

REFINITIV

DELTA REPORT

10-K

LUMENT FINANCE TRUST, INC
10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	2643
CHANGES	358
DELETIONS	854
ADDITIONS	1431

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2022** **December 31, 2023**

☐ **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: 001-35845



LUMENT FINANCE TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

45-4966519

(I.R.S. Employer Identification No.)

230 Park Avenue, 20th Floor, New York, New York

(Address of principal executive offices)

10169

(Zip code)

Registrant's Telephone Number, including area code (212) 317-5700

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Trading Symbol(s)	Name of Exchange on Which Registered:
Common Stock, par value \$0.01 per share	LFT	New York Stock Exchange
7.875% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share	LFTPRA	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None.

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ or 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 ☒ or 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 ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$65.2 \$52.3 million as of June 30, 2022 June 30, 2023 (the last business day of the registrant's most recently completed second fiscal quarter) based on the closing sale price on the New York Stock Exchange on that date.

As of March 21, 2023 March 13, 2024, there were 52,231,152 52,248,631 outstanding shares of common stock, \$0.01 par value.

TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	1
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	30 29
Item 1C. Cybersecurity	29
Item 2. Properties	30
Item 3. Legal Proceedings	30
Item 4. Mine Safety Disclosures	30
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	31
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 8. Financial Statements and Supplementary Data	46 47
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	46 47
Item 9A. Controls and Procedures	46 47
Item 9B. Other Information	47 48
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	48 49
Item 11. Executive Compensation	48 49
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	48 49
Item 13. Certain Relationships and Related Transactions, and Director Independence	48 49
Item 14. Principal Accounting Fees and Services	48 49
PART IV	
Item 15. Exhibits, Financial Statements and Schedules	49 50
Item 16. Form 10-K Summary	49 50

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements intended to qualify for the safe harbor contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended. Forward-looking statements are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial conditions, liquidity, results of operations, plans and objectives. In addition, our management may from time to time make oral forward-looking statements. You can identify forward-looking statements by use of words such as "believe," "expect," "anticipate," "estimate," "project," "plan," "continue," "intend," "should," "may," "will," "seek," "would," "could" or similar expressions or other comparable terms, or by discussions of strategy, plans or intentions.

These forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operation may vary materially from those expressed in our forward-looking statements. Factors that may cause actual results to vary from our forward-looking statements include, but are not limited to:

- the risks, uncertainties and factors set forth in Part I, Item 1A. "Risk Factors" in this Annual Report on Form 10-K;
- the general political, economic and competitive conditions in the markets in which we invest;
- the level and volatility of prevailing interest rates and credit spreads;
- adverse changes in the real estate and real estate capital markets;
- difficulty in obtaining financing or raising capital;
- reductions in the yield on our investments and an increase in the cost of our financing;
- defaults by borrowers in paying debt service on outstanding indebtedness;
- adverse legislative or regulatory developments;
- changes in our business, investment strategies or target assets;
- increased competition from entities engaged in mortgage lending or investing in our target assets;
- acts of God such as hurricanes, earthquakes, pandemics such as COVID-19 and other natural disasters, acts of war and/or terrorism and other events that may cause unanticipated and uninsured performance declines and/or losses to us or to the owners and operators of the real estate securing our investments;
- deterioration in the performance of the property securing our investments that may cause deterioration in the performance of our investments and, potentially, principal losses to us;
- difficulty in redeploying the proceeds from repayment of our existing investments; loans and investments may cause financial performance and returns to investors to suffer;
- difficulty in successfully managing our growth, including integrating new assets into our existing systems;
- authoritative generally accepted accounting principles, or GAAP, or policy changes from such standard-setting bodies as the Financial Accounting Board, or FASB, the Securities Exchange Commission, or SEC, the Internal Revenue Service, or IRS, the New York Stock Exchange, or NYSE, or other authorities that we are subject to;
- the potential unavailability of the London Interbank Offered Rate ("LIBOR") after December 31, 2022; and
- our qualification as a real estate investment trust ("REIT") for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended ("the Code"), and our exclusion from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act").

These and other risks, uncertainties and factors, including the risk factors described in Part 1, Item 1A - "Risk Factors" and Part 2, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All subsequent written and oral forward-looking statements that we make, or that are attributable to us, are expressly qualified in their entirety by this cautionary notice. Any forward-looking statement speaks only as of the date on which it is made. 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.

ii

PART I

ITEM 1. BUSINESS

References herein to "Lument Finance Trust," "Company," "LFT," "we," "us," or "our" refer to Lument Finance Trust, Inc., a Maryland corporation, and its subsidiaries unless the context specifically requires otherwise.

Our Company

We are a real estate investment trust ("REIT") focused on investing in, originating, financing and managing a portfolio of commercial real estate ("CRE") debt investments. We primarily invest or originate in transitional floating rate CRE mortgage loans with an emphasis on middle-market multifamily assets. We may also invest in other CRE-related investments including mezzanine loans, preferred equity, commercial mortgage-backed securities, fixed rate loans, construction loans and other CRE debt instruments.

