>
<b>Total Liabilities</b>	<b>4,499,669</b>	<b>8,092,313</b>	<b>273,018</b>	<b>12,865,000</b>
<b>Total Equity</b>	<b>1,135,988</b>	<b>135,196</b>	<b>(50,298)</b>	<b>1,220,886</b>

## **25. Subsequent Events**

### *Dividends Declared*

On October 6, 2023, the Board of Directors approved a dividend in the amount of \$ 0.15 per share of common stock payable on November 27, 2023 to stockholders of record as of October 31, 2023.

On November 7, 2023, the Board of Directors approved a dividend in the amount of \$ 0.15 per share of common stock payable on December 26, 2023 to stockholders of record as of November 30, 2023.

### *Great Ajax Corp.*

On October 20, 2023, the Company and Great Ajax Corp. ("Great Ajax") executed an agreement to terminate the previously announced proposed merger (the "Ajax Merger Termination Agreement"). Under the terms of the Ajax Merger Termination Agreement, the Company paid Great Ajax a termination fee of \$5 million and also acquired 1,666,666 newly issued shares of Great Ajax common stock, at a per share price of \$6.60, for a total purchase price of \$11 million.

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

*Except where the context suggests otherwise, references in this Quarterly Report on Form 10-Q to "EFC," "we," "us," the "Company" and "our" refer to Ellington Financial Inc. and its consolidated subsidiaries, including Ellington Financial Operating Partnership LLC, our operating partnership subsidiary, which we refer to as our "Operating Partnership." We conduct all of our operations and business activities through our Operating Partnership. Our "Manager" refers to Ellington Financial Management LLC, our external manager, "Ellington" refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms, including our Manager, and "Manager Group" refers collectively to officers and directors of EFC, and partners and affiliates of Ellington (including families and family trusts of the foregoing). In certain instances, references to our Manager and services to be provided to us by our Manager may also include services provided by Ellington and its other affiliates from time to time.*

### **Special Note Regarding Forward-Looking Statements**

When used in this Quarterly Report on Form 10-Q, in future filings with the Securities and Exchange Commission, or the "SEC," or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as "believe," "expect," "anticipate," "estimate," "project," "plan," "continue," "intend," "should," "would," "could," "goal," "objective," "will," "may," "seek," or similar expressions or their negative forms or references to strategy, plans or intentions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the "Securities Act," and Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act," and, as such, may involve known and unknown risks, uncertainties, and assumptions.

Forward-looking statements are based on our beliefs, assumptions, and expectations of our future operations, business strategies, performance, financial condition, liquidity and prospects, taking into account information currently available to us. These beliefs, assumptions, and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity, results of operations and strategies may vary materially from those expressed or implied in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities or our investments; market volatility; changes in the prepayment rates on the mortgage loans underlying the securities owned by us for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity; increased rates of default and/or decreased recovery rates on our assets; our ability to borrow to finance our assets and the available terms for such borrowings; changes in government regulations affecting our business; our ability to maintain our exclusion from registration under the Investment Company Act of 1940, as amended, or the "Investment Company Act"; our ability to maintain our qualification as a real estate investment trust, or "REIT"; our ability to complete the Arlington Merger (as defined herein) in a timely manner or at all; our ability to achieve the cost savings and efficiencies, operating efficiencies, synergies and other benefits, including the increased scale, from the Arlington Merger (as defined herein); potential business disruption following the Arlington Merger (as defined herein); and risks associated with investing in real estate assets, including changes in business conditions and the general economy such as changes to fiscal or monetary policy, heightened inflation, slower growth or recession, and currency fluctuations. These and other risks, uncertainties and factors, including the risk factors described under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 could cause our actual results to differ materially from those projected or implied in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time, and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

### **Executive Summary**

Our primary objective is to generate attractive, risk-adjusted total returns for our stockholders. We seek to attain this objective by utilizing an opportunistic strategy to make investments, without restriction as to ratings, structure, or position in the capital structure, that we believe compensate us appropriately for the risks associated with them rather than targeting a specific yield. At any particular point in time, depending on how we perceive the market's pricing of risk both generally and across sectors, we may favor higher-risk assets or we may favor lower-risk assets, or a combination of the two, in the interests of portfolio diversification or other considerations.

We conduct all of our operations and business activities through the Operating Partnership. As of September 30, 2023, we had an ownership interest of approximately 99.1% in the Operating Partnership. The remaining ownership interest of approximately 0.9% in the Operating Partnership represents the interests in the Operating Partnership that are owned by an affiliate of our Manager, our current and certain former directors, and certain current and former Ellington employees and their related parties, and is reflected in our financial statements as a non-controlling interest. We are externally managed and advised

by our Manager, an affiliate of Ellington. Ellington is a registered investment adviser with a 28-year history of investing in the Agency and credit markets.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or "the Code." Provided that we maintain our qualification as a REIT, we generally will not be subject to U.S. federal, state, and local income tax on our REIT taxable income that is currently distributed to our stockholders. Any taxes paid by a domestic taxable REIT subsidiary, or "TRS," will reduce the cash available for distribution to our stockholders. REITs are subject to a number of organizational and operational requirements, including a requirement that they currently distribute at least 90% of their annual REIT taxable income excluding net capital gains.

On October 3, 2022, we completed the acquisition of a controlling interest in Longbridge Financial, LLC ("Longbridge"), a reverse mortgage loan originator and servicer (the "Longbridge Transaction"). As a result of the Longbridge Transaction, we consolidate Longbridge's financial results.

In our investment portfolio, we invest in a diverse array of financial assets, including residential mortgage-backed securities, or "RMBS," including RMBS for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," residential and commercial mortgage loans, commercial mortgage-backed securities, or "CMBS," consumer loans and asset-backed securities, or "ABS," including ABS backed by consumer loans, collateralized loan obligations, or "CLOs," non-mortgage- and mortgage-related derivatives, equity investments in loan origination companies, and other strategic investments.

Longbridge originates and services reverse mortgage loans, including both home equity conversion mortgage loans ("HECM loans") which are insured by the Federal Housing Administration ("FHA"), as well as non-FHA-insured reverse mortgage loans, which we refer to as "proprietary reverse mortgage loans." HECM loans are generally eligible for securitization into HECM-backed MBS ("HMBS"), which are guaranteed by the Government National Mortgage Association ("GNMA").

We refer to the portion of our investment portfolio excluding Agency RMBS as our credit portfolio. For more information on our targeted assets, see "—Our Targeted Asset Classes" below.

The strategies that we employ are intended to capitalize on opportunities in the current market environment. Subject to maintaining our qualification as a REIT and our exclusion from registration as an investment company under the Investment Company Act, we intend to adjust our strategies to changing market conditions by shifting our asset allocations across various asset classes as credit and liquidity trends evolve over time. We believe that this flexibility, combined with Ellington's experience, will help us generate more consistent returns on our capital throughout changing market cycles. Additionally, subject to maintaining our qualification as a REIT, we opportunistically hedge our credit risk, interest rate risk, yield spread risk, and foreign currency risk; however, at any point in time we may choose not to hedge all or a portion of these risks, and we will generally not hedge those risks that we believe are appropriate for us to take at such time, or that we believe would be impractical or prohibitively expensive to hedge.

**Pending Acquisition of Arlington Asset Investment Corp.**

On May 29, 2023, our wholly-owned subsidiary EF Merger Sub Inc.; Arlington Asset Investment Corp., a Virginia corporation ("Arlington"); and, solely for the limited purposes set forth in the Arlington Merger Agreement (as defined below), the Manager, entered into an agreement and plan of merger (the "Arlington Merger Agreement") under which Arlington will be merged with and into EF Merger Sub Inc.. EF Merger Sub Inc. will survive as a wholly-owned subsidiary of us (the "Arlington Merger").

Under the terms of the Arlington Merger Agreement, at the effective time of the Arlington Merger, each outstanding share of Arlington's Class A common stock (other than shares held by us, EF Merger Sub Inc. or any of our wholly-owned subsidiaries, EF Merger Sub Inc. or Arlington) will be converted into the right to receive: (i) from us, shares of our common stock based on an exchange ratio of 0.3619, and (ii) from the Manager, \$0.09 in cash (approximately \$3.0 million in aggregate).

In addition, at the effective time of the Arlington Merger, each share of Arlington's 7.00% Series B Cumulative Perpetual Redeemable Preferred Stock, \$0.01 par value per share, will be automatically converted into the right to receive one newly issued share of 7.00% Series D Cumulative Perpetual Redeemable Preferred Stock, \$0.001 par value per share, of us; and each share of Arlington's 8.250% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.01 par value per share, will be automatically converted into the right to receive one newly issued share of 8.250% Series E Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.001 par value per share, of us.

Certain equity-based awards previously issued under Arlington's equity-incentive plans, including restricted shares of common stock, performance restricted stock units, stock price performance restricted stock units and deferred stock units, will, immediately prior to the consummation of the Arlington Merger, become fully vested (and, where applicable, vested as if all

performance goals were achieved at maximum or actual performance levels) and be treated as shares of Arlington's Class A common stock for all purposes of the Arlington Merger Agreement.

At the consummation of the Arlington Merger, all assets, and all debts, obligations and liabilities of Arlington will become our assets, debts, obligations and liabilities (including Arlington's outstanding trust preferred securities, 6.75% Senior Notes due 2025 and 6.000% Senior Notes due 2026).

The closing of the Arlington Merger is subject to the approval of Arlington's shareholders and other customary closing conditions set forth in the Arlington Merger Agreement.

We will account for the Arlington Merger as a business combination in accordance with the provisions of ASC 805, *Business Combinations*, or "ASC 805." In applying the acquisition method of accounting, we will be treated as the acquirer of Arlington for accounting purposes.

**Termination of Great Ajax Corp. Merger Agreement**

On October 20, 2023, the Company and Great Ajax Corp., ("Great Ajax") executed an agreement to terminate the previously announced proposed merger (the "Ajax Merger Termination Agreement"). Under the terms of the Ajax Merger Termination Agreement, we paid Great Ajax a termination fee of \$5 million and also acquired 1,666,666 newly issued shares of Great Ajax common stock, at a per share price of \$6.60, for a total purchase price of \$11 million.

**Our Targeted Asset Classes**

Our targeted asset classes currently include investments in the U.S. and Europe (as applicable) in the categories listed below. Subject to maintaining our qualification as a REIT, we expect to continue to invest in these targeted asset classes. Also, we expect to continue to hold certain of our targeted assets through one or more TRSs. As a result, a portion of the income from such assets will be subject to U.S. federal and certain state corporate income taxes, as applicable.

Asset Class	Principal Assets
Agency RMBS	<ul style="list-style-type: none"><li>• Whole pool pass-through certificates;</li><li>• Partial pool pass-through certificates;</li><li>• Agency collateralized mortgage obligations, or "CMOs," including interest only securities, or "IOs," principal only securities, or "POs," inverse interest only securities, or "IIOs"; and</li></ul>
CLOs	<ul style="list-style-type: none"><li>• Retained tranches from CLO securitizations, including participating in the accumulation of the underlying assets for such securitization by providing capital to the vehicle accumulating assets; and</li><li>• Other CLO debt and equity tranches.</li></ul>
CMBS and Commercial Mortgage Loans	<ul style="list-style-type: none"><li>• CMBS; and</li><li>• Commercial mortgage loans and other commercial real estate debt.</li></ul>
Consumer Loans and ABS	<ul style="list-style-type: none"><li>• Consumer loans;</li><li>• ABS, including ABS backed by consumer loans; and</li><li>• Retained tranches from securitizations to which we have contributed assets.</li></ul>
Mortgage-Related Derivatives	<ul style="list-style-type: none"><li>• To-Be-Announced mortgage pass-through certificates, or "TBAs";</li><li>• Credit default swaps, or "CDS," on individual RMBS, on the ABX, CMBX and PrimeX indices and on other mortgage-related indices; and</li><li>• Other mortgage-related derivatives.</li></ul>
Non-Agency RMBS	<ul style="list-style-type: none"><li>• RMBS backed by prime jumbo, Alt-A, non-QM, manufactured housing, and subprime mortgages;</li><li>• RMBS backed by fixed rate mortgages, Adjustable rate mortgages, or "ARMs," Option-ARMs, and Hybrid ARMs;</li><li>• RMBS backed by mortgages on single-family-rental properties;</li><li>• RMBS backed by first lien and second lien mortgages;</li><li>• RMBS backed by performing and non-performing mortgages;</li><li>• Investment grade and non-investment grade securities;</li><li>• Senior and subordinated securities;</li><li>• IOs, POs, IIOs, and inverse floaters;</li><li>• Collateralized debt obligations, or "CDOs";</li><li>• RMBS backed by European residential mortgages, or "European RMBS";</li><li>• Retained tranches from securitizations in which we have participated; and</li><li>• Credit risk transfer securities, or "CRTs."</li><li>• Non-QM loans;</li><li>• Residential "transition loans," such as residential bridge loans and residential "fix-and-flip" loans;</li><li>• Residential non-performing mortgage loans, or "NPLs";</li><li>• Re-performing loans, or "RPLs," which generally are loans that were modified and/or formerly NPLs where the borrower has resumed making payments in some form or amount;</li><li>• Retained tranches from securitizations to which we have contributed assets; and</li><li>• Reverse mortgage loans.</li></ul>
Residential Mortgage Loans	
Strategic Investments in Loan Originators	<ul style="list-style-type: none"><li>• Strategic equity and/or debt investments in loan originators and mortgage-related entities;</li></ul>

Asset Class	Principal Assets
<i>(continued)</i>	
Other	<ul style="list-style-type: none"><li>• Mortgage servicing rights, or "MSRs";</li><li>• Real estate, including commercial and residential real property;</li><li>• Strategic equity and/or debt investments in entities related to our business;</li><li>• Corporate debt and equity securities and corporate loans; and</li><li>• Other non-mortgage-related derivatives.</li></ul>

#### **Agency RMBS**

Our Agency RMBS assets consist primarily of whole pool (and to a lesser extent, partial pool) pass-through certificates, the principal and interest of which are guaranteed by a federally chartered corporation, such as the Federal National Mortgage Association, or "Fannie Mae," the Federal Home Loan Mortgage Corporation, or "Freddie Mac," or the Government National Mortgage Association, within the U.S. Department of Housing and Urban Development, or "Ginnie Mae," and which are backed by ARMs, Hybrid ARMs, or fixed-rate mortgages. In addition to investing in pass-through certificates which are backed by traditional mortgages, we have also invested in Agency RMBS backed by reverse mortgages. Reverse mortgages are mortgage loans for which neither principal nor interest is due until the borrower dies, the home is sold, or other trigger events occur. Mortgage pass-through certificates are securities representing undivided interests in pools of mortgage loans secured by real property where payments of both interest and principal, plus prepaid principal, on the securities are made monthly to holders of the security, in effect "passing through" monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer/guarantor and servicers of the securities. Whole pool pass-through certificates are mortgage pass-through certificates that represent the entire ownership of (as opposed to merely a partial undivided interest in) a pool of mortgage loans.

Our Agency RMBS assets are typically concentrated in specified pools. Specified pools are fixed-rate Agency pools consisting of mortgages with special characteristics, such as mortgages with low loan balances, mortgages backed by investor properties, mortgages originated through the government-sponsored "Making Homes Affordable" refinancing programs, and mortgages with various other characteristics. Our Agency strategy also includes RMBS that are backed by ARMs or Hybrid ARMs and reverse mortgages, and CMOs, including IOs, POs, and IIOs.

#### **CLOs**

CLOs are a form of asset-backed security collateralized by syndicated corporate loans. We have retained, and may retain in the future, tranches from CLO securitizations for which we have participated in the accumulation of the underlying assets, typically by providing capital to a vehicle accumulating assets for such CLO securitization. Such vehicles may enter into warehouse financing facilities in order to facilitate such accumulation. Securitizations can effectively provide us with long-term, locked-in financing on the related collateral pool, with an effective cost of funds well below the expected yield on the collateral pool. Our CLO holdings may include both debt and equity interests.

#### **CMBS**

We acquire CMBS, which are securities collateralized by mortgage loans on commercial properties. The majority of CMBS issued are fixed rate securities backed by fixed rate loans made to multiple borrowers on a variety of property types, though single-borrower CMBS and floating rate CMBS have also been issued.

The majority of CMBS utilize senior/subordinate structures, similar to those found in non-Agency RMBS. Subordination levels vary so as to provide for one or more AAA credit ratings on the most senior classes, with less senior securities rated investment grade and non-investment grade, including a first loss component which is typically unrated. This first loss component is commonly referred to as the "B-piece," which is the most subordinated (and therefore highest yielding and riskiest) tranche of a CMBS securitization. Much of our focus within the CMBS sector has been on B-pieces, but we also acquire other CMBS with more senior credit priority.

#### **Commercial Mortgage Loans and Other Commercial Real Estate Debt**

We directly originate and participate in the origination of commercial mortgage "bridge" loans, which are loans secured by liens on commercial properties, and which have shorter terms and higher interest rates than more traditional commercial mortgage loans. Bridge loans are often secured by properties in transition, where the borrower is in the process of either re-developing or stabilizing operations at the property.

We also acquire seasoned commercial mortgage bridge loans, as well as longer-term commercial mortgage loans. Some of the seasoned commercial mortgage loans that we acquire may be non-performing, underperforming, or otherwise distressed; these loans are typically acquired at a discount both to their unpaid principal balances and to the value of the underlying real estate.

Our commercial mortgage loans may be fixed or floating rate and will generally have maturities ranging from one to ten years. We typically originate and acquire first lien loans but may also originate and acquire subordinated loans. As of September 30, 2023, all of our commercial mortgage loans were first-lien loans. Commercial real estate debt typically limits the borrower's right to freely prepay for a period of time through provisions such as prepayment fees, lockout, yield maintenance, or defeasance provisions.

Within both our loan origination and acquisition strategies, we often focus on smaller balance loans and/or loan packages that are less-competitively-bid. These loans typically have balances that are less than \$30 million, and are secured by real estate and, in some cases, a personal guarantee from the borrower.

#### **Consumer Loans and ABS**

We acquire U.S. consumer whole loans and ABS, including ABS backed by U.S. consumer loans. Our U.S. consumer loan portfolio consists of unsecured loans and secured auto loans. We are currently purchasing newly originated consumer loans under flow agreements with certain originators, as well as seasoned consumer loans in the secondary market, and we continue to evaluate new opportunities.

#### **MSRs**

An MSR represents the right to service one or more mortgage loans in exchange for a specified revenue stream, typically a portion of the interest payments due on such mortgage loans together with certain other ancillary revenue. While the owner of an MSR is ultimately responsible for servicing the underlying loans in accordance with applicable regulations, the actual loan servicing functions are often subcontracted out to third-party licensed subservicers.

The revenue stream associated with an MSR is often bifurcated into two components: a "base servicing fee," representing the actual or approximate cost of performing the loan servicing functions; and the remaining revenue, or "Excess MSR." We may in the future acquire, from Longbridge or other mortgage loan servicers, Excess MSRs associated with either reverse mortgage loans or traditional mortgage loans.

In addition, in connection with the Arlington Merger, the Company expects to acquire Arlington's MSR-related asset portfolio. The mortgage loans underlying Arlington's MSR-related assets consist solely of residential mortgage loans guaranteed by Fannie Mae or Freddie Mac.

#### **Non-Agency RMBS**

We acquire non-Agency RMBS backed by prime jumbo, Alt-A, non-QM, manufactured housing, subprime residential, and single-family-rental mortgage loans. The loans backing our non-Agency RMBS can be performing or non-performing. Our non-Agency RMBS holdings can include investment-grade and non-investment grade classes, including non-rated classes.

Non-Agency RMBS are generally debt obligations issued by private originators of, or investors in, residential mortgage loans. Non-Agency RMBS generally are issued as CMOs and are backed by pools of whole mortgage loans or by mortgage pass-through certificates. Non-Agency RMBS generally are securitized in senior/subordinated structures, or in excess spread/over-collateralization structures. In senior/subordinated structures, the subordinated tranches generally absorb all losses on the underlying mortgage loans before any losses are borne by the senior tranches. In excess spread/over-collateralization structures, losses are first absorbed by any existing over-collateralization, then borne by subordinated tranches and excess spread, which represents the difference between the interest payments received on the mortgage loans backing the RMBS and the interest due on the RMBS debt tranches, and finally by senior tranches and any remaining excess spread. We also have acquired, and may acquire in the future, both Agency-issued and non-Agency-issued CRTs, which have credit risks similar to those of subordinated RMBS tranches, as well as non-QM RMBS, including retained tranches from non-QM RMBS securitizations in which we have participated.

We also have acquired, and may acquire in the future, European RMBS, including retained tranches from European RMBS securitizations in which we have participated.

#### **Residential Mortgage Loans**

Our residential mortgage loans include newly originated non-QM loans, residential transition loans, as well as legacy residential NPLs and RPLs. A non-QM loan is not necessarily high-risk, or subprime, but is instead a loan that does not conform to the complex Qualified Mortgage, or "QM," rules of the Consumer Financial Protection Bureau. For example, many non-QM loans are made to creditworthy borrowers who cannot provide traditional documentation for income, such as borrowers who are self-employed. There is also demand from certain creditworthy borrowers for loans above the QM 43% debt-to-income ratio limit that still meet all ability-to-repay standards. We hold equity investments in various non-QM originators, and to date we have purchased the majority of our non-QM loans from these originators, although we could potentially purchase a greater share of non-QM loans from other sources in the future.

The residential transition loans that we originate or purchase include: (i) "fix and flip" loans, which are made to real estate investors for the purpose of acquiring residential homes, making value-add improvements to such homes, and reselling the newly rehabilitated homes for a potential profit, and (ii) loans made to real estate investors for a "business purpose," such as purchasing a rental investment property, financing or refinancing a fully rehabilitated home awaiting sale, or securing short-term financing pending qualification for longer-term lower-rate financing. Our residential transition loans are secured by non-owner occupied properties, and are typically structured as fixed-rate, interest-only loans with terms to maturity between 6 and 24 months. Our underwriting guidelines focus on both the "as is" and "as repaired" property values, borrower experience as a real estate investor, and asset verification.

We are also active in the market for residential NPLs and RPLs. The market for large residential NPL and RPL pools has remained highly concentrated, with the great majority having traded to only a handful of large players who typically securitize the residential NPLs and RPLs that they purchase. As a result, we have continued to focus our acquisitions on less-competitively-bid, and more attractively-priced mixed legacy pools sourced from motivated sellers.

#### **Reverse Mortgage Loans and Reverse MSRs**

Reverse mortgage loans are residential mortgage loans for which neither principal nor interest is due until the borrower dies, the home is sold, or other trigger events occur. Reverse mortgage loans can have either fixed interest rates or adjustable interest rates. In the case of most fixed-rate reverse mortgage loans, the borrower must draw the loan proceeds up front in one lump sum, while many adjustable-rate mortgage loans provide the borrower with a line of credit that can be drawn over time.

Our acquisition of a controlling stake in Longbridge in early October 2022, and our resulting consolidation of Longbridge, resulted in Longbridge's existing reverse mortgage loans, as well as the reverse mortgage loans that Longbridge continues to acquire in connection with its business, being included in our total assets on our balance sheet.

Longbridge acquires reverse mortgage loans both through its origination activities and through secondary market purchases. Historically, the majority of loans acquired by Longbridge have been home equity conversion mortgage loans, or "HECMs," which are insured by FHA and eligible for inclusion in GNMA-guaranteed HECM-backed MBS, or "HMBS." Longbridge is an approved issuer of HMBS, and it pools and securitizes the majority of its HECM loans into HMBS, which it then sells in the secondary market while retaining the servicing rights on the underlying HECM loans. In addition, Longbridge opportunistically acquires, in the secondary market, HECM loans that have been mandatorily repurchased from HMBS pools ("HECM Buyout Loans") by other HECM servicers upon the outstanding principal balance of such loans reaching or exceeding 98% of their respective maximum claim amount. Depending on their status, HECM Buyout Loans are either eligible to be assigned to HUD in connection with an FHA insurance claim ("assignable buyout loans," or "ABOs"), or ineligible to be assigned to HUD ("non-assignable buyout loans," or "NABOs").

Longbridge also originates and purchases proprietary reverse mortgage loans, which typically carry loan balances or credit lines that exceed FHA limits or have other characteristics that make them ineligible for FHA insurance.

Our consolidation of Longbridge also resulted in Longbridge's existing MSRs, as well as the MSRs that Longbridge continues to acquire in connection with its business, being included in our total assets on our balance sheet. The majority of Longbridge's existing MSRs relate to HECM loans that Longbridge pooled and securitized into HMBS and then sold into the secondary market with servicing rights retained. In accordance with U.S. GAAP, so long as Longbridge retains such mortgage servicing rights and the obligations relating thereto, such HECM loans do not meet the requirement for sale accounting in accordance with US GAAP and remain on Longbridge's balance sheet. The sold HMBS securities are accounted for as secured borrowings. In addition, Longbridge opportunistically acquires, in the secondary market or otherwise, MSRs associated with either proprietary reverse mortgage loans, HECMs or HECM buyout loans.

#### **Strategic Equity Investments in Loan Originators**

We have made, and in the future may make additional, equity investments in loan originators and other related entities; historically, our investments have generally represented non-controlling interests, although we are not restricted from holding controlling interests in such entities. We have also acquired debt investments and/or warrants in certain of these loan originators. We have also entered into various other arrangements, such as entering into flow agreements or providing guarantees or financing lines, with certain of the loan originators in which we have invested.

#### **TBAs and Other Mortgage-Related Derivatives**

In addition to investing in specified pools of Agency RMBS, we utilize TBA transactions, whereby we agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. TBAs are liquid, have quoted market prices, and represent the most actively traded class of mortgage-backed securities, or "MBS." TBA trading is based on the assumption that mortgage pools that are eligible to be delivered at TBA settlement are fungible and thus the specific mortgage pools to be delivered do not need to be explicitly identified at the time a trade is initiated.

We generally engage in TBA transactions for purposes of managing certain risks associated with our investment strategies. Other than with respect to TBA transactions entered into by our TRSs, most of our TBA transactions are treated for tax purposes as hedging transactions used to hedge indebtedness incurred to acquire or carry real estate assets, or "qualifying liability hedges." The principal risks that we use TBAs to mitigate are interest rate and yield spread risks. For example, we may hedge the interest rate and/or yield spread risk inherent in our long Agency RMBS by taking short positions in TBAs that are similar in character. Alternatively, we may opportunistically engage in TBA transactions because we find them attractive in their own right, from a relative value perspective or otherwise. For accounting purposes, in accordance with generally accepted accounting principles in the United States of America, or "U.S. GAAP," we classify TBA transactions as derivatives.

We also take long and short positions in various other mortgage-related derivative instruments, including mortgage-related credit default swaps. A credit default swap is a credit derivative contract in which one party (the protection buyer) pays an ongoing periodic premium (and often an upfront payment as well) to another party (the protection seller) in return for compensation for default (or similar credit event) by a reference entity. In this case, the reference entity can be an individual MBS or an index of several MBS, such as an ABX, PrimeX, or CMBX index. Payments from the protection seller to the protection buyer typically occur if a credit event takes place. A credit event can be triggered by, among other things, the reference entity's failure to pay its principal obligations or a severe ratings downgrade of the reference entity.

#### **Other Investment Assets**

Our other investment assets include real estate, including residential and commercial real property, strategic equity and/or debt investments in entities related to our business, corporate debt and equity securities, corporate loans, which can include litigation finance loans, and other non-mortgage-related derivatives. We do not typically purchase real property directly; rather, our real estate ownership usually results from foreclosure activity with respect to our acquired residential and commercial loans.

#### **Hedging Instruments**

##### *Interest Rate Hedging*

We opportunistically hedge our interest rate risk by using various hedging strategies, subject to maintaining our qualification as a REIT. The interest rate hedging instruments that we use and may use in the future include, without limitation:

- TBAs;
- interest rate swaps (including floating-to-fixed, fixed-to-floating, floating-to-floating, or more complex swaps such as floating-to-inverse floating, callable or non-callable);
- CMOs;
- U.S. Treasury securities;
- swaptions, caps, floors, and other derivatives on interest rates;
- futures and forward contracts; and
- options on any of the foregoing.

Because fluctuations in short-term interest rates may expose us to fluctuations in the spread between the interest we earn on certain of our investments and the interest we pay on certain of our borrowings, we may seek to manage such exposure by entering into short positions in interest rate swaps. An interest rate swap is an agreement to exchange interest rate cash flows, calculated on a notional principal amount, at specified payment dates during the life of the agreement. Typically, one party pays

a fixed interest rate and receives a floating interest rate and the other party pays a floating interest rate and receives a fixed interest rate. Each party's payment obligation is computed using a different interest rate. In an interest rate swap, the notional principal is generally not exchanged. We generally enter into these transactions to offset the potential adverse effects of rising interest rates on short-term repurchase agreements. Our repurchase agreements generally have maturities of up to 364 days and carry interest rates that are determined by reference to a benchmark rate such as the Secured Overnight Financing Rate, or "SOFR." As each then-existing fixed-rate repurchase agreement, or "repo," borrowing matures, it will generally be replaced with a new fixed-rate repo borrowing based on market interest rates established at that future date.

In the case of interest rate swaps, most of our agreements are structured such that we receive payments based on a variable interest rate and make payments based on a fixed interest rate. The variable interest rate on which payments are received is generally calculated based on various reset mechanisms for a benchmark rate such as SOFR. To the extent that the benchmark rates used to calculate the payments we receive on our interest rate swaps continue to be highly correlated with our repo borrowing costs, our interest rate swap contracts should help to reduce the variability of our overall repo borrowing costs, thus reducing risk to the extent we hold fixed-rate assets that are financed with repo borrowings.

#### *Credit Risk Hedging*

We enter into credit-hedging positions in order to protect against adverse credit events with respect to our credit investments, subject to maintaining our qualification as a REIT. Our credit hedging portfolio can vary significantly from period to period, and can encompass a wide variety of financial instruments, including corporate debt or equity-related instruments, RMBS- or CMBS-related instruments, or instruments involving other markets. Our hedging instruments can include both "single-name" instruments (i.e., instruments referencing one underlying entity or security) and hedging instruments referencing indices.

Currently, our credit hedges consist primarily of financial instruments tied to corporate credit, such as CDS on corporate bond indices, short positions in and CDS on corporate bonds; and positions involving exchange traded funds, or "ETFs," of corporate bonds. Our credit hedges also currently include CDS tied to individual MBS or an index of several MBS, such as CDS on CMBS indices, or "CMBX."

#### *Foreign Currency Hedging*

To the extent that we hold instruments denominated in currencies other than U.S. dollars, we may enter into transactions to offset the potential adverse effects of changes in currency exchange rates, subject to maintaining our qualification as a REIT. In particular, we may use currency forward contracts and other currency-related derivatives to mitigate this risk.

### **Trends and Recent Market Developments**

#### *Market Overview*

- After temporarily pausing in June following ten consecutive interest rate hikes, in July the U.S. Federal Reserve, or the "Federal Reserve," increased the target range for the federal funds rate by another 25 basis points to 5.25%–5.50%, its highest level since 2001, before pausing again in September. At a press conference following the September meeting, Chair Powell acknowledged that despite the pause, "we're prepared to raise rates further if appropriate, and we intend to hold policy at a restrictive level until we're confident that inflation is moving down sustainably toward our objective." During the third quarter, the Federal Reserve also continued to reinvest only principal payments that exceeded monthly caps of \$60 billion on U.S. Treasury securities and \$35 billion on Agency RMBS.
- Interest rates increased in the third quarter, particularly long-term interest rates, which caused the inversion of the yield curve to subside somewhat. The yield on the 2-year Treasury increased by 15 basis points quarter over quarter to 5.04%, while the yield on the 10-year Treasury increased by 73 basis points to 4.57%. Toward the end of the quarter, the 2-year yield reached its highest level since July 2006, and the 10-year yield reached its highest level since October 2007. Meanwhile, interest rate volatility, as measured by the MOVE Index, remained elevated throughout the third quarter.
- SOFR rates also continued to rise in the third quarter. One-month SOFR increased by 18 basis points to 5.32% at quarter end, and three-month SOFR increased by 13 basis points to 5.40%. SOFR drives many of our financing costs.
- Mortgage rates moved in sympathy with long-term interest rates during the quarter. The Freddie Mac survey 30-year mortgage rate increased from 6.70% on June 29th to 7.35% on September 28th, its highest level since December 2000. The Mortgage Bankers Association's Refinance Index remained at an historically depressed level, decreasing by 8.7% from June 30th to September 29th, and overall prepayment speeds remained extremely low. Fannie Mae 30-year MBS registered CPRs of 5.6 in July, 6.1 in August, and 5.2 in September.

- After falling by 4.5% over the second half of 2022, the S&P CoreLogic Case-Shiller US National Home Price NSA Index increased by 5.8% year-to-date through August, setting a new all-time high for the index. Meanwhile, after decreasing by 28.7% in 2022, the National Association of Realtors Housing Affordability Index declined an additional 16.1% year-to-date through August 2023, as higher mortgage rates and record home prices continued to stress housing affordability.
- U.S. real GDP increased at an estimated annualized rate of 4.9% in the third quarter of 2023, up from the 2.1% annualized growth rate recorded in the prior quarter. Meanwhile, the unemployment rate remained low, registering 3.5% in July, and 3.8% in both August and September.
- Inflation declined modestly during the first half of the year before increasing again in the third quarter. The 12-month percentage change in the Consumer Price Index for All Urban Consumers ("CPI-U"), not seasonally adjusted, registered 3.2% in July and 3.7% in both August and September. This compared to 12-month percentage changes of 4.9% in April, 4.0% in May, and 3.0% in June 2023.
- For the third quarter, the Bloomberg Barclays U.S. MBS Index posted a negative return of (4.13%) and a negative excess return (on a duration-adjusted basis) of (0.88%) relative to the Bloomberg Barclays U.S. Treasury Index, driven by underperformance of the mortgage basis in September. Meanwhile, the Bloomberg Barclays U.S. Corporate Bond Index posted a negative return of (3.19%) and an excess return of 0.81%, while the Bloomberg Barclays U.S. Corporate High Yield Bond Index posted a return of 0.48% and an excess return of 1.06%.
- Despite strong performance in July, U.S. equity markets finished lower for the third quarter overall, driven by negative results in September. For the quarter, the NASDAQ declined by 4.1%, the S&P 500 was down 3.6%, and the Dow Jones Industrial Average fell by 2.6%, while the VIX volatility index rose in August and again in the second half of September. Meanwhile, London's FTSE 100 index increased by 1.0% and the MSCI World global equity index fell 3.8%, quarter over quarter.

**Portfolio Overview and Outlook—Investment Portfolio**

**Investment Portfolio—Credit<sup>(1)</sup>**

The following tables summarize the long investments in our credit portfolio as of September 30, 2023 and June 30, 2023.

(\$ in thousands)	September 30, 2023		June 30, 2023	
	Fair Value	% of Total	Fair Value	% of Total
<b>Dollar Denominated:</b>				
CLOs <sup>(2)</sup>	\$ 29,294	0.8 %	\$ 24,722	0.6 %
CMBS	20,587	0.5 %	20,752	0.5 %
Commercial Mortgage Loans and REO <sup>(3)(4)</sup>	365,329	9.4 %	419,915	10.7 %
Consumer Loans and ABS backed by Consumer Loans <sup>(2)</sup>	90,474	2.3 %	93,116	2.4 %
Other ABS	1,285	— %	—	— %
Corporate Debt and Equity and Corporate Loans	21,836	0.6 %	21,907	0.6 %
Debt and Equity Investments in Loan Origination Entities <sup>(5)</sup>	37,947	1.0 %	38,815	1.0 %
Non-Agency RMBS	259,543	6.7 %	224,075	5.7 %
Non-QM Loans and Retained Non-QM RMBS <sup>(6)</sup>	2,060,036	53.0 %	2,077,870	53.2 %
Residential Transition Loans and Other Residential Mortgage Loans and REO <sup>(3)</sup>	975,667	25.1 %	963,772	24.7 %
<b>Non-Dollar Denominated:</b>				
CLOs <sup>(2)</sup>	1,578	0.1 %	1,738	0.1 %
Corporate Debt and Equity	177	— %	238	— %
RMBS <sup>(7)</sup>	19,608	0.5 %	20,979	0.5 %
Total Long Credit Portfolio	<hr/> \$ 3,883,361	<hr/> 100.0 %	<hr/> \$ 3,907,899	<hr/> 100.0 %
Less: Non-retained Tranches of Consolidated non-QM Securitization Trusts	<hr/> 1,398,748		<hr/> 1,458,673	
Total Long Credit Portfolio excluding Non-retained Tranches of Consolidated non-QM Securitization Trusts	<hr/> \$ 2,484,613		<hr/> \$ 2,449,226	

(1) This information does not include U.S. Treasury securities, interest rate swaps, TBA positions, or other hedge positions.

(2) Includes equity investments in securitization-related vehicles.

(3) REO is not considered a financial instrument and, as a result, is included at the lower of cost or fair value, as discussed in Note 2 of the notes to consolidated financial statements.

(4) Includes investments in unconsolidated entities holding commercial mortgage loans and REO.

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(5) Includes corporate loans to certain loan origination entities in which we hold an equity investment.  
 (6) Retained non-QM RMBS represents RMBS issued by non-consolidated Ellington-sponsored non-QM loan securitization trusts, and interests in entities holding such RMBS.  
 (7) Includes an investment in an unconsolidated entity holding European RMBS.

The total long credit portfolio, excluding non-retained tranches of consolidated non-QM securitization trusts, increased slightly to \$2.48 billion as of September 30, 2023, from \$2.45 billion as of June 30, 2023. Our non-QM and residential transition loan portfolios increased sequentially, as net purchases exceeded principal paydowns, and we also net purchased non-Agency RMBS during the quarter. Conversely, our commercial mortgage bridge loan portfolio continued to shrink, as loan paydowns in that portfolio again significantly exceeded new originations during the quarter.

Higher net interest income and significant net gains on our interest rate hedges drove the positive results in our credit strategy. A portion of this income was offset by net realized and unrealized losses on our consumer loans, non-QM loans, commercial mortgage bridge loans, and CMBS. Our residential and commercial mortgage loan portfolios continue to experience low levels of credit losses and strong overall credit performance, although we have seen an uptick in delinquencies in these portfolios recently and are monitoring developments closely.

During the quarter, borrowing costs on our credit investments increased, driven by higher short-term interest rates. At the same time, our asset yields also increased, and we continued to benefit from positive carry on our interest rate swap hedges, where we overall receive a higher floating rate and pay a lower fixed rate. As a result, the net interest margin on our credit portfolio (which represents the weighted average asset yield less the weighted average secured financing cost of funds, as adjusted to include the effect of actual and accrued periodic payments on interest rate swaps used to hedge the assets) increased slightly quarter over quarter to 2.95% from 2.91%.

*Supplemental Credit Portfolio Information:*

The table below details certain information regarding our investments in commercial mortgage loans as of September 30, 2023:

(\$ in thousands)	Unpaid Principal Balance	Premium (Discount)	Amortized Cost	Gross Unrealized		Weighted Average		
				Gains	Losses	Fair Value	Coupon	Yield <sup>(1)</sup>
Commercial mortgage loans <sup>(3)(4)</sup>	\$ 473,716	\$ 4	\$ 473,720	\$ 90	\$ (2,844)	\$ 470,966	11.43 %	11.32 %
								0.79

(1) Excludes commercial mortgage loans in non-accrual status, with a fair value of \$32.2 million.

(2) Expected average lives of loans are generally shorter than stated contractual maturities. Average lives are affected by scheduled periodic payments of principal and unscheduled prepayments of principal.

(3) Includes our allocable portion of commercial mortgage loans, based on our ownership percentage, held in variable interest entities. Our equity investments in such variable interest entities are included in Investments in unconsolidated entities, at fair value on the Condensed Consolidated Balance Sheet.

(4) As of September 30, 2023 all of our commercial mortgage loans were first-lien mortgages, the vast majority of which have floating rates with a rate floor.

The table below summarizes our interests in commercial mortgage loans by property type of the underlying real estate collateral, as a percentage of total outstanding unpaid principal balance, as of September 30, 2023:

Property Type <sup>(1)</sup>	September 30, 2023
Multifamily	67.3 %
Hotel	9.1 %
Office	7.1 %
Industrial	5.7 %
Retail	5.4 %
Mobile Home Community	4.0 %
Self Storage	1.4 %
	100.0 %

(1) Includes our allocable portion of commercial mortgage loans, based on our ownership percentage, held in variable interest entities. Our equity investments in such variable interest entities are included in Investments in unconsolidated entities, at fair value on the Condensed Consolidated Balance Sheet.

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The table below summarizes our interests in commercial mortgage loans by geographic location of the underlying real estate collateral, as a percentage of total outstanding unpaid principal balance, as of September 30, 2023:

Property Location by U.S. State <sup>(1)</sup>	September 30, 2023
Florida	19.1 %
Georgia	12.7 %
Texas	12.6 %
New York	12.3 %
Arizona	5.9 %
Michigan	5.7 %
Indiana	5.0 %
All other states <5%	26.7 %
	100.0 %

(1) Includes our allocable portion of commercial mortgage loans, based on our ownership percentage, held in variable interest entities. Our equity investments in such variable interest entities are included in Investments in unconsolidated entities, at fair value on the Condensed Consolidated Balance Sheet.

The table below summarizes our interests in residential mortgage loans by loan type and REO resulting from the foreclosure of residential mortgage loans as of September 30, 2023:

Loan Type	September 30, 2023	
	Unpaid Principal Balance	Fair Value
	<i>In thousands</i>	
Non-QM Loans	\$ 2,294,619	\$ 2,021,875
Residential Transition Loans	960,128	955,035
Other Residential Loans	12,096	10,605
Total Residential Mortgage Loans	<u>\$ 3,266,843</u>	<u>\$ 2,987,515</u>
Residential REO <sup>(1)</sup>		10,011
Total residential mortgage loans and residential REO <sup>(1)</sup>		<u>\$ 2,997,526</u>

(1) REO is not considered a financial instrument and, as a result, is included at the lower of cost or fair value, as discussed in Note 2 of the notes to consolidated financial statements.