We are externally managed by our manager, Lument Investment Management, LLC (the "Manager" or "Lument IM") pursuant to the terms of our management agreement. Our Manager is a subsidiary of Lument Real Estate Capital Holdings, LLC ("Lument"). Lument is a subsidiary of ORIX Corporation USA ("ORIX USA"), a diversified financial company and a subsidiary of ORIX Corporation ("ORIX"). ORIX is a publicly traded, Tokyo-based international financial services company with assets in excess of \$102 billion \$111 billion as of September 2022 December 2023 and was ranked number 345 371 on Forbes 2021 2023 Global 2000: World's Biggest Public Companies.

We are a Maryland corporation that was formed in March 2012 and commenced operations in May 2012. We have elected to be taxed as a REIT for U.S. federal income tax purposes. Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "LFT" and our 7.875% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") is traded on the NYSE under the symbol "LFTPrA."

Our Manager and Lument

We are externally managed and advised by our Manager, a subsidiary of Lument. At December 31, 2022 As of December 31, 2023, Lument had approximately 600 employees located in over 30 offices throughout the United States. We have access to an extensive loan origination platform through our affiliation with Lument, which is a premier national mortgage originator and asset manager. Lument's origination teams employ a relationship-

focused approach to lending opportunities and focus on speed and certainty of execution for its borrower clients, thereby strengthening Lument's reputation as a reliable counterparty and encouraging repeat business.

Our Manager implements our business strategy, performs investment advisory services with respect to our assets, and is responsible for performing all of our day-to-day operations. Our Manager is an investment adviser registered with the U.S. Securities and Exchange Commission ("SEC") and is subject to the supervision and oversight of our board of directors and has only such functions and authority as our board of directors delegates to it. Pursuant to a management agreement between our Manager and us, our Manager is entitled to receive a base management fee, an incentive fee, and certain expense reimbursements.

Our Investment Strategy

We invest primarily in transitional floating rate CRE mortgage loans with an emphasis on middle-market multifamily assets. We may also invest in other CRE-related investments including mezzanine loans, preferred equity, commercial mortgage-backed securities, fixed rate loans, construction loans and other CRE debt instruments. We finance our current investments in transitional multifamily and other CRE loans primarily through ~~match~~ ~~matched~~ term non-recourse ~~secured borrowings, including~~ CRE collateralized loan obligations ("CLO"), ~~which are not subject to margin calls or additional collateralization requirements~~. We may utilize warehouse repurchase agreements or other forms of financing in the future. Our primary sources of income are net interest from our investment portfolio and non-interest income from our mortgage loan-related activities. Net interest income represents the interest we earn on investments less the expense of funding these investments.

Our investments typically have the following characteristics:

- Sponsors with experience in particular real estate sectors and geographic markets;
- Located in U.S. markets with multiple demand drivers, such as growth in employment and household formation;
- Fully funded principal balance greater than \$5 million and generally less than \$75 million;
- Loan to Value ratio up to 85% of as-is value and up to 75% of as-stabilized value;
- Floating rate loans ~~historically tied to one-month term Secured Overnight Financing Rate ("SOFR")~~, previously to one-month U.S. denominated LIBOR, ~~more recently to one-month term SOFR~~, and/or ~~any applicable replacement index in the future, potentially other index replacement~~, future; and
- Three-year term with two one-year extension options.

We believe that our current investment strategy provides significant opportunities to achieve attractive risk-adjusted returns for our stockholders over time. However, to capitalize on the investment opportunities at different points in the economic and real estate investment cycle, we may modify or expand our investment strategy. We believe that the flexibility of our strategy, which is supported by the significant CRE experience of Lument's investment team, and the extensive resources of ORIX USA, will allow us to take advantage of changing market conditions to maximize risk-adjusted returns to our stockholders.

Our Target Assets

Commercial Mortgage Loans. We intend to continue to focus on selectively acquiring first mortgage loans sourced by our Manager and its affiliates and through directly originating first mortgage loans on our balance sheet. These loans are secured by a first mortgage lien on a commercial property, may vary in duration, predominantly bear interest at a floating rate, may provide for regularly scheduled principal amortization and typically require a balloon payment of principal at maturity. These investments may encompass a whole commercial mortgage loan or may include a participation in a portion of a commercial mortgage loan.

Other Commercial Real-Estate-Related Debt Instruments. We also expect to opportunistically originate and selectively acquire other CRE-related debt instruments, subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exclusion or exemption from regulation under the Investment Company Act, as amended (the "Investment Company Act"), including, but not limited to, the following:

- **Mezzanine Loans.** These are loans made to the owner of a mortgage borrower and secured by a pledge of the equity interests in the mortgage borrower. These loans are subordinate to a first mortgage loan but senior to the borrower's equity. These loans may be tranching into senior and junior mezzanine loans, with the junior mezzanine lenders secured by a pledge of the equity in the senior mezzanine borrower. Following a default on a mezzanine loan, and subject to the negotiated terms with the mortgage lender or other senior lenders, the mezzanine lender generally has the right to foreclose on its equity interest in the mortgage borrower and become the owner of the property, directly or indirectly, subject to the lien of the first mortgage loan and any debt senior to it, including any outstanding senior mezzanine debt. In addition, the mezzanine lender typically has additional rights relative to the more senior lenders, including the right to cure defaults under the mortgage loan and any senior mezzanine loan and purchase the mortgage loan and any senior mezzanine loan, in each case under certain circumstances following a default on the mortgage loan. Unlike a B Note holder, the mezzanine lender typically has the authority to administer its own loan, independent from the administration of the mortgage loan.
- **Preferred Equity.** These are investments subordinate to any mezzanine loan, but senior to the owners' common equity. Preferred equity investments typically pay a dividend, rather than interest payments, and often provide for the accrual of such dividends if cash flow is insufficient to pay such amounts on a current basis. Preferred equity interests are not secured by the underlying real estate, but upon the occurrence of an issuer's failure to make payments required by the terms of the preferred equity instrument or certain other specified events of default, the preferred equity holder typically has the right to effectuate a change of control with respect to the ownership of the property, which would include the ability of the preferred equity holder to sell the property to realize its investment. Preferred equity is generally subject to mandatory redemption by the issuer at the end of a specified term.
- **Secured Real Estate Securities.** These are securities, which may take the form of CMBS or CLOs that are collateralized by pools of CRE debt instruments, often first mortgage loans. The underlying loans are aggregated into a pool and sold as securities to investors. Under the pooling and servicing agreements that govern these pools, the loans are administered by a trustee and servicers, which act on behalf of all investors and distribute the underlying cash flows from the pools of debt instruments to the different classes of securities in accordance with their seniority and ratings.
- **Miscellaneous Debt Instruments.** This would encompass any other CRE-related debt instruments, if necessary, to maintain our qualification as a REIT for U.S. federal income tax purposes or our exclusion or exemption from regulation under the Investment Company Act.

The allocation of our capital among our target assets will depend on prevailing market conditions at the time we invest and may change over time in response to different prevailing market conditions. In the future, we may invest in assets other than our target assets or change our target assets, in each case subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exclusion or exemption from regulation under the Investment Company Act.

Our Portfolio

Transitional Multifamily and Commercial Real Estate Loans

As of ~~December 31, 2022~~ ~~December 31, 2023~~, our mortgage loan investment portfolio consisted of ~~71~~ ~~88~~ senior secured floating rate loans with an aggregate unpaid principal balance of ~~\$1.1 billion~~ ~~\$1.4 billion~~, collectively having a weighted average coupon of ~~7.6%~~ ~~8.9%~~ and a weighted average term to maturity of ~~3.5~~ ~~2.9~~ years. As of ~~December 31, 2022~~ ~~December 31, 2023~~, ~~89.5%~~ ~~94.0%~~ of the portfolio was supported by multifamily assets.

During ~~2022~~ ~~2023~~, the Company originated or acquired ~~\$345.9 million~~ ~~\$594.2 million~~ in loans and realized ~~\$270.9 million~~ ~~\$277.5 million~~ of loan repayments. This activity resulted in net investments of ~~\$75.0 million~~ ~~\$316.7 million~~. The following table details the overall statistics of our loan portfolio as of ~~December 31, 2022~~ ~~December 31, 2023~~:

(1) Carrying Value includes \$7,000,863 in unaccrued purchase discounts as of December 31, 2023, there were no unaccrued purchase discounts as of December 31, 2022.

(2) Weighted average coupon assumes applicable one-month LIBOR of 4.18% as of December 31, 2022, and 30-day Term SOFR Secured Overnight Financing Rate ("SOFR") of 5.33% and 4.19% as of December 31, 2023 and December 31, 2022 and, respectively, inclusive of weighted average interest rate floors of 0.38% and 0.27%, respectively. As of December 31, 2023, 100.0% of the investments by total exposure earned a floating rate indexed to 30-day Term SOFR. As of December 31, 2022, 77.4% of the investments by total investment exposure earned a floating rate indexed to one-month LIBOR and 22.6% of the investments by total investment exposure earned a floating rate indexed to 30-day Term SOFR.

(3) Weighted average remaining term assumes all extension options are exercised by the borrower; provided, however, that our loans may be repaid prior to such date.

(3) LTV as of December 31, 2023, \$1,375,277,312 of the date outstanding senior secured loans were held in VIEs and \$8,603,886 of the loan was originated and is calculated after giving effect to capex and earnout reserves, if applicable. LTV has not been updated for any subsequent draws or loan modifications and is not reflective of outstanding senior secured loans were held outside of any changes in value which may have occurred subsequent to origination date.

(4) VIEs. As of December 31, 2022, \$996,511,403 of the outstanding senior secured loans were held in variable interest entities ("VIEs") VIEs and \$75,378,115 of the outstanding senior secured loans were held outside of VIEs.

 Geographic.jpg Collateral.jpg

As of **December 31, 2022** **December 31, 2023**, the Company retained the servicing rights associated with residential mortgage loans having an aggregate unpaid principal balance of approximately **\$74.8 million** **\$67.3 million** that we had previously transferred to three residential mortgage loan securitization trusts. The carrying value of these MSRs at **December 31, 2022** **December 31, 2023** was approximately **\$0.8 million** **\$0.7 million**. The Company ceased the aggregation of residential mortgage loans in 2016 and other than servicing our existing portfolio, we do not anticipate any residential loan activity going forward.