The following table provides additional details about our investments in unconsolidated entities as of September 30, 2023:

Investment in Unconsolidated Entity	Description	Fair Value
<b>Loan Originators:</b>		
LendSure Mortgage Corp.	Residential Mortgage Loan Originator	\$ 23,200
Other	Residential Mortgage Loan, Commercial Mortgage Loan, and Consumer Loan Originators	8,368
		31,568
<b>Other Unconsolidated Entities:</b>	<b>Underlying Product Type</b>	
Co-investments with Ellington affiliate(s)	Commercial Mortgage Loans	65,384
Equity investments in securitization-related risk retention vehicles	Consumer Loans and European RMBS	3,252
Equity investments in securitization-related risk retention vehicles	Residential Mortgage Loan	6,956
Other	Various	6,314
		81,906
		<u>\$ 113,474</u>

Investment Portfolio—Agency RMBS

(\$ in thousands)	September 30, 2023		June 30, 2023	
	Fair Value	% of Long Agency Portfolio	Fair Value	% of Long Agency Portfolio
<b>Long Agency RMBS:</b>				
Fixed Rate	\$ 914,262	94.8 %	\$ 872,726	95.0 %
Floating Rate	5,154	0.5 %	5,329	0.6 %
Reverse Mortgages	33,529	3.5 %	26,928	2.9 %
IOs	11,341	1.2 %	13,511	1.5 %
<b>Total Long Agency RMBS</b>	<b>\$ 964,286</b>	<b>100.0 %</b>	<b>\$ 918,494</b>	<b>100.0 %</b>

Our total long Agency RMBS portfolio increased by 5% quarter over quarter to \$964.3 million, as opportunistic purchases exceeded sales, principal payments, and net losses.

In the third quarter, Agency RMBS faced the significant headwinds of elevated market volatility and rising long-term interest rates. Yield spreads widened and Agency RMBS significantly underperformed U.S. Treasury securities and interest rate swaps for the quarter, with lower coupon RMBS exhibiting the most pronounced underperformance. Meanwhile, our delta-hedging costs, which are tied to interest rate volatility, remained high. Overall, net losses on our Agency RMBS and negative net interest income exceeded net gains on our interest rate hedges, resulting in a net loss in our Agency RMBS strategy for the quarter.

During the quarter, we continued to hedge interest rate risk through the use of interest rate swaps and short positions in TBAs, U.S. Treasury securities, and futures. We ended the third quarter with a net short TBA position, both on a notional basis and as measured by 10-year equivalents. Ten-year equivalents for a group of positions represent the amount of 10-year U.S. Treasury securities that would be expected to experience a similar change in market value under a standard parallel move in interest rates.

In the Agency strategy, the increase in our cost of funds exceeded the increase in our asset yields; as a result, the net interest margin on our Agency RMBS, excluding the Catch-up Amortization Adjustment, decreased to 1.05% from 1.31%. Average pay-ups on our specified pools decreased slightly to 0.75% as of September 30, 2023, as compared to 0.78% as of June 30, 2023.

As of September 30, 2023, the weighted average net pass-through rate on our fixed-rate specified pools was 3.9% as compared to 3.8% and 3.4%, as of June 30, 2023 and December 31, 2022, respectively. Portfolio turnover for our Agency strategy, as measured by sales and excluding paydowns, was 9.2% for the three-month period ended September 30, 2023.

We expect to continue to target specified pools that, taking into account their particular composition and based on our prepayment projections, should: (1) generate attractive yields relative to other Agency RMBS and U.S. Treasury securities, (2) have less prepayment sensitivity to government policy shocks, and/or (3) create opportunities for trading gains once the market recognizes their value, which for newer pools may come only after several months, when actual prepayment experience can be observed. We believe that our research team, proprietary prepayment models, and extensive databases remain essential tools in our implementation of this strategy.

The following table summarizes the prepayment rates for our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) for the three-month periods ended September 30, 2023, June 30, 2023, March 31, 2023, December 31, 2022, and September 30, 2022.

	Three-Month Period Ended				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Three-Month Constant Prepayment Rates <sup>(1)</sup>	7.0	6.2	4.8	7.7	9.5

(1) Excludes Agency fixed-rate RMBS without any prepayment history.

The following table provides details about the composition of our portfolio of fixed-rate specified pools (excluding those backed by reverse mortgages) as of September 30, 2023 and June 30, 2023:

Coupon (%)	September 30, 2023			June 30, 2023			Weighted Average Loan Age (Months)								
	Current Principal	Fair Value	Weighted Average Loan Age (Months)	Current Principal	Fair Value	Weighted Average Loan Age (Months)									
	(In thousands)			(In thousands)											
<b>Fixed-rate Agency RMBS:</b>															
15-year fixed-rate mortgages:															
1.50–1.99	\$ 7,793	\$ 6,534	33	\$ 8,037	\$ 6,968	32									
2.00–2.49	11,085	9,571	46	19,082	17,010	27									
2.50–2.99	51,343	45,770	19	29,245	26,992	34									
3.00–3.49	7,480	6,924	71	7,945	7,495	67									
3.50–3.99	12,490	11,757	84	13,279	12,776	79									
4.00–4.49	1,591	1,527	102	1,665	1,623	97									
4.50–4.99	258	251	163	287	282	147									
Total 15-year fixed-rate mortgages	92,040	82,334	39	79,540	73,146	45									
20-year fixed-rate mortgages:															
2.00–2.49	2,290	1,848	32	2,332	1,989	31									
2.50–2.99	4,126	3,440	33	4,208	3,701	32									
4.50–4.99	279	265	117	285	281	115									
Total 20-year fixed-rate mortgages	6,695	5,553	36	6,825	5,971	35									
30-year fixed-rate mortgages:															
2.00–2.49	23,829	18,275	23	25,175	20,613	22									
2.50–2.99	86,907	69,508	29	89,113	75,864	28									
3.00–3.49	155,049	130,311	39	180,513	160,590	33									
3.50–3.99	121,171	105,940	56	123,626	114,124	55									
4.00–4.49	119,900	108,395	59	127,168	120,908	55									
4.50–4.99	118,999	110,439	34	97,979	95,145	42									
5.00–5.49	151,919	144,117	17	103,976	102,532	24									
5.50–5.99	68,379	66,274	5	54,764	54,690	6									
6.00–6.49	45,832	45,401	5	24,688	25,046	10									
6.50–6.99	27,500	27,715	3	23,532	24,097	3									
Total 30-year fixed-rate mortgages	919,485	826,375	33	850,534	793,609	35									
Total fixed-rate Agency RMBS	\$ 1,018,220	\$ 914,262	33	\$ 936,899	\$ 872,726	36									

#### **Portfolio Overview and Outlook—Longbridge**

As discussed in Note 12 of the Notes to the Condensed Consolidated Financial Statements, when Longbridge pools HECM loans into HMBS, such transfers do not qualify as sales under U.S. GAAP, and as a result, such transactions are treated as secured borrowings on our Condensed Consolidated Balance Sheet. The HECM loans are included in Loans, at fair value, and the related liabilities are reflected as HMBS-related obligations, at fair value. After pooling the HECM loans into HMBS, Longbridge retains the mortgage servicing rights associated with such HMBS, which we refer to as the "HMBS MSR Equivalent." Additionally, Longbridge typically retains the MSRs associated with the proprietary reverse mortgage loans that it originates and has acquired MSRs in the secondary market. We refer to the HMBS MSR Equivalent and MSRs collectively as our "MSR-related Net Assets."

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The following table summarizes Longbridge's loan-related assets <sup>(1)</sup> as of September 30, 2023 and June 30, 2023:

(In thousands)	September 30, 2023	June 30, 2023
	(In thousands)	(In thousands)
HMBS assets <sup>(2)</sup>	\$ 8,256,881	\$ 8,158,304
Less: HMBS liabilities	(8,181,922)	(8,055,288)
HMBS MSR Equivalent	74,959	103,016
Unsecuritized HECM loans <sup>(3)</sup>	135,061	132,845
Proprietary reverse mortgage loans	247,021	185,052
MSRs	29,653	7,473
Unsecuritized REO	1,484	1,417
<b>Total</b>	\$ 488,178	\$ 429,803

(1) This information does not include financial derivatives or loan commitments.

(2) Includes HECM loans, REO, and claims or other receivables.

(3) As of September 30, 2023, includes \$7.3 million of assignable HECM Buyout Loans, \$12.1 million of non-assignable HECM Buyout Loans, and \$4.7 million of other inactive HECM loans. As of June 30, 2023, includes \$9.9 million of assignable HECM Buyout Loans, \$14.1 million of non-assignable HECM Buyout Loans, and \$4.6 million of other inactive HECM loans.

Our Longbridge portfolio generated positive results for the quarter, driven primarily by net gains on interest rate hedges, which were partially offset by net losses on MSR-related Net Assets and proprietary loans, and a net loss in originations. In originations, the combination of higher interest rates and wider yield spreads negatively impacted gain-on-sale margins on both HECM and proprietary loans, which more than offset a modest uptick in overall origination volumes.

Net losses on MSR-related Net Assets consisted primarily of an aggregate mark-to-market loss of \$8.2 million, as a significant mark-to-market loss on existing MSR-related Net Assets was partially offset by a significant mark-to-market gain on the MSR portfolio we acquired out of a bankruptcy proceeding on July 1<sup>st</sup>. The mark-to-market loss on existing MSR-related Net Assets resulted from our adoption of more conservative valuation assumptions in light of current market conditions. These revised assumptions included both higher NPV discount rates (reflecting higher market interest rates and reduced liquidity in the reverse mortgage sector) and reduced projected cash flows (reflecting upward adjustments to assumed sub-servicing expenses and downward adjustments to projected income from tail securitizations). The mark-to-market gain on the MSR portfolio we acquired out of bankruptcy resulted from our application of our revised, more conservative valuation assumptions to that portfolio, which we were able to purchase out of bankruptcy at a distressed price.

Longbridge's portfolio increased by 14% sequentially to \$488.2 million as of September 30, 2023 driven primarily by proprietary reverse mortgage loan originations and the July MSR portfolio acquisition. These increases were partially offset by the above-referenced mark-to-market loss on our existing MSR-related Net Assets.

*Supplemental Longbridge Information:*

The following table summarizes origination volumes by channel for the three-month periods ended September 30, 2023 and June 30, 2023:

(\$ in thousands)	September 30, 2023			June 30, 2023		
Channel	Units	New Loan Origination Volume <sup>(1)</sup>	% of New Loan Origination Volume	Units	New Loan Origination Volume <sup>(1)</sup>	% of New Loan Origination Volume
Retail	384	\$ 55,576	18 %	397	\$ 62,037	21 %
Wholesale and correspondent	1,367	251,215	82 %	1,338	235,375	79 %
<b>Total</b>	1,751	\$ 306,791	100 %	1,735	\$ 297,412	100 %

(1) Represents initial borrowed amounts on reverse mortgage loans.

**Corporate/Other**

Our results for the quarter reflect a significant gain, driven by higher interest rates, on the fixed payer interest rate swaps that we held in connection with the then-pending merger with Great Ajax Corp.; partially offset by a net loss, also driven by higher interest rates, on the fixed receiver interest rate swaps that we use to hedge the fixed payments on both our unsecured long-term debt, or "Senior Notes," and our preferred equity. Our results for the quarter also reflect expenses related to our pending merger with Arlington Asset Investment Corp. and our then-pending merger with Great Ajax Corp.

On October 20, 2023, we announced the mutual termination of our previously announced merger with Great Ajax Corp. Including activity both in the third quarter and through October, the net gains on the hedges we held in connection with this transaction covered all of our costs associated with this transaction, including mark-to-market losses on our termination-related investment in the common shares of Great Ajax Corp. When the merger was mutually terminated, we neutralized the associated hedges.

We expect to close our pending merger with Arlington Asset Investment Corp. prior to year end.

**Financing—Overall**

We have various financing arrangements in place as of September 30, 2023, including both secured and unsecured borrowings. We use repos, secured lines of credit, and various other secured borrowings to finance our portfolios, each of which we account for as collateralized borrowings. We have also obtained, through the securitization markets, term financing for certain of our non-qualified mortgage, or "non-QM," loans and certain of our consumer loans. Additionally, as an issuer of HMBS, we account for HMBS-related obligations as secured borrowings. Finally, as of September 30, 2023, we had outstanding Senior Notes of \$210.0 million, which mature in April 2027 and bear an interest rate of 5.875%. The indenture governing the outstanding Senior Notes contains a number of covenants, including several financial covenants. See Note 13 for additional details on our Senior Notes.

As of September 30, 2023, outstanding borrowings under repos and Total other secured borrowings (which include Other secured borrowings and Other secured borrowings, at fair value, as presented on our Condensed Consolidated Balance Sheet) were \$4.3 billion, of which approximately 19.8%, or \$847.4 million, related to our Agency RMBS holdings. The remaining outstanding borrowings related to our credit portfolio and Longbridge. Additionally, we had \$8.2 billion of HMBS-related obligations.

The following table details our borrowings outstanding and debt-to-equity ratios as of September 30, 2023 and June 30, 2023:

(\$ in thousands)	As of	
	September 30, 2023	June 30, 2023
<b>Recourse<sup>(1)</sup> borrowings:</b>		
Repurchase agreements	\$ 2,573,043	\$ 2,557,864
Other secured borrowings	301,131	242,900
Senior Notes, at par	210,000	210,000
<b>Total recourse borrowings</b>	<b>\$ 3,084,174</b>	<b>\$ 3,010,764</b>
Debt-to-equity ratio based on total recourse borrowings <sup>(1)</sup>	2.3:1	2.2:1
Debt-to-equity ratio based on total recourse borrowings excluding U.S. Treasury securities	2.2:1	2.1:1
Debt-to-equity ratio based on total recourse borrowings excluding U.S. Treasury securities, adjusted for unsettled purchases and sales <sup>(2)</sup>	2.3:1	2.1:1
<b>Non-Recourse<sup>(3)</sup> Borrowings:</b>		
Other Secured Borrowings, at fair value <sup>(4)</sup>	1,404,567	1,472,368
HMBS-related obligations, at fair value	8,181,922	8,055,288
<b>Total non-recourse borrowings</b>	<b>9,586,489</b>	<b>9,527,656</b>
<b>Total Recourse and Non-Recourse Borrowings</b>	<b>\$ 12,670,663</b>	<b>\$ 12,538,420</b>
Debt-to-equity ratio based on total recourse and non-recourse borrowings	9.5:1	9.3:1
Debt-to-equity ratio based on total recourse and non-recourse borrowings excluding U.S. Treasury securities	9.4:1	9.2:1
Debt-to-equity ratio based on total recourse and non-recourse borrowings excluding U.S. Treasury securities, adjusted for unsettled purchases and sales <sup>(2)</sup>	9.4:1	9.2:1

- (1) As of both September 30, 2023 and June 30, 2023, excludes borrowings at certain unconsolidated entities that are recourse to us. Including such borrowings, our debt-to-equity ratio based on total recourse borrowings was 2.4:1 and 2.3:1 as of September 30, 2023 and June 30, 2023, respectively.
- (2) For unsettled purchases and sales, assumes associated borrowings are subject to haircuts of 5.0% and 5.2% as of September 30, 2023 and June 30, 2023, respectively.
- (3) All of our non-recourse borrowings are secured by collateral. In the event of default under a non-recourse borrowing, the lender has a claim against the collateral but not any of the Operating Partnership's other assets. In the event of default under a recourse borrowing, the lender's claim is not limited to the collateral (if any).
- (4) Relates to our non-QM loan securitizations, where we have elected the fair value option on the related debt.

Our debt-to-equity ratio based on total recourse and non-recourse borrowings excluding U.S. Treasury securities, adjusted for unsettled purchases and sales, increased to 9.4:1 as of September 30, 2023 as compared to 9.2:1 as of June 30, 2023. This increase was due primarily to an increase in total borrowings and a decrease in total equity. Our recourse debt-to-equity ratio, excluding U.S. Treasury securities and adjusted for unsettled purchases and sales, increased to 2.3:1 from 2.1:1, period over period.

Our debt-to-equity ratio does not account for liabilities other than debt financings and does not include debt associated with securitization transactions accounted for as sales.

Our secured financing costs include interest expense related to our repo borrowings and Total other secured borrowings (which include Other secured borrowings and Other secured borrowings, at fair value, as presented on our Condensed Consolidated Balance Sheet but exclude HMBS-related obligations). For the three-month period ended September 30, 2023, the average cost of funds on our secured financings increased to 5.55%, as compared to 5.31% for the three-month period ended June 30, 2023. The period-over-period increase was primarily driven by higher short-term interest rates. Our unsecured financing costs consist of interest expense related to our Senior Notes. For each of the three-month periods ended September 30, 2023 and June 30, 2023, the average borrowing rate on our unsecured financings was 5.88%. Our average cost of funds, including both secured and unsecured financings, increased to 5.57% from 5.34% over the same period.

#### Critical Accounting Estimates

Our consolidated financial statements include the accounts of Ellington Financial Inc., its Operating Partnership, its subsidiaries, including Longbridge, and variable interest entities, or "VIEs," for which we are deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated.

The preparation of our consolidated financial statements in accordance with U.S. GAAP require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Our critical accounting estimates are those which require assumptions to be made about matters that are highly uncertain. Actual results could differ from those estimates and such differences could have a material impact on our financial condition and/or results of operations. We believe that all of the decisions and assessments upon which our consolidated financial statements are based were reasonable at the time made based upon information available to us at that time. We rely on the experience of our Manager and Ellington and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. See Note 2 of the notes to our consolidated financial statements for a complete discussion of our significant accounting policies. We have identified our most critical accounting estimates to be the following:

**Valuation:** We have elected the fair value option for the vast majority of our assets and liabilities for which such election is permitted, as provided for under ASC 825, *Financial Instruments* ("ASC 825"). For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of our financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology.

Summary descriptions, for various categories of financial instruments, of the valuation methodologies management uses in determining fair value of our financial instruments are detailed in Note 2 of the notes to our consolidated financial statements. Management utilizes such methodologies to assign a good faith fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument. See the notes to our consolidated financial statements for more information on valuation techniques used by management in the valuation of our assets and liabilities.

Because of the inherent uncertainty of valuation, the estimated fair value of our financial instruments may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to our consolidated financial statements.

The determination of estimated fair value of those of our financial instruments that are not traded in an active market requires the use of both macroeconomic and microeconomic assumptions and/or inputs, which are generally based on current

market and economic conditions. Changes in market and/or economic conditions could have a significant adverse effect on the estimated fair value of our financial instruments. Changes to assumptions, including assumed market yields, may significantly impact the estimated fair value of our investments. Our valuations are sensitive to changes in interest rate; see the interest rate sensitivity analysis included in Item 3. Quantitative and Qualitative Disclosures about Market Risk in this Quarterly Report on Form 10-Q for further information.

**VIEs:** We evaluate each of our investments and other contractual arrangements to determine whether our interest constitutes a variable interest in a VIE, and if so whether we are the primary beneficiary of such VIE. In making these determinations we use both qualitative and quantitative analyses involving a significant amount of judgment, taking into consideration factors such as which interests in the VIE create or absorb variability, the contractual terms related to such interests, other transactions or agreements with the entity, key decision makers and their impact on the VIE's economic performance, and related party relationships.

**Purchases and Sales of Investments and Investment Income:** Purchase and sales transactions are generally recorded on trade date. Realized and unrealized gains and losses are calculated based on identified cost.

For securities, residential and commercial mortgage loans, consumer loans, and corporate loans, we generally amortize premiums and accrete discounts using the effective interest method. For certain of our securities, for purposes of estimating future expected cash flows, management uses assumptions including, but not limited to, assumptions for future prepayment rates, default rates, and loss severities (each of which may in turn incorporate various macroeconomic assumptions, such as future housing prices, GDP growth rates, and unemployment rates). In estimating future cash flows on certain of our loans, there are a number of assumptions that are subject to significant uncertainties and contingencies, including assumptions relating to prepayment rates, default rates, loan loss severities, and loan repurchases. These estimates require the use of a significant amount of judgment. Any resulting changes in effective yield are recognized prospectively based on the current amortized cost of the investment as adjusted for credit impairment, if any.

The effective yield on our debt securities that are deemed to be of high credit quality (including Agency RMBS, exclusive of interest only securities) can be significantly impacted by our estimate of future prepayments. Future prepayment rates are difficult to predict. We estimate prepayment rates over the remaining life of our securities using models that generally incorporate the forward yield curve, current mortgage rates, mortgage rates on the outstanding loans, age and size of the outstanding loans, and other factors. We compare estimated prepayments to actual prepayments on a quarterly basis, and effective yields are recalculated retroactive to the time of purchase. When differences arise between our previously calculated effective yields and our current calculated effective yields, a catch-up adjustment, or "Catch-up Amortization Adjustment," is made to interest income to reflect the cumulative impact of the changes in effective yields. For the three-month periods ended September 30, 2023 and 2022 the Catch-Up Amortization Adjustment was \$0.3 million and \$1.6 million, respectively. For the nine-month periods ended September 30, 2023 and 2022, we recognized a Catch-Up Amortization Adjustment of \$(0.6) million and \$3.1 million, respectively. The Catch-up Amortization Adjustment is reflected as an increase (decrease) to Interest income on the Condensed Consolidated Statement of Operations.

See the notes to our consolidated financial statements for more information on the assumptions and methods that we use to amortize purchase premiums and accrete purchase discounts.

**Income Taxes:** We have elected to be taxed as a REIT for U.S. federal income tax purposes, and are generally not subject to corporate-level federal and state income tax on net income we distribute to our stockholders within the prescribed timeframes. We have elected to treat certain domestic and foreign subsidiaries as TRSs. Our financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more TRSs that are subject to corporate income taxation. Establishing a provision for income tax expense requires judgement and interpretation of the application of various federal, state, local, and foreign jurisdiction's tax laws. We may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any such positions, we might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof. See Note 2 and Note 14 to our consolidated financial statements for additional details on income taxes.

#### **Recent Accounting Pronouncements**

Refer to Note 2 to our consolidated financial statements for a description of relevant recent accounting pronouncements, if any.

**Financial Condition**

The following table summarizes the fair value of our consolidated portfolio of investments <sup>(1)</sup> as of September 30, 2023 and December 31, 2022.

(In thousands)	September 30, 2023	December 31, 2022
<b>Long:</b>		
<b>Investment Portfolio:</b>		
<b>Credit:</b>		
<b>Dollar Denominated:</b>		
CLO <sup>(2)</sup>	\$ 29,294	\$ 29,930
CMBS	20,587	18,253
Commercial Mortgage Loans and REO <sup>(3)(5)</sup>	365,329	492,648
Consumer Loans and ABS backed by Consumer Loans <sup>(2)</sup>	90,474	94,993
Other ABS	1,285	—
Corporate Debt and Equity and Corporate Loans	21,836	18,084
Debt and Equity Investments in Loan Origination Entities <sup>(4)</sup>	37,947	42,581
Non-Agency RMBS	259,543	204,498
Non-QM Loans and Retained Non-QM RMBS <sup>(6)</sup>	2,060,036	2,216,843
Residential Transition Loans and Other Residential Mortgage Loans and REO <sup>(3)</sup>	975,667	940,296
<b>Non-Dollar Denominated:</b>		
CLO <sup>(2)</sup>	1,578	1,672
Corporate Debt and Equity	177	206
RMBS <sup>(7)</sup>	19,608	20,714
<b>Agency:</b>		
Fixed-Rate Specified Pools	914,262	915,128
Floating-Rate Specified Pools	5,154	6,254
IOs	11,341	16,892
Reverse Mortgage Pools	33,529	29,989
Government Debt	74,378	87,422
<b>Longbridge:</b>		
Reverse Mortgage Loans	8,633,382	8,097,237
MSRs	29,653	8,108
REO <sup>(3)</sup>	4,558	7,282
<b>Total Long</b>	<b>\$ 13,589,618</b>	<b>\$ 13,249,030</b>
<b>Short:</b>		
<b>Investment Portfolio:</b>		
<b>Credit:</b>		
<b>Dollar Denominated:</b>		
Corporate Equity	\$ (188)	\$ —
Government Debt:		
<b>Dollar Denominated</b>	(138,970)	(185,424)
<b>Non-Dollar Denominated</b>	(24,674)	(23,779)
<b>Total Short</b>	<b>\$ (163,832)</b>	<b>\$ (209,203)</b>

(1) For more detailed information about the investments in our portfolio, please see the notes to the consolidated financial statements.

(2) Includes equity investments in securitization-related vehicles.

(3) REO is not eligible to elect the fair value option as described in Note 2 of the notes to the consolidated financial statements and, as a result, is included at the lower of cost or fair value.

(4) Includes corporate loans to certain loan origination entities in which we hold an equity investment.

(5) Includes investments in unconsolidated entities holding commercial mortgage loans and REO.

(6) Retained non-QM RMBS represents RMBS issued by non-consolidated Ellington-sponsored non-QM loan securitization trusts, and interest in entities holding such RMBS.

(7) Includes an investment in an unconsolidated entity holding European RMBS.

The following table summarizes our financial derivatives portfolio <sup>(1)(2)</sup> as of September 30, 2023.

(In thousands)	September 30, 2023					
	Notional			Net	Net Fair Value	
	Long	Short				
<b>Mortgage-Related Derivatives:</b>						
CDS on MBS and MBS Indices	\$ 299	\$ (42,990)	\$ (42,691)	\$ 3,617		
<b>Total Net Mortgage-Related Derivatives</b>					<b>3,617</b>	
<b>Corporate-Related Derivatives:</b>						
CDS on Corporate Bonds and Corporate Bond Indices	148,984	(732,784)	(583,800)	(6,861)		
Total Return Swaps on Corporate Bond Indices and Corporate Debt <sup>(3)</sup>	1,995	—	1,995	16		
Warrants <sup>(3)</sup>	566	—	566	1,517		
<b>Total Net Corporate-Related Derivatives</b>					<b>(5,328)</b>	
<b>Interest Rate-Related Derivatives:</b>						
TBAs	46,102	(342,591)	(296,489)	6,143		
Interest Rate Swaps	1,325,765	(2,918,171)	(1,592,406)	148,825		
U.S. Treasury Futures <sup>(4)</sup>	1,900	(276,600)	(274,700)	6,002		
<b>Total Interest Rate-Related Derivatives</b>					<b>160,970</b>	
<b>Other Derivatives:</b>						
Foreign Currency Forwards <sup>(5)</sup>	—	(22,253)	(22,253)	244		
<b>Total Net Other Derivatives</b>					<b>244</b>	
<b>Net Total</b>					<b>\$ 159,503</b>	

(1) For more detailed information about the financial derivatives in our portfolio, please refer to Note 9 of the notes to the consolidated financial statements.

(2) In the table above, fair value of certain derivative transactions are shown on a net basis. The accompanying financial statements separate derivative transactions as either assets or liabilities. As of September 30, 2023, derivative assets and derivative liabilities were \$198.0 million and \$(38.5) million, respectively, for a net fair value of \$159.5 million, as reflected in "Net Total" above.

(3) Notional represents the maximum number of shares available to be purchased upon exercise.

(4) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of September 30, 2023, a total of 19 long and 2,517 short U.S. Treasury futures contracts were held.

(5) Short notional value represents U.S. Dollars to be received by us at the maturity of the forward contract.

The following table summarizes our financial derivatives portfolio <sup>(1)(2)</sup> as of December 31, 2022.

(In thousands)	December 31, 2022					
	Notional			Net Fair Value		
	Long	Short	Net	Long	Short	Net
<b>Mortgage-Related Derivatives:</b>						
CDS on MBS and MBS Indices	\$ 318	\$ (58,224)	\$ (57,906)	\$ 3,409		
<b>Total Net Mortgage-Related Derivatives</b>						<b>3,409</b>
<b>Corporate-Related Derivatives:</b>						
CDS on Corporate Bonds and Corporate Bond Indices	2,037	(182,904)	(180,867)	(1,689)		
Warrants <sup>(3)</sup>	1,897	—	1,897			1,137
<b>Total Net Corporate-Related Derivatives</b>						<b>(552)</b>
<b>Interest Rate-Related Derivatives:</b>						
TBAs	163,127	(691,568)	(528,441)	5,978		
Interest Rate Swaps	1,775,733	(2,822,170)	(1,046,437)	66,732		
U.S. Treasury Futures <sup>(4)</sup>	1,900	(317,100)	(315,200)	2,676		
<b>Total Interest Rate-Related Derivatives</b>						<b>75,386</b>
<b>Other Derivatives:</b>						
Foreign Currency Forwards <sup>(5)</sup>	—	(12,104)	(12,104)			77
<b>Total Net Other Derivatives</b>						<b>77</b>
<b>Net Total</b>				<b>\$ 78,320</b>		

(1) For more detailed information about the financial derivatives in our portfolio, please refer to Note 9 of the notes to the consolidated financial statements.

(2) In the table above, fair value of certain derivative transactions are shown on a net basis. The accompanying financial statements separate derivative transactions as either assets or liabilities. As of December 31, 2022, derivative assets and derivative liabilities were \$132.5 million and \$(54.2) million, respectively, for a net fair value of \$78.3 million, as reflected in "Net Total" above.

(3) Notional represents the maximum number of shares available to be purchased upon exercise.

(4) Notional value represents the total face amount of U.S. Treasury securities underlying all contracts held. As of December 31, 2022, a total of 19 long and 2,922 short U.S. Treasury futures contracts were held.

(5) Short notional value represents U.S. Dollars to be received by us at the maturity of the forward contract.

As of September 30, 2023, our Condensed Consolidated Balance Sheet reflected total assets of \$14.4 billion and total liabilities of \$13.1 billion. As of December 31, 2022, our Condensed Consolidated Balance Sheet reflected total assets of \$14.1 billion and total liabilities of \$12.9 billion. Our investments in securities, loans, MSRs, unconsolidated entities, loan commitments, financial derivatives, and real estate owned included in total assets were \$13.8 billion as of September 30, 2023. Our investments in securities, loans, MSRs, unconsolidated entities, loan commitments, financial derivatives, and real estate owned included in total assets were \$13.4 billion as of December 31, 2022. Our investments in securities sold short and financial derivatives included in total liabilities were \$202.4 million and \$263.4 million as of September 30, 2023 and December 31, 2022, respectively. As of both September 30, 2023 and December 31, 2022, investments in securities sold short consisted principally of short positions in U.S. Treasury securities and sovereign bonds. We primarily use short positions in U.S. Treasury securities and sovereign bonds to hedge the risk of rising interest rates and foreign currency risk.

Typically, we hold a net short position in TBAs. The amounts of net short TBAs, as well as of other hedging instruments, may fluctuate according to the size of our investment portfolio as well as according to how we view market dynamics as favoring the use of one hedging instrument or another. As of September 30, 2023 and December 31, 2022, we had a net short notional TBA position of \$296.5 million and \$528.4 million, respectively.

For a more detailed discussion of our investment portfolio, see "— *Trends and Recent Market Developments—Portfolio Overview and Outlook* " above.

We use mortgage-related credit derivatives primarily to hedge credit risk in certain credit strategies, although we also take net long positions in certain CDS on RMBS and CMBS indices. Our CDS on individual RMBS represent "single-name" positions whereby we have synthetically purchased credit protection on specific non-Agency RMBS bonds. As there is no longer an active market for CDS on individual RMBS, our portfolio in this sector continues to run off. We also use CDS on corporate bond indices, options thereon, and various other instruments as a means to hedge credit risk. As market conditions change, especially as the pricing of various credit hedging instruments changes in relation to our outlook on future credit performance, we continuously re-evaluate both the extent to which we hedge credit risk and the particular mix of instruments that we use to hedge credit risk.

We may hold long and/or short positions in corporate bonds or equities. Our long and short positions in corporate bonds or equities may serve as outright investments or portfolio hedges.

We use a variety of instruments to hedge interest rate risk in our portfolio, including non-derivative instruments such as U.S. Treasury securities and sovereign debt instruments, and derivative instruments such as interest rate swaps, TBAs, Eurodollar and U.S. Treasury futures, and options on the foregoing. The mix of instruments that we use to hedge interest rate risk may change materially from one period to the next.

We have also entered into foreign currency forward and futures contracts in order to hedge risks associated with foreign currency fluctuations.

We have entered into repos to finance many of our assets. We account for our repos as collateralized borrowings. As of September 30, 2023 indebtedness outstanding on our repos was approximately \$2.6 billion. As of September 30, 2023, our assets financed with repos consisted of Agency RMBS of \$862.8 million, credit portfolio assets of \$2.1 billion, reverse mortgage loans of \$99.9 million, and U.S. Treasury securities of \$76.1 million. As of September 30, 2023, outstanding indebtedness under repos was \$847.4 million for Agency RMBS, \$1.6 billion for credit portfolio assets, \$78.4 million of reverse mortgage loans, and \$76.7 million for U.S. Treasury securities. As of December 31, 2022 indebtedness outstanding on our repos was approximately \$2.6 billion. As of December 31, 2022, our assets financed with repos consisted of Agency RMBS of \$976.5 million, credit portfolio assets of \$2.2 billion, and U.S. Treasury securities of \$69.0 million. As of December 31, 2022, outstanding indebtedness under repos was \$939.7 million for Agency RMBS, \$1.6 billion for credit portfolio assets, and \$69.3 million for U.S. Treasury securities.

In addition to our repos, as of September 30, 2023 we had Total other secured borrowings of \$1.7 billion, used to finance \$2.0 billion of non-QM loans, ABS backed by consumer loans, reverse mortgage loans, and MSRs. This compares to Total other secured borrowings of \$1.8 billion as of December 31, 2022, used to finance \$2.1 billion of non-QM loans, ABS backed by consumer loans, reverse mortgage loans, and MSRs. Additionally, as of September 30, 2023, we had HMBS-related obligations of \$8.2 billion collateralized by \$8.3 billion of HMBS assets, and as of December 31, 2022, we had HMBS-related obligations of \$7.8 billion collateralized by \$7.9 billion of HMBS assets, which include HECM loans as well as REO and claims and other receivables. In addition to our secured borrowings, we had \$210.0 million of Senior Notes outstanding as of both September 30, 2023 and December 31, 2022.

As of September 30, 2023 and December 31, 2022, our debt-to-equity ratio was 9.5:1 and 10.2:1, respectively. Our recourse debt-to-equity ratio was 2.3:1 as of September 30, 2023 as compared to 2.5:1 as of December 31, 2022. See the discussion in "*Liquidity and Capital Resources*" below for further information on our borrowings.

#### **Equity**

As of September 30, 2023, our equity increased by \$116.5 million to \$1.337 billion from \$1.221 billion as of December 31, 2022. The increase principally consisted of net income of \$68.6 million, net proceeds from the issuance of shares of preferred stock of \$96.5 million, after commissions and offering costs, net proceeds from the issuance of shares of common stock of \$75.0 million, after commissions and offering costs, and contributions from our non-controlling interests of \$6.9 million. These increases were partially offset by common and preferred dividends of \$109.3 million, repurchases of common stock of \$12.4 million, and distributions to non-controlling interests of \$9.8 million. Stockholders' equity, which excludes the non-controlling interests related to the minority interest in the Operating Partnership as well as the minority interests of our joint venture partners, was \$1.313 billion as of September 30, 2023. As of September 30, 2023, our book value per share of common stock, calculated using Total Stockholders' Equity less the aggregate liquidation preference of outstanding preferred stock, was \$14.33.

**Results of Operations**

The following tables summarizes our results of operations by segment (as applicable) for the three- and nine-month periods ended September 30, 2023 and 2022:

(In thousands except per share amounts)	Three-Month Period Ended September 30, 2023				Three-Month Period Ended September 30, 2022 <sup>(1)</sup>																						
	Investment Portfolio	Longbridge	Corporate/ Other	Total	Investment Portfolio	Corporate/ Other	Total																				
	Interest Income (Expense)	Interest income	Interest expense	Net interest income	Other Income (Loss) <sup>(1)</sup>	Realized and unrealized gains (losses) on securities and loans, net	Realized and unrealized gains (losses) on financial derivatives, net	Realized and unrealized gains (losses) on real estate owned, net	Unrealized gains (losses) on other secured borrowings, at fair value, net	Unrealized gains (losses) on Senior Notes, at fair value	Net change from reverse mortgage loans, at fair value	Net change related to HMBS obligations, at fair value	Other, net	Total other income (loss)	Expenses	Base management fee to affiliate, net of fee rebates <sup>(2)</sup>	Other investment related expenses	Other operating expenses	Total expenses	Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities	Income tax expense (benefit)	Earnings (losses) from investments in unconsolidated entities	Net Income (Loss)	Net income (loss) attributable to non-controlling interests	Dividends on preferred stock	Net Income (Loss) Attributable to Common Stockholders	Net Income (Loss) Per Common Share
Interest income	\$ 89,445	\$ 5,190	\$ 1,581	\$ 96,216	\$ 77,887	\$ 705	\$ 78,592																				
Interest expense	(58,045)	(7,540)	(3,117)	(68,702)	(38,121)	(3,959)	(42,080)																				
Net interest income	31,400	(2,350)	(1,536)	27,514	39,766	(3,254)	36,512																				
Realized and unrealized gains (losses) on securities and loans, net	(77,345)	(3,867)	—	(81,212)	(183,997)	—	(183,997)																				
Realized and unrealized gains (losses) on financial derivatives, net	47,282	23,948	10,847	82,077	80,223	(10,969)	69,254																				
Realized and unrealized gains (losses) on real estate owned, net	(1,867)	—	—	(1,867)	(139)	—	(139)																				
Unrealized gains (losses) on other secured borrowings, at fair value, net	18,660	—	—	18,660	79,430	—	79,430																				
Unrealized gains (losses) on Senior Notes, at fair value	—	—	(4,410)	(4,410)	—	9,135	9,135																				
Net change from reverse mortgage loans, at fair value	—	99,929	—	99,929	—	—	—																				
Net change related to HMBS obligations, at fair value	—	(115,729)	—	(115,729)	—	—	—																				
Other, net	1,301	27,471	—	28,772	(31)	—	(31)																				
Total other income (loss)	(11,969)	31,752	6,437	26,220	(24,514)	(1,834)	(26,348)																				
Base management fee to affiliate, net of fee rebates <sup>(2)</sup>	—	—	4,890	4,890	—	3,950	3,950																				
Other investment related expenses	2,330	7,273	—	9,603	5,968	—	5,968																				
Other operating expenses	1,441	18,046	5,472	24,959	1,152	3,393	4,545																				
Total expenses	3,771	25,319	10,362	39,452	7,120	7,343	14,463																				
Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities	15,660	4,083	(5,461)	14,282	8,132	(12,431)	(4,299)																				
Income tax expense (benefit)	—	—	224	224	—	(81)	(81)																				
Earnings (losses) from investments in unconsolidated entities	(978)	—	—	(978)	(25,513)	—	(25,513)																				
Net Income (Loss)	14,682	4,083	(5,685)	13,080	(17,381)	(12,350)	(29,731)																				
Net income (loss) attributable to non-controlling interests	438	(12)	83	509	156	(420)	(264)																				
Dividends on preferred stock	—	—	5,980	5,980	—	3,823	3,823																				
Net Income (Loss) Attributable to Common Stockholders	\$ 14,244	\$ 4,095	\$ (11,748)	\$ 6,591	\$ (17,537)	\$ (15,753)	\$ (33,290)																				
Net Income (Loss) Per Common Share	\$ 0.21	\$ 0.06	\$ (0.17)	\$ 0.10	\$ (0.29)	\$ (0.26)	\$ (0.55)																				

(1) Conformed to current period presentation.

(2) See Note 15 of the notes to the consolidated financial statements for further details on management fee rebates.

(In thousands except per share amounts)	Nine-Month Period Ended September 30, 2023				Nine-Month Period Ended September 30, 2022 <sup>(1)</sup>			
	Investment Portfolio	Longbridge	Corporate/ Other	Total	Investment Portfolio	Corporate/ Other	Total	
	Interest Income (Expense)							
Interest income	\$ 254,932	\$ 11,862	\$ 4,688	\$ 271,482	\$ 191,329	\$ 1,059	\$ 192,388	
Interest expense	(164,388)	(18,003)	(9,361)	(191,752)	(72,432)	(9,689)	(82,121)	
Net interest income	90,544	(6,141)	(4,673)	79,730	118,897	(8,630)	110,267	
<b>Other Income (Loss)<sup>(1)</sup></b>								
Realized and unrealized gains (losses) on securities and loans, net	(53,295)	5,801	—	(47,494)	(528,525)	—	(528,525)	
Realized and unrealized gains (losses) on financial derivatives, net	61,841	33,307	2,366	97,514	206,241	(19,051)	187,190	
Realized and unrealized gains (losses) on real estate owned, net	(1,989)	—	—	(1,989)	101	—	101	
Unrealized gains (losses) on other secured borrowings, at fair value, net	1,133	—	—	1,133	202,329	—	202,329	
Unrealized gains (losses) on Senior Notes, at fair value	—	—	2,100	2,100	—	16,485	16,485	
Net change from reverse mortgage loans, at fair value	—	295,170	—	295,170	—	—	—	
Net change related to HMBS obligations, at fair value	—	(271,840)	—	(271,840)	—	—	—	
Other, net	4,624	33,341	—	37,965	1,022	—	1,022	
Total other income (loss)	12,314	95,779	4,466	112,559	(118,832)	(2,566)	(121,398)	
<b>Expenses</b>								
Base management fee to affiliate, net of fee rebates <sup>(2)</sup>	—	—	14,759	14,759	—	12,206	12,206	
Other investment related expenses	6,779	20,890	—	27,669	16,857	3,615	20,472	
Other operating expenses	4,361	55,693	17,504	77,558	3,330	11,124	14,454	
Total expenses	11,140	76,583	32,263	119,986	20,187	26,945	47,132	
<b>Net Income (Loss) before Income Tax Expense (Benefit) and Earnings (Losses) from Investments in Unconsolidated Entities</b>								
<b>Entities</b>	91,718	13,055	(32,470)	72,303	(20,122)	(38,141)	(58,263)	
Income tax expense (benefit)	—	—	328	328	—	(14,867)	(14,867)	
Earnings (losses) from investments in unconsolidated entities	(3,403)	—	—	(3,403)	(54,284)	—	(54,284)	
<b>Net Income (Loss)</b>	88,315	13,055	(32,798)	68,572	(74,406)	(23,274)	(97,680)	
Net income (loss) attributable to non-controlling interests	2,522	(35)	603	3,090	287	(1,362)	(1,075)	
Dividends on preferred stock	—	—	17,077	17,077	—	11,468	11,468	
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ 85,793</b>	<b>\$ 13,090</b>	<b>\$ (50,478)</b>	<b>\$ 48,405</b>	<b>\$ (74,693)</b>	<b>\$ (33,380)</b>	<b>\$ (108,073)</b>	
<b>Net Income (Loss) Per Common Share</b>	<b>\$ 1.26</b>	<b>\$ 0.20</b>	<b>\$ (0.74)</b>	<b>\$ 0.72</b>	<b>\$ (1.25)</b>	<b>\$ (0.57)</b>	<b>\$ (1.82)</b>	

(1) Conformed to current period presentation.