We seek to use leverage to increase potential returns to our stockholders. We may use **non-recourse non-recourse** CRE CLOs, secured revolving repurchase agreements, term loan facilities, warehouse facilities, asset-specific financing structures and other forms of leverage. As of **December 31, 2022** **December 31, 2023**, our assets were financed with **a** match term, non-recourse CRE CLO **and secured financings** and one senior corporate credit facility.

The goal of our leverage strategy is to ensure that, at all times, our leverage ratio is appropriate for the level of risk inherent in the investment portfolio and that each asset class has individual leverage targets that we believe are appropriate. We generally seek, to the extent possible, to match-fund and match-index our investments by minimizing the differences between the duration and indices of our investments and those of our liabilities. We also seek to minimize our exposure to mark-to-market risk.

While our organizational documents and our investment guidelines do not place any limits on the maximum amount of leverage that we may use, our financing facilities require us to maintain particular debt-to-equity leverage ratios. We may change our financing strategy and leverage without the consent of our stockholders.

Investment Guidelines

Under the management agreement with our Manager, our Manager will be required to manage our business in accordance with certain investment guidelines and policies that have been approved by our board of directors, including each of our independent directors. Under these investment guidelines and policies:

- We will not make an investment that would cause us to fail to qualify as a REIT for U.S. federal income tax purposes.
- We will not make an investment that would cause us to be regulated as an "investment company" under the Investment Company Act.
- We are permitted to invest in residential mortgage-backed securities, multi-family mortgage-backed securities, commercial mortgage-backed securities, residential mortgage loans, multi-family mortgage loans, CRE mortgage loans, mortgage servicing rights and other mortgage or real estate-related investments.
- Our Manager may invest the net proceeds of any offerings of our securities in interest-bearing, short-term investments, including money market accounts or funds, that are consistent with our intention to qualify as a REIT for U.S. federal income tax purposes and maintain an exemption from registration under the Investment Company Act.

These investment guidelines may be amended, restated, modified, supplemented or waived by our board of directors (which must include a majority of the independent directors of our board of directors) without the approval of our stockholders.

Competition

We are engaged in a competitive business. In our investing activities, we compete for opportunities with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds, commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs and other investment vehicles have raised significant amounts of capital and may have investment objectives that overlap with ours, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and broader access to funding sources, such as the U.S. Government, that are not available to us. Many of our competitors are not subject to the operating constraints associated with REIT compliance or maintenance of an exclusion from regulation under the Investment Company Act. We could face increased competition from banks due to future legislative developments, such as amendments to key provisions of the Dodd-Frank Act including, provisions setting forth capital and risk retention requirements. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of loans and investments and offer more attractive pricing or other terms than we would. Furthermore, competition for investments we target may lead to decreasing yields, which may further limit our ability to generate targeted returns.

We believe access to our Manager's professionals and their industry expertise and relationships provide us with competitive advantages in assessing risks and determining appropriate pricing for potential investments. We believe these relationships will enable us to compete effectively for attractive investment opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face.

Investment Guidelines

Under the management agreement with our Manager, our Manager will be required to manage our business in accordance with certain investment guidelines and policies that have been approved by our board of directors, including each of our independent directors. Under these investment guidelines and policies:

- We will not make an investment that would cause us to fail to qualify as a REIT for U.S. federal income tax purposes.
- We will not make an investment that would cause us to be regulated as an "investment company" under the Investment Company Act.
- We are permitted to invest in residential mortgage-backed securities, multi-family mortgage-backed securities, commercial mortgage-backed securities, residential mortgage loans, multi-family mortgage loans, CRE mortgage loans, mortgage servicing rights and other mortgage or real estate-related investments.
- Our Manager may invest the net proceeds of any offerings of our securities in interest-bearing, short-term investments, including money market accounts or funds, that are consistent with our intention to qualify as a REIT for U.S. federal income tax purposes and maintain an exemption from registration under the Investment Company Act.

These investment guidelines may be amended, restated, modified, supplemented or waived by our board of directors (which must include a majority of the independent directors of our board of directors) without the approval of our stockholders.

Environmental, Social and Governance ("ESG")

We are committed to responsibly managing risk and preserving value for our shareholders. We make capital allocation decisions with environmental, social and governance ("ESG") ESG factors of our potential collateral and borrowers in mind, and incorporate diligence practices as part of our investment process to identify material ESG matters related to a given asset.

Our day-to-day operations are externally managed by our Manager, a subsidiary of ORIX USA. As such, much of the ESG initiatives undertaken by ORIX USA impact or apply to us. Key ESG initiatives we share with ORIX USA include considerations of ESG in the investment process, dedicated resources to ESG governance and oversight, industry engagement on ESG matters, corporate sustainability and environmental performance improvements at our office locations, and certain employee and community engagement and diversity, equity and inclusion ("DEI") programs.

Corporate Offices and Personnel

We were formed as a Maryland corporation in 2012. Our corporate headquarters are located at 230 Park Avenue, 20th Floor, New York, NY 10169 and our telephone number is (212) 317-5700. We are externally managed by our Manager pursuant to the management agreement between us and our Manager. We have no employees. Our executive officers, all of whom were provided by our Manager, are employees of Lument.