(2) See Note 15 of the notes to the consolidated financial statements for further details on management fee rebates.

#### Results of Operations for the Three-Month Periods Ended September 30, 2023 and 2022

##### Net Income (Loss) Attributable to Common Stockholders

For the three-month period ended September 30, 2023 we had net income (loss) attributable to common stockholders of \$6.6 million, compared to \$(33.3) million for the three-month period ended September 30, 2022. The reversal in our results of operations was primarily due to total other income in the current period, as compared to total other loss in the prior period. These net gains for the three-month period ended September 30, 2023 were partially offset by an increase in preferred dividends and total expenses as well as a decrease in net interest income, period over period.

##### Interest Income

Interest income was \$96.2 million for the three-month period ended September 30, 2023, as compared to \$78.6 million for the three-month period ended September 30, 2022. Interest income includes coupon payments received and accrued on our

holdings, the net accretion and amortization of purchase discounts and premiums on various holdings, and interest on our cash balances, including those balances held by our counterparties as collateral.

#### *Investment Portfolio*

Interest income from our investment portfolio segment for the three-month period ended September 30, 2023 increased to \$89.4 million as compared to \$77.9 million for the three-month period ended September 30, 2022.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the three-month periods ended September 30, 2023 and 2022:

(In thousands)	Credit <sup>(1)</sup>			Agency <sup>(1)</sup>			Total <sup>(1)</sup>		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
Three-month period ended September 30, 2023	\$ 75,361	\$ 4,153,697	7.26 %	\$ 10,491	\$ 1,040,433	4.03 %	\$ 85,852	\$ 5,194,130	6.61 %
Three-month period ended September 30, 2022	\$ 66,026	\$ 4,379,384	6.03 %	\$ 10,781	\$ 1,397,945	3.08 %	\$ 76,807	\$ 5,777,329	5.32 %

(1) Amounts exclude interest income on cash and cash equivalents (including when posted as margin) and long positions in U.S. Treasury securities.

For the three-month period ended September 30, 2023, interest income from our credit portfolio was \$75.4 million, as compared to \$66.0 million for the three-month period ended September 30, 2022. This period-over-period increase was primarily due to higher average asset yields partially offset by the slightly smaller size of the credit portfolio for the three-month period ended September 30, 2023.

For the three-month period ended September 30, 2023, interest income from our Agency RMBS was \$10.5 million, as compared to \$10.8 million for the three-month period ended September 30, 2022. This period-over-period decrease was due to the smaller size of the Agency portfolio partially offset by higher average asset yields for the three-month period ended September 30, 2023.

Some of the variability in our interest income and portfolio yields is due to the Catch-up Amortization Adjustment. For the three-month periods ended September 30, 2023 and 2022, we had a positive Catch-up Amortization Adjustment of \$0.3 million and \$1.6 million, respectively, which increased our interest income. Excluding the Catch-up Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 3.90% and 6.58%, respectively, for the three-month period ended September 30, 2023. Excluding the Catch-up Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 2.63% and 5.21%, respectively, for the three-month period ended September 30, 2022.

In addition, we had \$1.1 million of interest income from investments in U.S. Treasury securities for the three-month period ended September 30, 2023, which we generally use to adjust our exposure to changes in interest rates.

#### *Longbridge*

For the three-month period ended September 30, 2023, interest income from the Longbridge segment was \$5.2 million, which primarily relates to proprietary reverse mortgage loans.

#### **Interest Expense**

Interest expense primarily includes interest on funds borrowed under repos and Total other secured borrowings, interest on our Senior Notes, coupon interest on securities sold short, the related net accretion and amortization of purchase discounts and premiums on those short holdings, and interest on our counterparties' cash collateral held by us. For the three-month periods ended September 30, 2023 and 2022, we had total interest expense of \$68.7 million and \$42.1 million, respectively.

#### *Investment Portfolio*

The total interest expense in our investment portfolio segment increased to \$58.0 million for the three-month period ended September 30, 2023, as compared to \$38.1 million for the three-month period ended September 30, 2022. The increase in interest expense was primarily the result of a significant increase in financing rates, together with larger average secured borrowings on our credit assets, and an increase in interest expense related to our securities sold short.

The table below summarizes the components of interest expense in our Investment Portfolio for the three-month periods ended September 30, 2023 and 2022.

(In thousands)	Three-Month Period Ended	
	September 30, 2023	September 30, 2022
Repos and Total Other Secured Borrowings	\$ 56,983	\$ 37,195
Securities Sold Short <sup>(1)</sup>	1,008	925
Other	54	1
<b>Total</b>	\$ 58,045	\$ 38,121

(1) Amount includes the related net accretion and amortization of purchase discounts and premiums.

The following table summarizes our aggregate secured borrowings, including repos and Total other secured borrowings, for the three-month periods ended September 30, 2023 and 2022.

Collateral for Secured Borrowing	Three-Month Period Ended					
	September 30, 2023		September 30, 2022			
	Average Borrowings	Interest Expense	Average Cost of Funds	Average Borrowings	Interest Expense	Average Cost of Funds
(In thousands)						
Credit	\$ 3,292,421	\$ 43,788	5.28 %	\$ 3,441,741	\$ 31,983	3.69 %
Agency RMBS	844,405	11,617	5.46 %	1,229,624	5,038	1.63 %
<b>Subtotal<sup>(1)</sup></b>	4,136,826	55,405	5.31 %	4,671,365	37,021	3.14 %
U.S. Treasury Securities	116,212	1,578	5.39 %	30,922	174	2.23 %
<b>Total</b>	\$ 4,253,038	\$ 56,983	5.32 %	\$ 4,702,287	\$ 37,195	3.14 %

(1) Excludes U.S. Treasury securities.

Among other instruments, we use interest rate swaps to hedge against the risk of rising interest rates. If we were to include as a component of our cost of funds the actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would decrease to 3.86% and 2.79% for the three-month periods ended September 30, 2023 and 2022, respectively. Excluding the Catch-up Amortization Adjustment, our net interest margin, defined as the average yield on our portfolio of yield-bearing targeted assets less the average cost of funds on our secured borrowings (including actual and accrued periodic payments on interest rate swaps as described above), was 2.72% and 2.42% for the three-month periods ended September 30, 2023 and 2022, respectively. These metrics do not include costs associated with any unsecured debt or costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

#### Longbridge

For the three-month period ended September 30, 2023, interest expense related to the Longbridge segment was \$7.5 million, primarily related to Other secured borrowings and repurchase agreements. Our average borrowings related to the Longbridge portfolio were \$307.3 million, and our average cost of funds was 8.82%.

#### Corporate/Other

Certain items of interest expense are not allocated to either the investment portfolio segment or Longbridge segment, such as interest expense on our Senior Notes and certain cash collateral held by us. Total interest expense not allocated to either segment was \$3.1 million and \$4.0 million for the three-month periods ended September 30, 2023 and 2022, respectively. The decrease in interest expense was primarily due to a decrease in interest expense related to our Senior Notes as we repaid \$86.0 million of unsecured long-term debt, which bore an interest rate of 5.50%, at maturity in September 2022.

The table below summarizes the components of interest expense not included in either segment for the three-month periods ended September 30, 2023 and 2022.

(In thousands)	Three-Month Period Ended	
	September 30, 2023	September 30, 2022
Senior Notes	\$ 3,084	\$ 3,917
Other <sup>(1)</sup>	33	42
<b>Total</b>	\$ 3,117	\$ 3,959

(1) Amount includes the related net accretion and amortization of purchase discounts and premiums.

## **Base Management Fees**

### *Corporate/Other*

For the three-month period ended September 30, 2023, the gross base management fee, which is based on total equity at the end of the quarter, was \$5.0 million, and our Manager credited us with rebates on our base management fee of \$0.1 million, resulting in a net base management fee of \$4.9 million. For the three-month period ended September 30, 2022, the gross base management fee, which is based on total equity at the end of the quarter, was \$4.4 million, and our Manager credited us with rebates on our base management fee of \$0.4 million, resulting in a net base management fee of \$4.0 million. For each period, the base management fee rebates related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees. The increase in the net base management fee period over period was due to a larger capital base at the end of the third quarter of 2023, as compared to 2022 as well as a decrease in the base management fee rebates.

### **Incentive Fee**

### *Corporate/Other*

In addition to the base management fee, our Manager is also entitled to a quarterly incentive fee if our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant rolling four quarter calculation period (including any opening loss carryforward) exceeds a defined return hurdle for the period. No incentive fee was incurred for either of the three-month periods ended September 30, 2023 and 2022, since for each quarter during this period, our income did not exceed the prescribed hurdle amount on a rolling four quarter basis. Because our operating results can vary materially from one period to another, incentive fee expense can be highly variable.

## **Other Investment Related Expenses**

Other investment related expenses consist of servicing fees on our mortgage and consumer loans, as well as various other expenses and fees directly related to our financial assets and certain financial liabilities carried at fair value. For the three-month periods ended September 30, 2023 and 2022 other investment related expenses were \$9.6 million and \$6.0 million, respectively.

### *Investment Portfolio*

For the three-month periods ended September 30, 2023 and 2022 other investment related expenses in our investment portfolio segment were \$2.3 million and \$6.0 million, respectively. The decrease in other investment related expenses was primarily due to debt issuance costs related to Other secured borrowings, at fair value, that were issued during the three-month period ended September 30, 2022, as well as a decrease in servicing expense on certain of our loan portfolios.

### *Longbridge*

For the three-month period ended September 30, 2023, our other investment-related expenses related to the Longbridge segment were \$7.3 million, primarily consisting of servicing expense related to reverse mortgage loans and various loan origination expenses.

## **Other Operating Expenses**

Other operating expenses consist of professional fees, compensation and benefit expenses related to our dedicated or partially dedicated personnel, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses were \$25.0 million for the three-month period ended September 30, 2023 as compared to \$4.5 million for the three-month period ended September 30, 2022.

### *Investment Portfolio*

Other operating expenses for our investment portfolio segment were \$1.4 million and \$1.2 million for the three-month periods ended September 30, 2023 and 2022, respectively. The slight increase in other operating expenses for the three-month period ended September 30, 2023 was primarily due to an increase in compensation and benefits expense.

### *Longbridge*

For the three-month period ended September 30, 2023, other operating expenses related to the Longbridge segment were \$18.0 million, primarily consisting of compensation and benefits expense, and to a lesser extent of various overhead costs including rent expense, licensing fees, expenses related to office equipment, and amortization of intangible assets.

*Corporate/Other*

For the three-month periods ended September 30, 2023 and 2022, other operating expenses not allocated to either the investment portfolio segment or Longbridge segment were \$5.5 million and \$3.4 million, respectively. The increase was primarily due to an increase in professional fees period over period.

**Other Income (Loss)**

Other income (loss) consists of net realized and unrealized gains (losses) on securities and residential mortgage, commercial mortgage, consumer, and corporate loans, financial derivatives, and real estate owned, unrealized gains (losses) on other secured borrowings, at fair value and senior notes, at fair value, net change from reverse mortgage loans, at fair value, and net change related to HMBS obligations, at fair value. Other, net, another component of Other income (loss), includes rental income and income related to loan originations, as well as realized gains (losses) on foreign currency transactions and unrealized gains (losses) on foreign currency remeasurement.

*Investment Portfolio*

For the three-month period ended September 30, 2023, other income (loss) was \$(12.0) million, consisting primarily of net realized and unrealized losses on our securities and loans of \$(77.3) million, partially offset by net realized and unrealized gains on our financial derivatives of \$47.3 million and net unrealized gains of \$18.7 million on our Other secured borrowings, at fair value. Net realized and unrealized losses of \$(77.3) million on our securities and loans primarily related to our non-QM loans and Agency RMBS, driven by higher interest rates, as well as to our commercial whole loans and ABS backed by consumer loans. Such losses were partially offset by net realized and unrealized gains of \$47.3 million on our financial derivatives, which primarily related to net gains on interest rate swaps, net short TBA positions, and futures, driven by higher interest rates. We recognized net unrealized gains of \$18.7 million on our Other secured borrowings, at fair value for the three-month period ended September 30, 2023, related to borrowings on our securitized non-QM loans. These securitized non-QM loans had net unrealized losses of \$(10.4) million, which are included in Unrealized gains (losses) on securities and loans, net.

For the three-month period ended September 30, 2022, other income (loss) was \$(24.5) million, consisting primarily of net realized and unrealized losses on our securities and loans of \$(184.0) million, partially offset by \$80.2 million of net realized and unrealized gains on our financial derivatives, and \$79.4 million of net unrealized gains on our Other secured borrowings, at fair value. Rapidly rising interest rates and widening yield spreads drove net realized and unrealized losses of \$(184.0) million on our securities and loans, primarily on our Agency RMBS, non-QM loans, non-Agency RMBS, and consumer loans and ABS backed by consumer loans. Such losses were partially offset by net realized and unrealized gains on short positions in U.S. Treasury securities and sovereign bonds, and CLOs. Net realized and unrealized gains of \$69.3 million on our financial derivatives were primarily related to net realized and unrealized gains on interest rate swaps, short positions in TBAs, futures, and forwards, which were driven by rising interest rates during the quarter, and in the case of short positions in TBAs, also by widening yield spreads. We recognized net unrealized gains of \$79.4 million on our Other secured borrowings, at fair value for the three-month period ended September 30, 2022, related to borrowings on our securitized non-QM loans. These securitized non-QM loans had net unrealized losses of \$(97.9) million, which are included in Unrealized gains (losses) on securities and loans, net.

*Longbridge*

For the three-month period ended September 30, 2023, other income (loss) from the Longbridge segment was \$31.8 million, consisting primarily of gains from Net change from reverse mortgage loans, at fair value of \$99.9 million, realized and unrealized gains on financial derivatives of \$23.9 million, and other income of \$27.5 million primarily related to MSRs. Such gains were partially offset by Net change related to HMBS obligations, at fair value of \$(115.7) million. Gains from Net change from reverse mortgage loans, at fair value of \$99.9 million consisted primarily of interest income on HECM loans of \$130.5 million, offset by a mark-to-market loss on the HMBS MSR Equivalent of \$(30.3) million. The mark-to-market loss on the HMBS MSR Equivalent was due to our adoption of more conservative valuation assumptions in light of current market conditions. Other income of \$27.5 million is primarily related to unrealized gains of \$23.9 million on the MSRs acquired out of a bankruptcy proceeding in July 2023, and \$2.2 million of servicing fees. Losses from Net change related to HMBS obligations, at fair value of \$(115.7) million consists primarily of interest expenses of the HMBS obligation.

*Corporate/Other*

For the three-month period ended September 30, 2023, other income (loss) not allocated to either the investment portfolio segment or Longbridge segment was \$6.4 million, consisting primarily of net realized and unrealized gains on the fixed payer interest rate swaps associated with the then-pending merger with Great Ajax Corp., partially offset by net realized and unrealized losses on the fixed receiver interest rate swaps that we use to hedge the fixed payments on both our Senior Notes, at fair value and our preferred equity, and net unrealized losses on our outstanding Senior Notes, at fair value. For the three-month

period ended September 30, 2022, other income (loss) was \$(1.8) million consisting of unrealized losses on our Senior notes, at fair value partially offset by net realized and unrealized gains on interest rate swaps related to our Senior notes.

#### Income Tax Expense (Benefit)

##### Corporate/Other

Income tax expense (benefit) was \$0.2 million for the three-month period ended September 30, 2023, as compared to \$(0.1) million for the three-month period ended September 30, 2022.

#### Earnings (Losses) from Investments in Unconsolidated Entities

##### Investment Portfolio

We have elected the fair value option for our equity investments in unconsolidated entities. Earnings (losses) from investments in unconsolidated entities was \$(1.0) million for the three-month period ended September 30, 2023, as compared to \$(25.5) million for the three-month period ended September 30, 2022. Losses from investments in unconsolidated entities of \$(1.0) million for the three-month period ended September 30, 2023 primarily related to unrealized losses on investments in the risk retention vehicles holding tranches of non-consolidated Ellington-sponsored non-QM securitizations in which we have participated, and risk retention vehicles related to unconsolidated consumer securitizations. Such losses were partially offset by net realized and unrealized gains from investments in entities holding commercial mortgage loans and REO, in which we co-invest with other Ellington affiliates, for the three-month period ended September 30, 2023. For the three-month period ended September 30, 2022, losses from investments in unconsolidated entities primarily related to unrealized losses on investments in loan originators, partially offset by net realized and unrealized gains in entities holding commercial mortgage loans and REO.

#### Results of Operations for the Nine-Month Periods Ended September 30, 2023 and 2022

##### Net Income (Loss) Attributable to Common Stockholders

For the nine-month period ended September 30, 2023 we had net income (loss) attributable to common stockholders of \$48.4 million, compared to \$(108.1) million for the nine-month period ended September 30, 2022. The reversal in our results of operations was primarily due to total other income in the current period, as compared to total other loss in the prior period. These net gains for the nine-month period ended September 30, 2023 was partially offset by an increase in preferred dividends and total expenses as well as a decrease in net interest income.

##### Interest Income

Interest income was \$271.5 million for the nine-month period ended September 30, 2023, as compared to \$192.4 million for the nine-month period ended September 30, 2022. Interest income includes coupon payments received and accrued on our holdings, the net accretion and amortization of purchase discounts and premiums on various holdings, and interest on our cash balances, including those balances held by our counterparties as collateral.

##### Investment Portfolio

Interest income from our investment portfolio segment for the nine-month period ended September 30, 2023 increased to \$254.9 million as compared to \$191.3 million for the nine-month period ended September 30, 2022.

The following table details our interest income, average holdings of yield-bearing assets, and weighted average yield based on amortized cost for the nine-month periods ended September 30, 2023 and 2022:

(In thousands)	Credit <sup>(1)</sup>			Agency <sup>(1)</sup>			Total <sup>(1)</sup>		
	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield	Interest Income	Average Holdings	Yield
Nine-month period ended September 30, 2023	\$ 218,884	\$ 4,188,473	6.97 %	\$ 25,428	\$ 989,018	3.43 %	\$ 244,312	\$ 5,177,491	6.29 %
Nine-month period ended September 30, 2022	\$ 159,876	\$ 3,863,208	5.52 %	\$ 30,028	\$ 1,480,110	2.70 %	\$ 189,904	\$ 5,343,318	4.74 %

(1) Amounts exclude interest income on cash and cash equivalents (including when posted as margin) and long positions in U.S. Treasury securities.

For the nine-month period ended September 30, 2023, interest income from our credit portfolio was \$218.9 million, as compared to \$159.9 million for the nine-month period ended September 30, 2022. This period-over-period increase was primarily due to the larger size of the credit portfolio and higher average asset yields for the nine-month period ended September 30, 2023.

For the nine-month period ended September 30, 2023, interest income from our Agency RMBS was \$25.4 million, as compared to \$30.0 million for the nine-month period ended September 30, 2022. This period-over-period decrease was due to the smaller size of the Agency portfolio partially offset by higher average asset yields for the nine-month period ended September 30, 2023.

Some of the variability in our interest income and portfolio yields is due to the Catch-up Amortization Adjustment. For the nine-month period ended September 30, 2023, we had a negative Catch-up Amortization Adjustment of \$(0.6) million, which decreased our interest income. Comparatively, for the nine-month period ended September 30, 2022, we had a positive Catch-up Amortization Adjustment of \$3.1 million, which increased our interest income. Excluding the Catch-up Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 3.51% and 6.31%, respectively, for the nine-month period ended September 30, 2023. Excluding the Catch-up Amortization Adjustment, the weighted average yield of our Agency portfolio and our total portfolio was 2.43% and 4.66%, respectively, for the nine-month period ended September 30, 2022.

In addition, we had \$3.6 million of interest income from investments in U.S. Treasury securities for the nine-month period ended September 30, 2023, which we generally use to adjust our exposure to changes in interest rates.

#### *Longbridge*

For the nine-month period ended September 30, 2023, interest income from the Longbridge segment was \$11.9 million, which primarily relates to proprietary reverse mortgage loans.

#### **Interest Expense**

Interest expense primarily includes interest on funds borrowed under repos and Total other secured borrowings, interest on our Senior Notes, coupon interest on securities sold short, the related net accretion and amortization of purchase discounts and premiums on those short holdings, and interest on our counterparties' cash collateral held by us. For the nine-month periods ended September 30, 2023 and 2022, we had total interest expense of \$191.8 million and \$82.1 million, respectively.

#### *Investment Portfolio*

The total interest expense in our investment portfolio segment increased to \$164.4 million for the nine-month period ended September 30, 2023, as compared to \$72.4 million for the nine-month period ended September 30, 2022. The increase in interest expense was primarily the result of a significant increase in financing rates, together with larger average secured borrowings on our credit assets, and an increase in interest expense related to our securities sold short.

The table below summarizes the components of interest expense in our Investment Portfolio for the nine-month periods ended September 30, 2023 and 2022.

<i>(In thousands)</i>	<b>Nine-Month Period Ended</b>	
	<b>September 30, 2023</b>	<b>September 30, 2022</b>
Repos and Total Other Secured Borrowings	\$ 161,304	\$ 70,281
Securities Sold Short <sup>(1)</sup>	2,966	2,137
Other	118	14
<b>Total</b>	<b>\$ 164,388</b>	<b>\$ 72,432</b>

(1) Amount includes the related net accretion and amortization of purchase discounts and premiums.

The following table summarizes our aggregate secured borrowings, including repos and Total other secured borrowings, for the nine-month periods ended September 30, 2023 and 2022.

Collateral for Secured Borrowing (In thousands)	Nine-Month Period Ended					
	September 30, 2023			September 30, 2022		
	Average Borrowings	Interest Expense	Average Cost of Funds	Average Borrowings	Interest Expense	Average Cost of Funds
Credit	\$ 3,306,117	\$ 126,208	5.10 %	\$ 2,786,329	\$ 62,101	2.98 %
Agency RMBS	798,033	30,114	5.05 %	1,396,925	7,966	0.76 %
Subtotal <sup>(1)</sup>	4,104,150	156,322	5.09 %	4,183,254	70,067	2.24 %
U.S. Treasury Securities	131,994	4,982	5.05 %	16,619	214	1.72 %
Total	\$ 4,236,144	\$ 161,304	5.09 %	\$ 4,199,873	\$ 70,281	2.24 %

(1) Excludes U.S. Treasury securities.

Among other instruments, we use interest rate swaps to hedge against the risk of rising interest rates. If we were to include as a component of our cost of funds the actual and accrued periodic payments on our interest rate swaps used to hedge our assets, our total average cost of funds would decrease to 3.80% and 2.11% for the nine-month period ended September 30, 2023 and 2022, respectively. Excluding the Catch-up Amortization Adjustment, our net interest margin, defined as the average yield on our portfolio of yield-bearing targeted assets less the average cost of funds on our secured borrowings (including actual and accrued periodic payments on interest rate swaps as described above), was 2.51% and 2.55% for the nine-month periods ended September 30, 2023 and 2022, respectively. These metrics do not include costs associated with any unsecured debt or costs associated with other instruments that we use to hedge interest rate risk, such as TBAs and futures.

#### Longbridge

For the nine-month period ended September 30, 2023, interest expense related to the Longbridge segment was \$18.0 million, primarily related to Other secured borrowings and repurchase agreements. Our average borrowings related to the Longbridge portfolio were \$283.5 million, and our average cost of funds was 8.49%.

#### Corporate/Other

Certain items of interest expense are not allocated to either the investment portfolio segment or Longbridge segment, such as interest expense on our Senior Notes and certain cash collateral held by us. Total interest expense not allocated to either the investment portfolio or Longbridge segments was \$9.4 million and \$9.7 million for the nine-month periods ended September 30, 2023 and 2022, respectively. The decrease in interest expense was primarily due to a decrease in interest expense related to our Senior Notes; we issued \$210.0 million of 5.875% Senior Notes on March 31, 2022 and repaid of \$86.0 million of unsecured long-term debt, which bore an interest rate of 5.50%, at maturity in September 2022.

The table below summarizes the components of interest expense not included in either segment for the nine-month periods ended September 30, 2023 and 2022.

(In thousands)	Nine-Month Period Ended	
	September 30, 2023	September 30, 2022
Senior Notes	\$ 9,253	9,532
Other <sup>(1)</sup>	108	157
Total	\$ 9,361	\$ 9,689

(1) Amount includes the related net accretion and amortization of purchase discounts and premiums.

#### Base Management Fees

#### Corporate/Other

For the nine-month period ended September 30, 2023, the gross base management fee, which is based on total equity at the end of the quarter, was \$15.1 million, and our Manager credited us with rebates on our base management fee of \$0.4 million, resulting in a net base management fee of \$14.8 million. For the nine-month period ended September 30, 2022, the gross base management fee, which is based on total equity at the end of the quarter, was \$13.9 million, and our Manager credited us with rebates on our base management fee of \$1.7 million, resulting in a net base management fee of \$12.2 million. For each period, the base management fee rebates related to those of our CLO investments for which Ellington or one of its affiliates earned CLO management fees. The increase in the net base management fee period over period was due to a larger

capital base at the end of the second and third quarters of 2023, as compared to 2022 as well as a decrease in the base management fee rebates.

**Incentive Fees**

*Corporate/Other*

In addition to the base management fee, our Manager is also entitled to a quarterly incentive fee if our performance (as measured by adjusted net income, as defined in the management agreement) over the relevant rolling four quarter calculation period (including any opening loss carryforward) exceeds a defined return hurdle for the period. No incentive fee was incurred for either of the nine-month periods ended September 30, 2023 and 2022, since for each quarter during this period, our income did not exceed the prescribed hurdle amount on a rolling four quarter basis. Because our operating results can vary materially from one period to another, incentive fee expense can be highly variable.

**Other Investment Related Expenses**

Other investment related expenses consist of servicing fees on our mortgage and consumer loans, as well as various other expenses and fees directly related to our financial assets and certain financial liabilities carried at fair value. For the nine-month periods ended September 30, 2023 and 2022 other investment related expenses were \$27.7 million and \$20.5 million, respectively.

*Investment Portfolio*

For the nine-month periods ended September 30, 2023 and 2022 other investment related expenses in our investment portfolio segment were \$6.8 million and \$16.9 million, respectively. The decrease in other investment related expenses was primarily due to debt issuance costs related to Other secured borrowings, at fair value, that were issued during the nine-month period ended September 30, 2022.

*Longbridge*

For the nine-month period ended September 30, 2023, our other investment-related expenses related to the Longbridge segment were \$20.9 million, primarily consisting of servicing expense related to reverse mortgage loans and various loan origination expenses.

*Corporate/Other*

For the nine-month period ended September 30, 2022, other investment related expenses not allocated to either the investment portfolio segment or Longbridge segment were \$3.6 million, consisting of debt issuance costs related to our Senior Notes. For the nine-month period ended September 30, 2023, all other investment related expenses were allocated to our investment portfolio.

**Other Operating Expenses**

Other operating expenses consist of professional fees, compensation and benefit expenses related to our dedicated or partially dedicated personnel, and various other operating expenses necessary to run our business. Other operating expenses exclude management and incentive fees, interest expense, and other investment related expenses. Other operating expenses were \$77.6 million for the nine-month period ended September 30, 2023 as compared to \$14.5 million for the nine-month period ended September 30, 2022.

*Investment Portfolio*

Other operating expenses for our investment portfolio segment were \$4.4 million and \$3.3 million for the nine-month periods ended September 30, 2023 and 2022, respectively. The increase in other operating expenses for the nine-month period ended September 30, 2023 was primarily due to an increase in compensation and benefits expense.

*Longbridge*

For the nine-month period ended September 30, 2023, other operating expenses related to the Longbridge segment were \$55.7 million, primarily consisting of compensation and benefits expense, and consisting to a lesser extent of various overhead costs including rent expense, licensing fees, expenses related to office equipment, and amortization of intangible assets.

*Corporate/Other*

For the nine-month periods ended September 30, 2023 and 2022, other operating expenses not allocated to either the investment portfolio segment or the Longbridge segment were \$17.5 million and \$11.1 million, respectively. The increase in other operating expenses was primarily due to an increase in professional fees period over period.

#### **Other Income (Loss)**

Other income (loss) consists of net realized and unrealized gains (losses) on securities and residential mortgage, commercial mortgage, consumer, and corporate loans, financial derivatives, and real estate owned, unrealized gains (losses) on other secured borrowings, at fair value and Senior notes, at fair value, net change from reverse mortgage loans, at fair value, net change related to HMBS obligations, at fair value, and bargain purchase gain. Other, net, another component of Other income (loss), includes rental income and income related to loan originations, as well as realized gains (losses) on foreign currency transactions and unrealized gains (losses) on foreign currency remeasurement.

##### *Investment Portfolio*

For the nine-month period ended September 30, 2023, other income (loss) was \$12.3 million, consisting primarily of net realized and unrealized gains of \$61.8 million on our financial derivatives partially offset by \$(53.3) million of net realized and unrealized losses on our securities and loans. Net realized and unrealized gains of \$61.8 million on our financial derivatives were primarily related to net realized and unrealized gains on interest rate swaps, net short positions in TBAs, and futures, which were driven by higher interest rates. Such gains were partially offset by net realized and unrealized losses on credit default swaps on corporate bond indices. We also recognized net unrealized gains of \$1.1 million on our Other secured borrowings, at fair value for the nine-month period ended September 30, 2023, related to borrowings on our securitized non-QM loans. These securitized non-QM loans had net unrealized gains of \$19.2 million, which are included in Unrealized gains (losses) on securities and loans, net. Net realized and unrealized losses of \$(53.3) million on our securities and loans were primarily on Agency RMBS, non-Agency RMBS and CMBS, ABS backed by consumer loans, and net short positions in U.S. Treasury securities. These losses were partially offset by net realized and unrealized gains on non-QM loans.

For the nine-month period ended September 30, 2022, other income (loss) was \$(118.8) million, consisting primarily of net realized and unrealized losses on our securities and loans of \$(528.5) million, partially offset by \$206.2 million of net realized and unrealized gains on our financial derivatives, \$202.3 million of net unrealized gains on our Other secured borrowings, at fair value, and \$16.5 million of unrealized gains on our Senior notes, at fair value. Rapidly rising interest rates and widening yield spreads drove net realized and unrealized losses of \$(528.5) million on our securities and loans, primarily Agency RMBS, non-QM loans, non-Agency RMBS, consumer loans and ABS backed by consumer loans. Such losses were partially offset by net realized and unrealized gains on short positions in U.S. Treasury securities and sovereign bonds. Net realized and unrealized gains of \$187.2 million on our financial derivatives were primarily related to net realized and unrealized gains on interest rate swaps, short positions in TBAs, futures, and forwards, which were driven by rising interest rates, and in the case of short positions in TBAs, also by widening yield spreads; as well as net realized and unrealized gains on credit default swaps on corporate bond and asset-backed indices. We recognized net unrealized gains of \$202.3 million on our Other secured borrowings, at fair value for the nine-month period ended September 30, 2022, related to borrowings on our securitized non-QM loans. These securitized non-QM loans had net unrealized losses of \$(241.1) million, which are included in Unrealized gains (losses) on securities and loans, net.

##### *Longbridge*

For the nine-month period ended September 30, 2023, other income (loss) from the Longbridge segment was \$95.8 million, consisting primarily of gains from Net change from reverse mortgage loans, at fair value of \$295.2 million, net realized and unrealized gains of \$33.3 million on financial derivatives, and \$33.3 million of other income. These gains were partially offset by Net change related to HMBS obligations, at fair value of \$(271.8) million. Gains from Net change from reverse mortgage loans at fair value of \$295.2 million primarily consisted of interest income of HECM loans of \$363.1 million offset by a mark-to-market loss on the HMBS MSR Equivalent of \$(32.1) million. The mark-to-market loss on the HMBS MSR Equivalent was due to our adoption of more conservative valuation assumptions in light of current market conditions. Other income of \$33.3 million is primarily related to unrealized gains of \$23.9 million on the MSRs acquired out of a bankruptcy proceeding in July 2023, \$6.1 million of origination fees and \$3.7 million of servicing fees. Losses from Net change related to HMBS obligations, at fair value of \$(271.8) million relate to interest expenses of the HMBS obligation.

##### *Corporate/Other*

For the nine-month period ended September 30, 2023, other income (loss) was \$4.5 million, consisting primarily of net realized and unrealized gains on the fixed payer interest rate swaps associated with the then-pending merger with Great Ajax Corp. and unrealized gains on our Senior Notes, at fair value, partially offset by net realized and unrealized losses on the fixed receiver interest rate swaps that we use to hedge the fixed payments on both our Senior Notes, at fair value and our preferred equity. For the nine-month period ended September 30, 2022, other income (loss) was \$(2.6) million consisting of net realized and unrealized losses on interest rate swaps related to our Senior notes and preferred stock of \$(19.1) million, partially offset by unrealized gains on our Senior Notes, at fair value of \$16.5 million.

#### **Income Tax Expense (Benefit)**

##### *Corporate/Other*

Income tax expense (benefit) was \$0.3 million for the nine-month period ended September 30, 2023, as compared to \$(14.9) million for the nine-month period ended September 30, 2022. For the nine-month period ended September 30, 2022, our deferred tax liability decreased as a result of net realized and unrealized losses in a domestic TRS.

#### **Earnings (Losses) from Investments in Unconsolidated Entities**

##### *Investment Portfolio*

We have elected the fair value option for our equity investments in unconsolidated entities. Earnings (losses) from investments in unconsolidated entities was \$(3.4) million for the nine-month period ended September 30, 2023, as compared to \$(54.3) million for the nine-month period ended September 30, 2022. Earnings (losses) from investments in unconsolidated entities of \$(3.4) million for the nine-month period ended September 30, 2023 includes unrealized losses on investments in loan originators of \$(4.5) million partially offset by unrealized gains of \$1.1 million on investments in entities holding commercial mortgage loans and REO, in which we co-invest with other Ellington affiliates. This compares to unrealized losses on investments in loan originators of \$(60.3) million, partially offset by net realized and unrealized gains of \$5.8 million in entities holding commercial mortgage loans and REO, for the nine-month period ended September 30, 2022.

#### **Adjusted Distributable Earnings**

We calculate Adjusted Distributable Earnings as U.S. GAAP net income (loss) as adjusted for: (i) realized and unrealized gain (loss) on securities and loans, REO, mortgage servicing rights, financial derivatives (excluding periodic settlements on interest rate swaps), any borrowings carried at fair value, and foreign currency transactions; (ii) incentive fee to affiliate; (iii) Catch-up Amortization Adjustment (as defined below); (iv) non-cash equity compensation expense; (v) provision for income taxes; (vi) certain non-capitalized transaction costs; and (vii) other income or loss items that are of a non-recurring nature. For certain investments in unconsolidated entities, we include the relevant components of net operating income in Adjusted Distributable Earnings. The Catch-up Amortization Adjustment is a quarterly adjustment to premium amortization or discount accretion triggered by changes in actual and projected prepayments on our Agency RMBS (accompanied by a corresponding offsetting adjustment to realized and unrealized gains and losses). The adjustment is calculated as of the beginning of each quarter based on our then-current assumptions about cashflows and prepayments, and can vary significantly from quarter to quarter. Non-capitalized transaction costs include expenses, generally professional fees, incurred in connection with the acquisition of an investment or issuance of long-term debt. For the contribution to Adjusted Distributable Earnings from Longbridge, we adjust Longbridge's contribution to our net income in a similar manner, but we include in Adjusted Distributable Earnings certain realized and unrealized gains (losses) from Longbridge's origination business ("gain-on-sale income").

Adjusted Distributable Earnings is a supplemental non-GAAP financial measure. We believe that the presentation of Adjusted Distributable Earnings provides information useful to investors, because: (i) we believe that it is a useful indicator of both current and projected long-term financial performance, in that it excludes the impact of certain current-period earnings components that we believe are less useful in forecasting long-term performance and dividend-paying ability; (ii) we use it to evaluate the effective net yield provided by our investment portfolio, after the effects of financial leverage and by Longbridge, to reflect the earnings from its reverse mortgage origination and servicing operations; and (iii) we believe that presenting Adjusted Distributable Earnings assists investors in measuring and evaluating our operating performance, and comparing our operating performance to that of our residential mortgage REIT and mortgage originator peers. Please note, however, that: (I) our calculation of Adjusted Distributable Earnings may differ from the calculation of similarly titled non-GAAP financial measures by our peers, with the result that these non-GAAP financial measures might not be directly comparable; and (II) Adjusted Distributable Earnings excludes certain items that may impact the amount of cash that is actually available for distribution.

In addition, because Adjusted Distributable Earnings is an incomplete measure of our financial results and differs from net income (loss) computed in accordance with U.S. GAAP, it should be considered supplementary to, and not as a substitute for, net income (loss) computed in accordance with U.S. GAAP.

Furthermore, Adjusted Distributable Earnings is different from REIT taxable income. As a result, the determination of whether we have met the requirement to distribute at least 90% of our annual REIT taxable income (subject to certain adjustments) to our stockholders, in order to maintain our qualification as a REIT, is not based on whether we distributed 90% of our Adjusted Distributable Earnings.

In setting our dividends, our Board of Directors considers our earnings, liquidity, financial condition, REIT distribution requirements, and financial covenants, along with other factors that the Board of Directors may deem relevant from time to time.

The following tables reconcile, for the three- and nine-month periods ended September 30, 2023 and 2022 our Adjusted Distributable Earnings by strategy to the line on our Condensed Consolidated Statement of Operations entitled Net Income (Loss), which we believe is the most directly comparable U.S. GAAP measure:

(In thousands, except per share amounts)	Three-Month Period Ended September 30, 2023				Three-Month Period Ended September 30, 2022		
	Investment Portfolio	Longbridge	Corporate/Other	Total	Investment Portfolio	Corporate/Other	Total
<b>Net Income (Loss)</b>	\$ 14,682	\$ 4,083	\$ (5,685)	\$ 13,080	\$ (12,946)	\$ (16,785)	\$ (29,731)
Income tax expense (benefit)	—	—	224	224	—	(81)	(81)
Net income (loss) before income tax expense (benefit)	14,682	4,083	(5,461)	13,304	(12,946)	(16,866)	(29,812)
Adjustments:							
Realized (gains) losses, net <sup>(1)</sup>	4,409	—	840	5,249	18,137	—	18,137
Unrealized (gains) losses, net <sup>(2)</sup>	22,946	—	(8,230)	14,716	10,479	1,708	12,187
Unrealized (gains) losses on MSRs, net of hedge (gains) losses <sup>(3)</sup>	—	(7,974)	—	(7,974)	—	—	—
Negative (positive) component of interest income represented by Catch-up Amortization Adjustment	(349)	—	—	(349)	(1,604)	—	(1,604)
Non-capitalized transaction costs and other expense adjustments <sup>(4)</sup>	995	881	1,486	3,362	2,884	217	3,101
(Earnings) losses from investments in unconsolidated entities	978	—	—	978	25,513	—	25,513
Adjusted distributable earnings from investments in unconsolidated entities <sup>(5)</sup>	2,179	—	—	2,179	3,271	—	3,271
Total Adjusted Distributable Earnings	\$ 45,840	\$ (3,010)	\$ (11,365)	\$ 31,465	\$ 45,734	\$ (14,941)	\$ 30,793
Dividends on preferred stock	—	—	5,980	5,980	—	3,823	3,823
Adjusted Distributable Earnings attributable to non-controlling interests	2,661	(12)	318	2,967	171	337	508
<b>Adjusted Distributable Earnings Attributable to Common Stockholders</b>	<b>\$ 43,179</b>	<b>\$ (2,998)</b>	<b>\$ (17,663)</b>	<b>\$ 22,518</b>	<b>\$ 45,563</b>	<b>\$ (19,101)</b>	<b>\$ 26,462</b>
<b>Adjusted Distributable Earnings Attributable to Common Stockholders, per share</b>	<b>\$ 0.64</b>	<b>\$ (0.05)</b>	<b>\$ (0.26)</b>	<b>\$ 0.33</b>	<b>\$ 0.76</b>	<b>\$ (0.32)</b>	<b>\$ 0.44</b>

(1) Includes realized (gains) losses on securities and loans, REO, financial derivatives (excluding periodic settlements on interest rate swaps and foreign currency transactions which are components of Other Income (Loss) on the Condensed Consolidated Statement of Operations.

(2) Includes unrealized (gains) losses on securities and loans, REO, financial derivatives (excluding periodic settlements on interest rate swaps), borrowings carried at fair value, and foreign currency transactions which are components of Other Income (Loss) on the Condensed Consolidated Statement of Operations.

(3) Represents net change in fair value of HMBS MSR Equivalent and mortgage servicing rights related to proprietary mortgage loans attributable to changes in market conditions and model assumptions. This adjustment also includes net (gains) losses on certain hedging instruments, which are components of realized and/or unrealized gains (losses) on financial derivatives, net on the Condensed Consolidated Statement of Operations.

(4) For the three-month period ended September 30, 2023, includes \$0.4 million of expenses related to our pending merger with Arlington Asset Investment Corp., \$1.0 million related to our previously announced merger with Great Ajax Corp., which was terminated on October 2023, \$0.8 million of non-capitalized transaction costs, \$0.3 million of non-cash equity compensation expense, and \$0.9 million of various other expenses. For the three-month period ended September 30, 2022, includes debt issuance costs on Other secured borrowings, at fair value of \$1.9 million, non-capitalized transaction costs of \$0.8 million, and \$0.4 million of non-cash equity compensation expense.

(5) Includes net interest income and operating expenses for certain investments in unconsolidated entities.