Government Regulation

Our operations are subject, in certain instances, to supervision and regulation by U.S. and other governmental authorities, and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which among other things: (i) regulate credit-granting activities; (ii) establish maximum interest rates, finance charges and other charges; (iii) require disclosures to customers; (iv) govern secured transactions; and (v) set collections, foreclosure, repossession and claims-handling procedures and other trade practices. We are also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans. We intend to conduct our business so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act.

In our judgment, existing statutes and regulations have not had a material adverse effect on our business. In recent years, legislators in the United States and in other countries have said that greater regulation of financial services firms is needed, particularly in areas such as risk management, leverage and disclosure. While we expect that additional new regulations in these areas may be adopted and existing ones may change in the future, it is not possible at this time to forecast the exact nature of any future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon our future business, financial condition, or results of operations or prospects.

Taxation of the Company

We elected to be taxed as a REIT commencing with our short taxable year ended December 31, 2012, and comply with the provisions of the Code with respect thereto. Accordingly, we are generally not subject to U.S. federal income tax on the REIT taxable income that we currently distribute to our stockholders so long as we maintain our qualification as a REIT. Our continued qualification as a REIT depends on our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the source of our gross income, the composition and values of our assets, our distribution levels and the concentration of ownership of our capital stock. Even if we maintain our qualification as a REIT, we may be subject to some U.S. federal, state and local taxes on our income.

Taxable income generated by our taxable REIT subsidiary ("TRS"), is subject to regular corporate income tax. For the fiscal year 2022, 2023, our TRS did not generate taxable income.

Qualification as a REIT

Continued qualification as a REIT requires that we satisfy a variety of tests relating to our income, assets, distributions and ownership. The significant tests are summarized below.

Income Tests. In order to maintain our REIT qualification, we must satisfy two gross income requirements on an annual basis. First, at least 75% of our gross income for each taxable year, excluding gross income from sales of inventory or dealer property in "prohibited transactions" (as defined herein), discharge of indebtedness and certain hedging transactions, generally must be derived from investments relating to real property or mortgages on real property, including interest income derived from mortgage loans secured by real property (including certain types of mortgage-backed securities), rents from real property, dividends received from other REITs, and gains from the sale of designated real estate assets, as well as, specified income from temporary investments. Second, at least 95% of our gross income in each taxable year, excluding gross income from "prohibited transactions", discharge of indebtedness and certain hedging transactions, must be derived from some combination of income that qualifies under the 75% gross income test described above, as well as, other dividends, interest, and gain from the sale or disposition of stock or securities, which need not have any relation to real property. Income and gain from certain hedging transactions will be excluded from both the numerator and the denominator for purposes of both the 75% and 95% gross income tests.

Asset Tests. At the close of each calendar quarter, we must also satisfy five tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by some combination of designated real estate assets, cash, cash items, U.S. Government securities and, under some circumstances, stock or debt instruments purchased with new capital. Second, the value of any one issuer's securities that we own may not exceed 5% of the value of our total assets. Third, we may not own more than 10% of any one issuer's outstanding securities, as measured by either value (the "10% of value asset test") or voting power. The 5% and 10% asset tests do not apply to securities that qualify under the 75% asset test or to securities of a TRS and qualified REIT subsidiaries, and the 10% of value asset test does not apply to "straight debt" having specified characteristics and to certain other securities. Fourth, the aggregate value of all securities of TRSs that we hold may not exceed 20% of the value of our total assets. Fifth, not more than 25% of the value of our total assets may be represented by debt instruments of publicly offered REITs to the extent those debt instruments would not be real estate assets but for the inclusion of debt instruments of publicly offered REITs in the meaning of real estate assets.

Distribution Requirements. In order to maintain our REIT qualification, we are required to distribute dividends, other than capital gain dividends, to our stockholders in an amount at least equal to: (1) the sum of (a) 90% of our REIT taxable income computed without regard to our net capital gains and the deduction for dividends paid, and (b) 90% of our net income, if any, (after tax) from foreclosure property; minus (2) the sum of specified items of non-cash income that exceeds a certain percentage of our income.

Ownership. In order to maintain our REIT status, we must not be deemed to be closely held and must have more than 100 stockholders. The closely held prohibition requires that not more than 50% of the value of our outstanding shares be owned by five or fewer "individuals" (as defined for this purpose to

include certain trusts and foundations) during the last half of our taxable year. The "more than 100 stockholders" rule requires that we have at least 100 stockholders for at least 335 days of a taxable year. Failure to satisfy either of these rules would cause us to fail to maintain our qualification for taxation as a REIT unless certain relief provisions are available.

Taxation of REIT Dividends

REIT dividends (other than capital gain dividends) received by non-corporate taxpayers may be eligible for a 20% deduction. This deduction is only applicable to investors of LFT that receive dividends and does not have any impact on us. Without further legislation, the deduction would sunset after 2025. Investors should consult their own tax advisors regarding the effect of this change on their effective tax rate with respect to REIT dividends.

Corporate Offices and Personnel

We were formed as a Maryland corporation in 2012. Our corporate headquarters are located at 230 Park Avenue, 20th Floor, New York, NY 10169 and our telephone number is (212) 317-5700. We are externally managed by our Manager pursuant to the management agreement between us and our Manager. We have no employees. Our executive officers, all of whom were provided by our Manager, are employees of Lument.