(In thousands, except per share amounts)	Nine-Month Period Ended September 30, 2023				Nine-Month Period Ended September 30, 2022				
	Investment Portfolio		Corporate/Other		Total	Investment Portfolio		Corporate/Other	
	Longbridge	Corporate/Other	Total	Longbridge	Corporate/Other	Total	Longbridge	Corporate/Other	Total
<b>Net Income (Loss)</b>	\$ 88,315	\$ 13,055	\$ (32,798)	\$ 68,572	\$ (54,285)	\$ (43,395)	\$ (97,664)		
Income tax expense (benefit)	—	—	328	328	—	(14,867)	(14,867)		
Net income (loss) before income tax expense (benefit)	88,315	13,055	(32,470)	68,900	(54,285)	(58,262)	(112,526)		
Adjustments:									
Realized (gains) losses, net <sup>(1)</sup>	69,603	—	(903)	68,700	(34,842)	(615)	(35,457)		
Unrealized (gains) losses, net <sup>(2)</sup>	(38,381)	—	(9,648)	(48,029)	157,617	4,679	162,296		
Unrealized (gains) losses on MSRs, net of hedge (gains) losses <sup>(3)</sup>	—	(14,087)	—	(14,087)	—	—	—		
Negative (positive) component of interest income represented by Catch-up Amortization Adjustment	616	—	—	616	(3,101)	—	(3,101)		
Non-capitalized transaction costs and other expense adjustments <sup>(4)</sup>	2,504	3,506	5,303	11,313	8,448	4,527	12,970		
(Earnings) losses from investments in unconsolidated entities	3,403	—	—	3,403	54,284	—	54,284		
Adjusted distributable earnings from investments in unconsolidated entities <sup>(5)</sup>	8,780	—	—	8,780	8,927	—	8,927		
<b>Total Adjusted Distributable Earnings</b>	<b>\$ 134,840</b>	<b>\$ 2,474</b>	<b>\$ (37,718)</b>	<b>\$ 99,596</b>	<b>\$ 137,048</b>	<b>\$ (49,671)</b>	<b>\$ 87,377</b>		
Dividends on preferred stock	—	—	17,077	17,077	—	11,468	11,468		
Adjusted Distributable Earnings attributable to non-controlling interests	3,028	11	938	3,977	398	948	1,344		
<b>Adjusted Distributable Earnings Attributable to Common Stockholders</b>	<b>\$ 131,812</b>	<b>\$ 2,463</b>	<b>\$ (55,733)</b>	<b>\$ 78,542</b>	<b>\$ 136,650</b>	<b>\$ (62,087)</b>	<b>\$ 74,566</b>		
<b>Adjusted Distributable Earnings Attributable to Common Stockholders, per share</b>	<b>\$ 1.96</b>	<b>\$ 0.04</b>	<b>\$ (0.83)</b>	<b>\$ 1.17</b>	<b>\$ 2.31</b>	<b>\$ (1.04)</b>	<b>\$ 1.21</b>		

(1) Includes realized (gains) losses on securities and loans, REO, financial derivatives (excluding periodic settlements on interest rate swaps and foreign currency transactions which are components of Other Income (Loss) on the Condensed Consolidated Statement of Operations.

(2) Includes unrealized (gains) losses on securities and loans, REO, financial derivatives (excluding periodic settlements on interest rate swaps), borrowings carried at fair value, and foreign currency transactions which are components of Other Income (Loss) on the Condensed Consolidated Statement of Operations.

(3) Represents net change in fair value of HMBS MSR Equivalent and mortgage servicing rights related to proprietary mortgage loans attributable to changes in market conditions and model assumptions. This adjustment also includes net (gains) losses on certain hedging instruments, which are components of realized and/or unrealized gains (losses) on financial derivatives, net on the Condensed Consolidated Statement of Operations.

(4) For the nine-month period ended September 30, 2023, includes \$2.5 million of expenses related to our pending merger of Arlington Asset Investment Corp., \$2.5 million related to our previously announced merger with Great Ajax Corp., which was subsequently terminated in October 2023, \$1.8 million of non-capitalized transaction costs, \$1.1 million of professional fees related to the acquisition and integration of Longbridge, \$1.1 million of non-cash equity compensation expense, and \$1.0 million of various other expenses. For the nine-month period ended September 30, 2022, includes \$6.3 million of debt issuance costs related to Other secured borrowings, at fair value, \$3.6 million of debt issuance costs related to senior notes, at fair value, \$1.9 million of non-capitalized transaction costs, \$1.0 million of non-cash equity compensation expense, and \$0.2 million of various other expenses.

(5) Includes net interest income and operating expenses for certain investments in unconsolidated entities.

**Liquidity and Capital Resources**

Liquidity refers to our ability to generate and obtain adequate amounts of cash to meet our requirements, including repaying our borrowings, funding and maintaining positions in our targeted assets, making distributions in the form of dividends, and other general business needs. Our short-term (the 12 months following period end) and long-term (beyond 12 months from period end) liquidity requirements include acquisition costs for assets we acquire, payment of our base management fee and incentive fee, compliance with margin requirements under our repos, reverse repos, and financial derivative contracts, repayment of repo borrowings and other secured borrowings to the extent we are unable or unwilling to extend such borrowings, payment of our general operating expenses, payment of interest payments on our Senior Notes, and payment of our dividends. Our capital resources primarily include cash on hand, cash flow from our investments (including principal and interest payments received on our investments and proceeds from the sale of investments), borrowings under repos and other secured borrowings, and proceeds from equity and debt offerings. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

The following summarizes our borrowings under repos by remaining maturity:

(In thousands)	September 30, 2023		December 31, 2022	
	Outstanding Borrowings	% of Total	Outstanding Borrowings	% of Total
Remaining Days to Maturity				
30 Days or Less	\$ 905,928	35.2 %	\$ 1,200,555	46.0 %
31 - 60 Days	392,416	15.3 %	210,667	8.1 %
61 - 90 Days	78,444	3.0 %	278,253	10.6 %
91 - 120 Days	792,056	30.8 %	362,761	13.9 %
121 - 150 Days	23,268	0.9 %	159,087	6.1 %
151 - 180 Days	33,568	1.3 %	6,981	0.3 %
181 - 364 Days	83,707	3.3 %	391,381	15.0 %
> 364 Days	263,656	10.2 %	—	— %
	\$ 2,573,043	100.0 %	\$ 2,609,685	100.0 %

Repos involving underlying investments that were sold prior to period end for settlement following period end, are shown using their contractual maturity dates even though such repos may be expected to be terminated early upon settlement of the sale of the underlying investment.

The amounts borrowed under our repo agreements are generally subject to the application of "haircuts." A haircut is the percentage discount that a repo lender applies to the market value of an asset serving as collateral for a repo borrowing, for the purpose of determining whether such repo borrowing is adequately collateralized. As of September 30, 2023, the weighted average contractual haircut applicable to the assets that serve as collateral for our outstanding repo borrowings was 27.2% with respect to credit portfolio assets, 21.2% with respect to reverse mortgage loans, 5.0% with respect to Agency RMBS assets, and 20.3% overall. As of December 31, 2022 the weighted average contractual haircuts were 28.0% with respect to credit portfolio assets, 5.3% with respect to Agency RMBS assets, and 20.6% overall.

We expect to continue to borrow funds in the form of repos as well as other similar types of financings. The terms of our repo borrowings are predominantly governed by master repurchase agreements, which generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association as to repayment and margin requirements. In addition, each lender may require that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions include the addition of or changes to provisions relating to margin calls, net asset value requirements, cross default provisions, certain key person events, changes in corporate structure, and requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction. These provisions may differ for each of our repo lenders.

As of both September 30, 2023 and December 31, 2022, we had \$2.6 billion of borrowings outstanding under our repos. As of September 30, 2023, the remaining terms on our repos ranged from 2 days to 605 days, with a weighted average remaining term of 103 days. Our repo borrowings were with a total of 26 counterparties as of September 30, 2023. As of September 30, 2023, our repos had interest rates ranging from 4.73% to 9.32%, with a weighted average borrowing rate of 6.76%. As of December 31, 2022, the remaining terms on our repos ranged from 3 days to 263 days, with a weighted average remaining term of 78 days. Our repo borrowings were with a total of 26 counterparties as of December 31, 2022. As of December 31, 2022, our repos had interest rates ranging from 0.63% to 7.97%, with a weighted average borrowing rate of 5.50%. Investments transferred as collateral under repos had an aggregate fair value of \$3.2 billion as of both September 30, 2023 and December 31, 2022.

It is expected that amounts due upon maturity of our repos will be funded primarily through the roll/re-initiation of repos and, if we are unable or unwilling to roll/re-initiate our repos, through free cash and proceeds from the sale of securities.

The following table details total outstanding borrowings, average outstanding borrowings, and the maximum outstanding borrowings at any month end for each quarter under repos for the past twelve quarters:

Quarter Ended	Borrowings Outstanding at Quarter End	Average Borrowings Outstanding	Maximum Borrowings Outstanding at Any Month End
(In thousands)			
September 30, 2023	\$ 2,573,043	\$ 2,605,359	\$ 2,707,121
June 30, 2023	2,557,864	2,402,711	2,557,864
March 31, 2023 <sup>(1)</sup>	2,285,898	2,464,050	2,641,488
December 31, 2022	2,609,685	2,859,085	2,915,610
September 30, 2022	2,895,019	2,877,500	2,912,264
June 30, 2022	2,865,222	2,590,120	2,865,222
March 31, 2022	2,717,638	2,533,978	2,717,638
December 31, 2021	2,469,763	2,187,363	2,469,763
September 30, 2021	2,105,836	1,958,411	2,175,918
June 30, 2021	1,916,749	1,971,441	2,062,580
March 31, 2021	1,909,511	1,736,912	1,909,511
December 31, 2020	1,496,931	1,408,935	1,496,931

(1) During this quarter, our borrowings decreased as the size of our investment portfolio decreased driven primarily by our participation in a non-QM securitization in February 2023.

In addition to our borrowings under repos, we have entered into various other types of transactions to finance certain of our investments, including non-QM loans and REO, commercial mortgage loans, consumer loans and ABS backed by consumer loans, reverse mortgage loans, and MSRs; such transactions are accounted for as secured borrowings. As of September 30, 2023 and December 31, 2022, we had outstanding borrowings related to such transactions in the amount of \$1.7 billion and \$1.8 billion, respectively, which is reflected under the captions "Other secured borrowings" and "Other secured borrowings, at fair value" on the Condensed Consolidated Balance Sheet. As of September 30, 2023 and December 31, 2022, the fair value of assets collateralizing our Total other secured borrowings was \$2.0 billion and \$2.1 billion, respectively. Additionally, as of September 30, 2023, as an HMBS issuer, we had HMBS-related obligations of \$8.2 billion collateralized by \$8.3 billion of HMBS assets and as of December 31, 2022, we had HMBS-related obligations of \$7.8 billion collateralized by \$7.9 billion of HMBS assets; HMBS assets include HECM loans as well as REO and claims and other receivables. See Note 13 in the notes to our consolidated financial statements for further information on our other secured borrowings and HMBS-related obligations.

As of both September 30, 2023 and December 31, 2022, we had \$210.0 million outstanding of Senior Notes; the \$210.0 million of 5.875% Senior Notes mature in April 2027. See Note 13 in the notes to our consolidated financial statements for further detail on the Senior Notes.

As of September 30, 2023, we had an aggregate amount at risk under our repos with 25 counterparties of approximately \$605.7 million, and as of December 31, 2022, we had an aggregate amount at risk under our repos with 25 counterparties of approximately \$637.6 million. Amounts at risk represent the excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repos. If the amounts outstanding under repos with a particular counterparty are greater than the collateral held by the counterparty, there is no amount at risk for the particular counterparty. Amount at risk as of September 30, 2023 and December 31, 2022, does not include approximately \$(1.7) million and \$(1.8) million, respectively, of net accrued interest receivable (payable), which is defined as accrued interest on securities held as collateral less interest payable on cash borrowed.

Our derivatives are predominantly subject to bilateral master trade agreements or clearing in accordance with the Dodd-Frank Act. We may be required to deliver or receive cash or securities as collateral upon entering into derivative transactions. Changes in the relative value of derivative transactions may require us or the counterparty to post or receive additional collateral. Entering into derivative contracts involves market risk in excess of amounts recorded on our balance sheet. In the case of cleared derivatives, the clearinghouse becomes our counterparty and the future commission merchant acts as an intermediary between us and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral.

As of September 30, 2023, we had an aggregate amount at risk under our derivative contracts, excluding TBAs, with nine counterparties of approximately \$76.7 million. We also had \$69.5 million of initial margin for cleared over-the-counter, or "OTC," derivatives posted to central clearinghouses as of that date. As of December 31, 2022, we had an aggregate amount at risk under our derivatives contracts, excluding TBAs, with ten counterparties of approximately \$43.3 million. We also had \$44.9 million of initial margin for cleared OTC derivatives posted to central clearinghouses as of that date. Amounts at risk under our derivatives contracts represent the excess, if any, for each counterparty of the fair value of our derivative contracts plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the financial derivatives plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We purchase and sell TBAs and Agency pass-through certificates on a when-issued or delayed delivery basis. The delayed delivery for these securities means that these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and therefore are more vulnerable, especially in the absence of margining arrangements with respect to these transactions, to increasing amounts at risk with the applicable counterparties. As of September 30, 2023, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with eight counterparties of approximately \$3.3 million. As of December 31, 2022, in connection with our forward settling TBA and Agency pass-through certificates, we had an aggregate amount at risk with nine counterparties of approximately \$5.4 million. Amounts at risk in connection with our forward settling TBA and Agency pass-through certificates represent the excess, if any, for each counterparty of the net fair value of the forward settling transactions plus our collateral held directly by the counterparty less the counterparty's collateral held by us. If a particular counterparty's collateral held by us is greater than the aggregate fair value of the forward settling transactions plus our collateral held directly by the counterparty, there is no amount at risk for the particular counterparty.

We held cash and cash equivalents of approximately \$174.7 million and \$217.1 million as of September 30, 2023 and December 31, 2022, respectively.

On August 6, 2021, we commenced an "at-the-market" offering for shares of our common stock, or the "2021 Common ATM Program," by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell up to 10.0 million shares of common stock from time to time. From December 31, 2022 through January 23, 2023, we issued 1,410,932 shares of common stock under the 2021 Common ATM Program, which provided \$1.9 million of net proceeds after approximately \$0.2 million of commissions and \$52 thousand of offering costs. On January 24, 2023, we amended the equity distribution agreements (the "EDA Amendments") with each of the third party sales agents. Such amendments authorize us to offer and sell up to \$225.0 million of common stock from time to time (the "Amended Common ATM Program"). For the three-month period ended September 30, 2023, we issued 1,066,221 shares of common stock under the Amended Common ATM Program, which provided \$14.5 million of net proceeds after approximately \$0.1 million of commissions and \$41 thousand of offering costs. For the nine-month period ended September 30, 2023, we issued 5,500,082 shares of common stock under our at-the-market programs, which provided \$75.0 million of net proceeds after approximately \$0.8 million of commissions and \$0.2 million of offering costs. From execution of the EDA Amendments through November 3, 2023, we have issued 4,089,150 shares of common stock through the Amended Common ATM Program, which provided \$56.0 million of net proceeds after \$0.6 million of commissions and \$0.1 million of offering costs.

On January 20, 2022, we commenced an "at-the-market" offering for our preferred stock, or the "Preferred ATM Program," by entering into equity distribution agreements with third party sales agents under which we are authorized to offer and sell up to \$100.0 million of 6.750% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series A Preferred Stock") and/or 6.250% Series B Fixed-Rate Reset Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series B Preferred Stock") from time to time. From commencement of the Preferred ATM Program through November 3, 2023, we have issued 20,421 shares of preferred stock under this program.

On February 6, 2023, we issued 4,000,000 shares of Series C Fixed-Rate Reset Cumulative Redeemable Preferred Stock, \$0.001 par value per share ("Series C Preferred Stock"), for proceeds of \$96.5 million, net of underwriting discounts and commissions and offering costs of \$3.5 million. Holders of the Series C Preferred Stock are entitled to receive cumulative cash dividends from and including the original issue date to, but excluding, April 30, 2028 (the "First Reset Date"), at a fixed rate equal to 8.625% per annum of the \$25.00 per share liquidation preference. The applicable fixed rate resets on the First Reset Date and again on the fifth anniversary of the preceding reset date (each a "Reset Date"), at a rate equal to the five-year treasury rate as measured three business days prior to the Reset Date plus 5.13% per annum of the \$25.00 per share liquidation preference. Dividends are payable quarterly in arrears on or about the 30th day of each January, April, July, and October. See Note 27 for additional details on our Series C Preferred Stock.

On March 21, 2023, our Board of Directors approved the adoption of a share repurchase program under which we are authorized to repurchase up to \$50 million of common stock, or the "2023 Common Share Repurchase Program." The 2023

Common Share Repurchase Program extends our ability to repurchase beyond the share repurchase program adopted in 2018 under which we were authorized to repurchase up to 1.55 million shares of common stock, or the "2018 Common Share Repurchase Program." The 2023 Common Share Repurchase Program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions, including under 10b5-1 plans. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. In addition to making discretionary repurchases, we from time to time use 10b5-1 plans to increase the number of trading days available to implement these repurchases. During the nine-month period ended September 30, 2023, we repurchased 1,084,336 shares of common stock at an average price per share of \$11.39 and a total cost of \$12.4 million. Under the 2023 Common Share Repurchase Program we have authorization to repurchase an additional \$45.8 million of common stock; the authorization under the 2018 Common Share Repurchase Program was exhausted during the first quarter of 2023.

On February 21, 2022, our Board of Directors approved the adoption of a share repurchase program under which we are authorized to repurchase up to \$30.0 million of Series A Preferred Stock and Series B Preferred Stock, or the "Preferred Share Repurchase Program." The Preferred Share Repurchase Program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions, including under 10b5-1 plans. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. We have not yet repurchased any shares of preferred stock under the Preferred Share Repurchase Program.

We may declare dividends based on, among other things, our earnings, our financial condition, the REIT qualification requirements of the Internal Revenue Code of 1986, as amended, our working capital needs and new opportunities. The declaration of dividends to our stockholders and the amount of such dividends are at the discretion of our Board of Directors.

The following table sets forth the dividend distributions authorized by the Board of Directors payable to common stockholders and holders of Convertible Non-controlling Interest Units (as defined in Note 2 of the consolidated financial statements) for the nine-month periods ended September 30, 2023 and 2022:

**Nine-Month Periods Ended September 30, 2023 and 2022**

Declaration Date	Dividend Per Share	Dividend Amount (In thousands)	Record Date	Payment Date
<b>2023:</b>				
September 7, 2023	\$ 0.15	\$ 10,356	September 29, 2023	October 25, 2023
August 7, 2023	0.15	10,325	August 31, 2023	September 25, 2023
July 10, 2023	0.15	10,311	July 31, 2023	August 25, 2023
June 7, 2023	0.15	10,197	June 30, 2023	July 25, 2023
May 8, 2023	0.15	10,197	May 31, 2023	June 26, 2023
April 10, 2023	0.15	10,197	April 28, 2023	May 25, 2023
March 7, 2023	0.15	10,200	March 31, 2023	April 25, 2023
February 7, 2023	0.15	10,359	February 28, 2023	March 27, 2023
January 9, 2023	0.15	10,105	January 31, 2023	February 27, 2023
<b>2022:</b>				
September 8, 2022	0.15	9,189	September 30, 2022	October 25, 2022
August 4, 2022	0.15	9,186	August 31, 2022	September 26, 2022
July 8, 2022	0.15	9,108	July 29, 2022	August 25, 2022
June 7, 2022	0.15	9,108	June 30, 2022	July 25, 2022
May 2, 2022	0.15	9,121	May 31, 2022	June 27, 2022
April 7, 2022	0.15	9,121	April 29, 2022	May 25, 2022
March 7, 2022	0.15	9,064	March 31, 2022	April 25, 2022
February 7, 2022	0.15	8,730	February 28, 2022	March 25, 2022
January 7, 2022	0.15	8,727	January 31, 2022	February 25, 2022

On October 6, 2023, the Board of Directors approved a dividend in the amount of \$0.15 per share of common stock payable on November 27, 2023 to stockholders of record as of October 31, 2023. On November 7, 2023, the Board of Directors approved a dividend in the amount of \$0.15 per share of common stock payable on December 26, 2023 to stockholders of record as of November 30, 2023.

The following table sets forth the dividend distributions authorized by the Board of Directors during the nine-month periods ended September 30, 2023 and 2022 and payable to holders of our preferred stock:

Declaration Date	Dividend Per Share	Dividend Amount (In thousands)	Record Date	Payment Date
<b>Series A Preferred Stock:</b>				
<b>2023:</b>				
September 7, 2023	\$ 0.421875	\$ 1,941	September 29, 2023	October 30, 2023
June 7, 2023	0.421875	1,941	June 30, 2023	July 31, 2023
March 7, 2023	0.421875	1,941	March 31, 2023	May 1, 2023
<b>2022:</b>				
September 8, 2022	0.421875	1,941	September 30, 2022	October 31, 2022
June 7, 2022	0.421875	1,941	June 30, 2022	August 1, 2022
March 7, 2022	0.421875	1,941	March 31, 2022	May 2, 2022
<b>Series B Preferred Stock:</b>				
<b>2023:</b>				
September 7, 2023	0.390625	1,883	September 29, 2023	October 30, 2023
June 7, 2023	0.390625	1,883	June 30, 2023	July 31, 2023
March 7, 2023	0.390625	1,883	March 31, 2023	May 1, 2023
<b>2022:</b>				
September 8, 2022	0.390625	1,883	September 30, 2022	October 31, 2022
June 7, 2022	0.390625	1,883	June 30, 2022	August 1, 2022
March 7, 2022	0.390625	1,883	March 31, 2022	May 2, 2022
<b>Series C Preferred Stock:</b>				
<b>2023:</b>				
September 7, 2023	0.5390625	2,156	September 29, 2023	October 30, 2023
June 7, 2023	0.5390625	2,156	June 30, 2023	July 31, 2023
March 7, 2023	0.5031300	2,013	March 31, 2023	May 1, 2023

At those times when cash flows from the Company's operating activities are insufficient to fund its dividend payments, the Company funds such dividend payments through cash flows from its investing and/or financing activities, and in some cases from additional cash on hand. The following paragraphs summarize the Company's cash flows for the nine-month periods ended September 30, 2023 and 2022.

For the nine-month period ended September 30, 2023, our operating activities used net cash in the amount of \$162.9 million and our investing activities used net cash in the amount of \$121.5 million. Our repo activity used to finance many of our investments (including repayments of amounts borrowed under our repos) provided net cash of \$92.3 million. We received \$1.32 billion in proceeds from the issuance of Total other secured borrowings, and we used \$1.37 billion for principal payments on our Total other secured borrowings. Thus our operating and investing activities, when combined with our repo financings and Other secured borrowings (net of repayments), used net cash of \$236.7 million during the nine-month period ended September 30, 2023. We received proceeds from HMBS-related obligations of \$1.10 billion and used \$954.4 million for principal payments on HMBS-related obligations. We received proceeds from the issuance of common and preferred stock, net of underwriters' discounts and commissions, agent commissions, and offering costs paid, of \$171.4 million and contributions from non-controlling interests of \$6.7 million. We used \$107.2 million to pay dividends, \$9.8 million for distributions to non-controlling interests (our joint venture partners), and \$12.4 million to repurchase common stock. As a result there was a decrease in our cash holdings of \$45.6 million, from \$221.9 million as of December 31, 2022 to \$176.3 million as of September 30, 2023.

For the nine-month period ended September 30, 2022, our operating activities provided net cash in the amount of \$70.2 million and our investing activities used net cash in the amount of \$1,586 billion. Our repo activity used to finance many of our investments (including repayments of amounts borrowed under our repos) provided net cash of \$676.5 million. We received \$872.6 million in proceeds from the issuance of Total other secured borrowings. We used \$27.1 million for principal payments on our Total other secured borrowings. Thus our operating and investing activities, when combined with our repo financings and Other secured borrowings (net of repayments), used net cash of \$6.4 million for the nine-month period ended September 30, 2022. We received proceeds from the issuance of Senior notes, at fair value of \$206.4 million, net of debt issuance costs,

proceeds from the issuance of common and preferred stock, net of underwriters' discounts and commissions, agent commissions, and offering costs paid, of \$53.1 million, and contributions from non-controlling interests of \$11.9 million. We used \$91.5 million to pay dividends, \$16.2 million for distributions to non-controlling interests (our joint venture partners), \$86.0 million for repayment of Senior notes, and \$1.7 million to repurchase common stock. As a result there was an increase in our cash holdings of \$82.4 million, from \$92.8 million as of December 31, 2021 to \$175.2 million as of September 30, 2022.

Based on our current portfolio, amount of free cash on hand, debt-to-equity ratio, and current and anticipated availability of credit, we believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements. However, the unexpected inability to finance our Agency RMBS portfolio would create a serious short-term strain on our liquidity and would require us to liquidate much of that portfolio, which in turn would require us to restructure our portfolio to maintain our exclusion from registration as an investment company under the Investment Company Act and to maintain our qualification as a REIT. Steep declines in the values of our credit assets financed using repos, or in the values of our derivative contracts, would result in margin calls that would significantly reduce our free cash position. Furthermore, a substantial increase in prepayment rates on our assets financed by repos could cause a temporary liquidity shortfall, because we are generally required to post margin on such assets in proportion to the amount of the announced principal paydowns before the actual receipt of the cash from such principal paydowns. If our cash resources are at any time insufficient to satisfy our liquidity requirements, we may have to sell assets or issue additional debt or equity securities.

Although we may from time to time enter into financing arrangements that limit our leverage, our investment guidelines do not limit the amount of leverage that we may use, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

#### **Contractual Obligations and Commitments**

We are a party to a management agreement with our Manager. Pursuant to that agreement, our Manager is entitled to receive a base management fee, an incentive fee, reimbursement of certain expenses and, in certain circumstances, a termination fee. Such fees and expenses do not have fixed and determinable payments. For a description of the management agreement provisions, see Note 15 to our consolidated financial statements.

We have numerous contractual obligations and commitments related to our outstanding borrowings (see Note 13 of the notes to our consolidated financial statements) and related to our financial derivatives (see Note 9 of the notes to our consolidated financial statements).

See Note 23 of the notes to our consolidated financial statements for further detail on our other contractual obligations and commitments.

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

As of September 30, 2023, we did not have any material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment to provide funding to any such entities that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or resources that would be material to an investor in our securities. As such, we are not materially exposed to any market, credit, liquidity, or financing risk that could arise if we had engaged in such relationships.

At September 30, 2023 we have not entered into any repurchase agreements for which delivery of the borrowed funds is not scheduled until after period end.

#### **Inflation**

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors generally influence our performance more than does inflation. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

However, elevated, long-term inflation could adversely impact the performance of our investment portfolio, or the prices of our investments, or both. For example, if higher inflation is not matched by an increase in wages, inflation could cause the real income of the borrowers on our residential and consumer loans to decline. In addition, in the case of borrowers on our commercial mortgage loans, net cash flow could decline if rents and/or expense reimbursements do not increase in kind with higher inflation.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The primary components of our market risk at September 30, 2023 are related to credit risk, prepayment risk, and interest rate risk. We seek to actively manage these and other risks and to acquire and hold assets that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

#### **Credit Risk**

We are subject to credit risk in connection with many of our assets, especially non-Agency RMBS, CMBS, residential and commercial mortgage loans, corporate debt investments including CLOs and investments in securitization warehouses, and consumer loans.

Credit losses on real estate loans can occur for many reasons, including, but not limited to, poor origination practices, fraud, faulty appraisals, documentation errors, poor underwriting, legal errors, poor servicing practices, weak economic conditions, decline in the value of homes, businesses or commercial properties, special hazards, earthquakes and other natural events, such as the COVID-19 pandemic, or an outbreak of another highly infectious or contagious disease, over-leveraging of the borrower on a property, reduction in market rents and occupancy rates and poor property management services, changes in legal protections for lenders, reduction in personal income, job loss, and personal events such as divorce or health problems. Property values 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), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors, and retroactive changes to building or similar codes.

The ability of borrowers to repay consumer loans may be adversely affected by numerous borrower-specific factors, including unemployment, divorce, major medical expenses or personal bankruptcy. General factors, including an economic downturn, high energy costs or acts of God or terrorism, pandemics such as the COVID-19 pandemic or another highly infectious or contagious disease, may also affect the financial stability of borrowers and impair their ability or willingness to repay their loans. Whenever any of our consumer loans defaults, we are at risk of loss to the extent of any deficiency between the liquidation value of the collateral, if any, securing the loan, and the principal and accrued interest of the loan. Many of our consumer loans are unsecured, or are secured by collateral (such as an automobile) that depreciates rapidly; as a result, these loans may be at greater risk of loss than residential real estate loans.

Our corporate investments, especially our lower-rated or unrated CLO investments, corporate equity, and our investments in loan originators, have significant risk of loss, and our efforts to protect these investments may involve substantial costs and may not be successful. We also will be subject to significant uncertainty as to when and in what manner and for what value the corporate debt in which we directly or indirectly invest will eventually be satisfied (e.g., through liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the debt securities or a payment of some amount in satisfaction of the obligation). In addition, these investments could involve loans to companies that are more likely to experience bankruptcy or similar financial distress, such as companies that are thinly capitalized, employ a high degree of financial leverage, are in highly competitive or risky businesses, are in a start-up phase, or are experiencing losses.

Similarly, we are exposed to the risk of potential credit losses on the other assets in our credit portfolio. For many of our investments, the two primary components of credit risk are default risk and severity risk.

#### **Default Risk**

Default risk is the risk that a borrower fails to make scheduled principal and interest payments on a mortgage loan or other debt obligation. We may attempt to mitigate our default risk by, among other things, opportunistically entering into credit default swaps and total return swaps. These instruments can reference various MBS indices, corporate bond indices, or corporate entities. We often rely on third-party servicers to mitigate our default risk, but such third-party servicers may have little or no economic incentive to mitigate loan default rates.

#### **Severity Risk**

Severity risk is the risk of loss upon a borrower default on a mortgage loan or other secured or unsecured debt obligation. Severity risk includes the risk of loss of value of the property or other asset, if any, securing the mortgage loan or debt obligation, as well as the risk of loss associated with taking over the property or other asset, if any, including foreclosure costs. We often rely on third-party servicers to mitigate our severity risk, but such third-party servicers may have little or no economic incentive to mitigate loan loss severities. In the case of mortgage loans, such mitigation efforts may include loan modification programs and prompt foreclosure and property liquidation following a default. Many of our consumer loans are unsecured, or are secured by collateral (such as an automobile) that depreciates rapidly; as a result, these loans may be at greater risk of loss than residential real estate loans. Pursuing any remaining deficiency following a default on a consumer loan is often difficult or impractical, especially when the borrower has a low credit score, making further substantial collection efforts unwarranted. In

addition, repossessing personal property securing a consumer loan can present additional challenges, including locating and taking physical possession of the collateral. We rely on servicers who service these consumer loans, to, among other things, collect principal and interest payments on the loans and perform loss mitigation services, and these servicers may not perform in a manner that promotes our interests. In the case of corporate debt, if a company declares bankruptcy, the bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversarial proceedings and are beyond the control of the creditors. A bankruptcy filing by a company whose debt we have purchased may adversely and permanently affect such company. If the proceeding results in liquidation, the liquidation value of the company may have deteriorated significantly from what we believed to be the case at the time of our initial investment. The duration of a bankruptcy proceeding is also difficult to predict, and our return on investment can be adversely affected by delays until a plan of reorganization or liquidation ultimately becomes effective. A bankruptcy court may also re-characterize our debt investment as equity, and subordinate all or a portion of our claim to that of other creditors. This could occur even if our investment had initially been structured as senior debt.

**Prepayment Risk**

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect of fixed-income assets in our portfolio, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. Most significantly, our portfolio is exposed to the risk of changes in prepayment rates of mortgage loans, including the mortgage loans underlying our RMBS, and changes in prepayment rates of certain of our consumer loan holdings. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Mortgage prepayment rates can be highly sensitive to changes in interest rates, but they are also affected by housing turnover, which can be driven by factors other than interest rates, including worker mobility and home price appreciation. Changes in prepayment rates will have varying effects on the different types of securities in our portfolio, and we attempt to take these effects into account in making asset management decisions. Increases in prepayment rates may cause us to experience both realized and unrealized losses on our interest only securities and inverse interest only securities, as these securities are extremely sensitive to prepayment rates. Conversely, decreases in prepayment rates on our loans and securities with below-market interest rates may cause the duration of such investments to extend, which may cause us to experience unrealized losses on such investments. Prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation. For example, prepayment rates are generally lower in states with substantially higher mortgage recording taxes.

**Interest Rate Risk**

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. We are subject to interest rate risk in connection with most of our assets and liabilities. For some securities in our portfolio, the coupon interest rates on, and therefore also the values of, such securities are highly sensitive to interest rate movements, such as inverse floating rate RMBS, which benefit from falling interest rates. Whenever one of our repo borrowings matures, it will generally be replaced with a new repo borrowing based on market interest rates prevailing at such time. Subject to maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we opportunistically hedge our interest rate risk by entering into interest rate swaps, TBAs, U.S. Treasury securities, Eurodollar futures, U.S. Treasury futures, and other instruments. In general, such hedging instruments are used to mitigate the interest rate risk arising from the mismatch between the duration of our financed assets and the duration of the liabilities used to finance such assets. The majority of this mismatch currently relates to our Agency RMBS.

The following sensitivity analysis table shows the estimated impact on the value of our portfolio segregated by certain identified categories as of September 30, 2023, assuming a static portfolio and immediate and parallel shifts in interest rates from current levels as indicated below.

(In thousands)	Estimated Change for a Decrease in Interest Rates by				Estimated Change for an Increase in Interest Rates by			
	50 Basis Points		100 Basis Points		50 Basis Points		100 Basis Points	
	Market Value	% of Total Equity	Market Value	% of Total Equity	Market Value	% of Total Equity	Market Value	% of Total Equity
Agency RMBS	\$ 24,380	1.82 %	\$ 47,762	3.57 %	\$ (25,379)	(1.90)%	\$ (51,758)	(3.87)%
Long TBAs	962	0.08 %	1,837	0.14 %	(1,050)	(0.08)%	(2,188)	(0.16)%
Short TBAs	(8,433)	(0.63)%	(16,717)	(1.25)%	8,583	0.64 %	17,316	1.29 %
Non-Agency RMBS, CMBS, ABS, Loans, and MSRs	32,113	2.40 %	62,422	4.67 %	(33,916)	(2.54)%	(69,636)	(5.21)%
U.S. Treasury Securities and Interest Rate Swaps, Options, and Futures	(54,583)	(4.08)%	(111,179)	(8.31)%	52,568	3.93 %	103,124	7.71 %
Corporate Securities and Other	(96)	(0.01)%	(193)	(0.02)%	97	0.01 %	194	0.02 %
Repurchase Agreements, Reverse Repurchase Agreements, and Senior Notes	(3,731)	(0.28)%	(7,500)	(0.56)%	3,692	0.28 %	7,344	0.55 %
<b>Total</b>	<b>\$ (9,388)</b>	<b>(0.70)%</b>	<b>\$ (23,568)</b>	<b>(1.76)%</b>	<b>\$ 4,595</b>	<b>0.34 %</b>	<b>\$ 4,396</b>	<b>0.33 %</b>

The preceding analysis does not show sensitivity to changes in interest rates for instruments for which we believe that the effect of a change in interest rates is not material to the value of the overall portfolio and/or cannot be accurately estimated. In particular, this analysis excludes certain of our holdings of corporate securities and derivatives on corporate securities, and reflects only sensitivity to U.S. interest rates.

Our analysis of interest rate risk is derived from Ellington's proprietary models as well as third-party information and analytics. Many assumptions have been made in connection with the calculations set forth in the table above and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. For example, for each hypothetical immediate shift in interest rates, assumptions have been made as to many important factors that can significantly and/or adversely affect the fair value of the instruments in our portfolio, including the response of mortgage prepayment rates, the shape of the yield curve, and market volatilities of interest rates. Furthermore, the fair value of each of the instruments comprising our portfolio is impacted by many other factors, each of which may or may not be correlated, or may only be loosely correlated, with interest rates. Depending on the nature of the instrument, these additional factors may include credit spreads, yield spreads, option-adjusted spreads, real estate prices, collateral adequacy, borrower creditworthiness, inflation, unemployment, general macroeconomic conditions, and other factors. For each instrument, our analysis makes many simplifying assumptions as to the response of these additional factors to shifts in interest rates, including that many if not most such factors are unaffected by such shifts.

The above analysis utilizes assumptions and estimates based on management's judgment and experience, and relies on financial models, which are inherently imperfect; in fact, different models can produce different results for the same instruments. While the table above reflects the estimated impacts of immediate parallel interest rate increases and decreases on specific categories of instruments in our portfolio, we actively trade many of the instruments in our portfolio, and therefore our current or future portfolios may have risks that differ significantly from those of our September 30, 2023 portfolio estimated above. Moreover, the impact of changing interest rates on fair value can change significantly when interest rates change by a greater amount than the hypothetical shifts assumed above.

For all of the foregoing reasons and others, the table above is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual fair value of our portfolio that would differ from those presented above, and such differences might be significant and/or adverse. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Special Note Regarding Forward-Looking Statements."

#### **Liquidity Risk**

To fund our assets we may use a variety of debt alternatives in addition to equity capital that present us with liquidity risks. Certain of our assets are long-term fixed-rate assets, and we believe that liquidity risk arises from these assets with shorter-term variable rate borrowings. We seek to manage these risks, including by maintaining a prudent level of leverage, implementing interest rate hedges, maintaining sources of long-term financing, monitoring our liquidity position on a daily

basis, monitoring the ongoing financial stability and future business plans of our financing counterparties, and maintaining a reasonable cushion of cash and unpledged real estate securities and loans in our portfolio in order to meet future margin calls.

We pledge assets, including mortgage loans or real estate securities, as collateral to secure most of our financing arrangements. However, should the value of our collateral or the value of our derivative instruments suddenly decrease, or margin requirements increase, we may be required to post additional collateral for certain of these arrangements, causing an adverse change in our liquidity position. Furthermore, there is no assurance that we will always be able to renew (or roll) our short-term funding liabilities at their scheduled maturities, which could materially harm our liquidity position and result in substantial losses. In addition, in some cases our counterparties have the option to increase our haircuts (margin requirements) on the assets we pledge against our funding liabilities, thereby reducing the amount that can be borrowed against an asset even if they agree to renew or roll our funding liabilities. Significantly higher haircuts would require us to post additional collateral and could reduce our ability to leverage our portfolio or may even force us to sell assets, especially if correlated with asset price declines or faster prepayment rates on our assets.

Additionally, 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 may require us to utilize debt or equity capital to finance our business and, therefore, 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, preferred stock or other equity instruments. We seek to mitigate these risks by monitoring the equity capital markets to inform our decisions on the amount, timing, and terms of capital we raise.

#### **Item 4. Controls and Procedures**

##### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2023. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2023.

##### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

Neither we, nor our subsidiaries, nor Ellington nor its affiliates (including our Manager) are currently subject to any legal proceedings that we or our Manager consider material to us. Nevertheless, we, our subsidiaries, and Ellington and its affiliates operate in highly regulated markets that currently are under regulatory scrutiny, and over the years, Ellington and its affiliates have received, and we expect in the future that we and they may receive, inquiries and requests for documents and information from various federal, state and foreign regulators.

We and Ellington cannot provide any assurance that, whether the result of regulatory inquiries or otherwise, neither we nor Ellington nor its affiliates will become subject to investigations, enforcement actions, fines, penalties or the assertion of private litigation claims or that, if any such events were to occur, they would not materially adversely affect us. For a discussion of these and other related risks, see "Part I, Item 1A. Risk Factors—We, Ellington, or its affiliates may be subject to regulatory inquiries and proceedings, or other legal proceedings" of our Annual Report on Form 10-K for the year ended December 31, 2022 and "Part II, Item 1A. Risk Factors—An adverse judgment in any litigation challenging either Merger may prevent the applicable Merger from becoming effective or from becoming effective within the expected timeframe" of this Quarterly Report on Form 10-Q.

### Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition, and liquidity, see the risk factors discussed under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 1, 2023 (the "Form 10-K") and the risk factors discussed under "Risk Factors" in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 filed with the SEC on August 9, 2023. See also "Special Note Regarding Forward-Looking Statements," included in Part I, Item 2 of this Quarterly Report on Form 10-Q. Except as set forth below, as of the date of this Quarterly Report on Form 10-Q, there have been no material changes to the risk factors disclosed in the Form 10-K. The risks and uncertainties described below and in the Form 10-K are not the only ones we face. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance.

**Item 6. Exhibits**

Exhibit	Description
10.1**	<a href="#">Termination Agreement, dated as of October 20, 2023, by and between Great Ajax Corp. and Ellington Financial Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on October 20, 2023).</a>
10.2**	<a href="#">Securities Purchase Agreement, dated as of October 20, 2023, by and between Great Ajax Corp. and Ellington Financial Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on October 20, 2023).</a>
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002</a>
32.1*	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002</a>
32.2*	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002</a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Furnished herewith. These certifications are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

\*\* Previously Filed.

**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.

ELLINGTON FINANCIAL INC.

Date: November 9, 2023

By: /s/ LAURENCE PENN  
Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

ELLINGTON FINANCIAL INC.

Date: November 9, 2023

By: /s/ JR HERLIHY  
JR Herlihy  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Laurence Penn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ellington Financial Inc. (the "registrant") for the period ended September 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023

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/s/ Laurence Penn  
Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, JR Herlihy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ellington Financial Inc. (the "registrant") for the period ended September 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023

/s/ JR Herlihy  
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JR Herlihy  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Ellington Financial Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurence Penn, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

/s/ Laurence Penn

Laurence Penn  
Chief Executive Officer  
(Principal Executive Officer)

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

In connection with the Quarterly Report of Ellington Financial Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, JR Herlihy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

/s/ JR Herlihy

JR Herlihy  
Chief Financial Officer  
(Principal Financial and Accounting Officer)