Access to our Periodic SEC Reports and Other Corporate Information

Our internet website address is www.lumentfinancetrust.com. We make available free of charge, through our website, our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments thereto that we file pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Our Code of Business Conduct and Ethics and Policy Against Insider Trading and our Corporate Governance Guidelines along with the charters of our Audit, Compensation and Nominating and Corporate Governance Committees are also available on our website. Information on our website is neither part of nor incorporated into this Annual Report on Form 10-K. For further information on our Manager, please see the Manager's Form ADV filed with the SEC which can be found at <https://adviserinfo.sec.gov/firm/summary/306487>.

Website Disclosure

We use our website (www.lumentfinancetrust.com) as a channel of distribution of company information. The information we post through this channel may be deemed material. Accordingly, investors should monitor this channel, in addition to following our press releases, SEC filings, public conference calls, and webcasts. In addition you may automatically receive email alerts and other information about Lument Finance Trust, Inc. when you enroll your email address by visiting "Investor Relations & Email Alerts" section of our website at <https://www.lumentfinancetrust.com/investor-relations/email-alerts/>. The contents of our website and any alerts are not, however, a part of this report.

ITEM 1A. RISK FACTORS

Set forth below are the risks that we believe are material to stockholders. You should carefully consider the following risk factors identified in or incorporated by reference into any other documents filed by us with the SEC in evaluating our company and our business. If any of the following risks occur, our business, financial condition, results of operations and our ability to make distributions to our stockholders could be adversely affected. In that

case, the trading price of our stock could decline. The risk factors described below are not the only risks that may affect us. Additional risks and uncertainties not presently known to us also may adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Summary Risk Factors

Our business is subject to a number of risks, including risks that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, results of operations, cash flows, and prospects. These risks are discussed more fully below and include, but are not limited to, risks related to:

Risks Related to Our Investment Strategy and Our Businesses

- We may be unable to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders.
- If we fail to develop, enhance and implement strategies to adapt to changing conditions in the mortgage industry and capital markets, our business, financial condition, results of operations and our ability to make distributions to our stockholder may be adversely affected.
- We may change our target assets, investment or financing strategies and other operational policies without stockholder consent, which may adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders.
- **The ongoing outbreak of COVID-19 could have an adverse impact on our financial performance and results of operations.**
- Our floating-rate commercial mortgage loans are subject to various risks, such as interest rate risk, prepayment risk, real estate risk and credit risk.
- **Difficulty in redeploying the proceeds from repayments of our existing loans and investments may cause our financial performance and returns to investors to suffer.**
- Transitional mortgage loans involve greater risk than conventional mortgage loans.
- An increase in interest rates may cause a decrease in the volume of certain of our target assets, which could adversely affect our ability to acquire assets that satisfy our investment objectives and to generate income and make distributions to our stockholders.
- Increases in interest rates typically adversely affect the value of certain of our investments and cause our interest expense to increase, which could result in reduced earnings or losses and negatively affect our profitability as well as the cash available for distribution to our stockholders.
- **The planned discontinuation of LIBOR may affect the value of the financial obligations to be held or issued by us that are linked to LIBOR and could affect our results of operations and financial results.**
- Our real estate investments are subject to risks particular to real property. These risks may result in a reduction or elimination of, or return from, a loan secured by a particular property.
- **We may invest or spend the net proceeds for our equity or debt offerings in ways with which our investors may not agree and in ways that may not earn a profit.**
- Changes in laws and regulations governing our operations, changes in the interpretation thereof or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes in certain of business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us, subject us to increased competition or otherwise adversely affect our business.

Risks Related to Financing and Hedging

- Our strategy involves leverage, which may amplify losses and there is no specific limit on the amount of leverage we may use.
- We may incur significant additional debt in the future, which will subject us to increased risk of loss and may reduce cash available for distributions to our stockholders.
- There can be no assurance that our Manager will be able to prevent mismatches in the maturities of our assets and liabilities.
- Lenders generally require us to enter into restrictive covenants relating to our operations.
- An increase in our borrowing costs relative to the interest that we receive on investments in our mortgage related investments may adversely affect our profitability and cash available for distributions to our stockholders.
- We have utilized and may utilize in the future non-recourse securitizations to finance our loans and investments, which may expose us to risks that could result in losses.
- Our loans and investments may be subject to fluctuations in interest rates that may not be adequately protected, or protected at all, by our hedging strategies.

Risks Associated with Our Relationship with Our Manager

- Our board of directors has approved very broad investment guidelines for our Manager and will not approve each investment and financing decision made by our Manager.
- We are dependent on our Manager and its key personnel for our success.
- There are conflicts of interest in our relationship with ORIX, including with our Manager and in the allocation of investment opportunities **to between** ORIX affiliates and us, which could result in decisions that are not in the best interests of our stockholders.

Risks Related to Our Securities

- An increase in interest rates may have an adverse effect on the market price of our stock and our abilities to make distributions to stockholders.
- We have not established a minimum distribution payment level on our common stock and we cannot assure you of our ability to make distributions in the future, or that our board of directors will not reduce distributions in the future regardless of such ability.
- Future offerings of debt or equity securities that rank senior to our common stock may adversely the market price of our common stock.

Risks Related to Our Organization and Structure

- Because of their significant ownership of our common stock, Lument Investment Holdings, LLC, an affiliate of our Manager, and Hunt Investors (as described herein) have the ability to influence the outcome of matters that require a vote of stockholders, including change of control.
- Stockholders have limited control over changes in our policies and procedures.
- Maintenance of our exclusion from the Investment Company Act will impose limits on our business.
- Ownership limitations may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares.

Tax Risks

- If we failed to qualify as a REIT, we would be taxed at corporate rates and would not be able to take certain deductions when computing our taxable income.
- If we failed to qualify as a REIT, we may default on our current financing facilities and be required to liquidate our assets, and we may face delays or inability to procure future financing.
- Complying with REIT requirements may cause us to forgo otherwise attractive opportunities and may require us to dispose of our target assets sooner than originally anticipated.
- Qualifying as a REIT involves highly technical and complex provisions of the Code.

Risks Related to Our Investment Strategies and Our Businesses

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

We cannot assure you that we will be able to operate our businesses successfully or implement our operating policies and strategies. Our Manager may not be able to successfully execute our investment and financing strategies as described in this Annual Report on Form 10-K, which could result in a loss of some or all of your investment. Our results of operations depend on several factors, including our Manager's ability to execute on our investment and financing strategies, the availability of opportunities for the acquisition of target assets, the level and volatility of interest rates, the availability of adequate short and long-term financing, conditions in the financial markets and economic conditions. Our revenues will depend, in large part, on our Manager's ability to execute on our investment and financing strategies, and our ability to acquire assets at favorable spreads over our borrowing costs. If our Manager is unable to execute on our investment and financing strategies, or we are unable to acquire assets that generate favorable spreads, our results of operations may be adversely affected, which could adversely affect our ability to make or sustain distributions to our stockholders.

We seek to generate current income and attractive risk-adjusted returns for our **stockholder, stockholders**. However, the assets that we acquire may not appreciate in value and, in fact, may decline in value, and the assets that we acquire may experience defaults of interest and/or principal payments. Accordingly, we may not be able to realize gains or income from our assets. Any income that we do realize may not be sufficient to offset other losses that we experience.

If we fail to develop, enhance and implement strategies to adapt to changing conditions in the mortgage industry and capital markets, our business, financial condition, results of operations and our ability to make distributions to our stockholders may be adversely affected.

The manner in which we compete and the products for which we compete are affected by changing conditions, which can take the form of trends or sudden changes in our industry, regulatory environment, changes in the role of GSEs, changes in the role of credit rating agencies or their rating criteria or process, or the U.S. economy more generally. If we do not effectively respond to these changes, or if our strategies to respond to these changes are not successful, our business, financial condition, results of operations and our ability to make distributions to our stockholders may be adversely affected.

We may change our target assets, investment or financing strategies and other operational policies without stockholder consent, which may adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders.

We may change any of our strategies, policies or procedures with respect to investments, acquisitions, growth, operations, indebtedness, capitalization, distributions, financing strategy and leverage at any time without the consent of our stockholders, which could result in an investment portfolio with a different, and possibly greater, risk profile. A change in our target assets, investment strategy or guidelines, financing strategy or other operational policies may increase our exposure to interest rate risk, default risk and real estate market fluctuations. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this Annual Report on Form 10-K. In addition, our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without approval of our stockholders, if it determines that it is no longer in our best interests to maintain our REIT qualification. These changes could adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Our portfolio of assets may be concentrated in terms of credit risk.

Although as a general policy we seek to acquire and hold a diverse portfolio of assets, we are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors. Therefore, our asset portfolio may at times be concentrated in certain property types that are subject to higher risk of foreclosure or secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of security, downturns relating generally to such region or type of security may result in defaults on a number of our assets within a short time period, which could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders. Our portfolio may contain other concentrations of risk, and we may fail to identify, detect or hedge against those risks, resulting in large or unexpected losses. Lack of diversification can increase the correlation of non-performance and foreclosure risks among our investments.

The ongoing outbreak of COVID-19 could have an adverse impact on our financial performance and results of operations.

The impact of the COVID-19 pandemic has rapidly evolved around the globe, with countries, at various times, taking meaningful measures to limit the spread of the virus by instituting quarantines or lockdowns, imposing travel restrictions and vaccination mandates for certain workers or activities and limiting operations of certain non-essential businesses. While restrictions have eased and the global economy has largely re-opened, many medical and public health experts believe that COVID-19 could perpetually reoccur for years, such as seasonally in winter, and even if generally ceasing to be fatal for most people, such reoccurrence could increase the possibility of periods of increased restrictions on business operations. The COVID-19 pandemic has disrupted global supply chains, contributed to increased inflation, increased rates of unemployment and adversely impacted many industries, including industries related to the collateral underlying certain of our loans.

In 2021 and 2022, the global economy has, with certain setbacks, begun reopening, and wider distribution of vaccines will likely encourage greater economic activity. While vaccine availability, and uptake has increased, the longer term macro-economic effects of the pandemic continue to impact many industries, including those of certain of LET's borrowers, and the market turmoil and other changes associated with the pandemic may have lasting effects on our business and operations. In particular, the increase in remote working arrangements in response to the pandemic has contributed, and may further contribute, to a decline in commercial real estate values and reduced demand for commercial real estate compared to pre-pandemic levels, which may adversely impact certain of LET's borrowers and may persist even as the pandemic continues to subside.

Although it is impossible to predict with certainty the potential full magnitude of the business and economic ramification of the pandemic, COVID-19 has impacted, and may further impact our business in various ways, including but not limited to:

- the inability of our borrowers' tenants to pay rent on their leases, which inability, if extreme, could cause our borrowers to default on their loans and could cause us to: (i) no longer be able to pay dividends at our current rates or at all in order to preserve liquidity and (ii) be unable to meet our debt obligations to lenders to satisfy our debt covenants, which could cause us to have to sell our investments or refinance our debt on unattractive terms;
- a severe disruption and instability in the global financial markets or deterioration in credit and financing conditions may affect our ability to access capital necessary to fund our investments at attractive interest rates, or at all, and may adversely affect the valuation of financial assets and liabilities, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows;
- uncertainties created by the COVID-19 pandemic may make it difficult to estimate provisions for loan losses;
- deterioration in the performance of the properties securing our investments that may, cause deterioration in the performance of our investments and, potentially, principal losses to us;
- difficulty or delays in redeploying the proceeds from repayments of our existing investments;
- provisions in our current and future financing agreements may require us to provide additional collateral or pay down debt;
- economic and market conditions affecting the value of our financial instruments and the value of particular assets and liabilities; and
- fluctuations in equity, market prices, interest rates and credit spreads limiting our ability to raise or deploy capital on a timely basis and affecting our overall liquidity.

We maintain a robust asset management relationship with our borrowers and have utilized these relationships to proactively address the impacts of the COVID-19 pandemic on our loans secured by properties experiencing cash flow or other negative business pressures. The pandemic may result in more frequent modifications of our loans in the future and instances of default or foreclosure on assets underlying our loans.

Given the ongoing nature of the COVID-19 pandemic, at the time we cannot reasonably estimate the magnitude of the ultimate impact that COVID-19 will have on our business, financial performance and operating results. We believe any future impact of COVID-19 on our business, financial performance and operating results will in part be significantly driven by a number of factors that we are unable to predict or control, including, for example: the severity and duration of the pandemic; the distribution and acceptance of vaccines and their impact on the timing and speed of economic recovery; the spread of new variants of the virus; the pandemic's impact on the U.S. and global economies, including concerns regarding additional surges of the pandemic or the expansion of the economic impact thereof as a result of certain jurisdictions "re-opening" or otherwise lifting certain restrictions prematurely; the availability of U.S. federal, state, local or non-U.S. funding programs aimed at supporting the economy during the COVID-19 pandemic, including uncertainties regarding the potential implementation of new or extended programs; the timing, scope and effectiveness of additional governmental responses to the pandemic, including the potential re-imposition of quarantines, states of emergencies, restrictions on travel, stay at-home orders, and other measures taken to curb the spread of COVID-19, and the negative impact on our financing sources, vendors and other business partners that may indirectly adversely affect us. The prolonged durations and impact of the COVID-19 pandemic could materially disrupt our business operations and negatively impact our business, financial performance and operating results.

Our floating-rate commercial mortgage loans are subject to various risks, such as interest rate risk, prepayment risk, real estate risk and credit risk.

Generally, our business model is such that rising interest rates will generally increase our net interest income, while declining rates will generally decrease our net interest income. As of December 31, 2022, 77.4% 100.0% of our loans by principal balance earned a floating rate of interest indexed to one-month USD LIBOR and 22.6% of our loan by principal balance earned a floating rate of interest indexed to 30-day term SOFR, and all of our collateralized loan obligations were indexed to one-month USD LIBOR, 30-day term SOFR. Accordingly, our interest expense will generally increase as interest rates increase and decrease as interest rates decline.

In recent years, interest rates had remained at relatively low levels on a historical basis. However, in 2022 and 2023, in light of increasing inflation, the U.S. Federal Reserve increased benchmark interest rates seven times. The U.S. Federal Reserve eleven times and may further increase rates in 2024, which has also indicated that it expects continued increases in 2023 increased, and 2024. Any such increases would could continue to increase, our borrowers' interest payments and could result in higher borrower default rates. Such payments. Interest rate increases could also adversely affect commercial real estate property values.

As discussed below under "The planned discontinuation values, and, for certain of LIBOR our borrowers have contributed, and may continue to contribute, to loan non-performance, modification, defaults, foreclosures, and/or the selection of a replacement for LIBOR may affect the value of the financial obligations to be held or issued by property sales, which could result in us that are linked to LIBOR and could affect realizing losses on our results operations and financial results," one-month USD LIBOR will cease to be published after June 30, 2023. Loans originated by the Manager or its affiliates as of January 1, 2022 or that have been acquired or may be acquired by us have been indexed to the 30-day tenor CME Term SOFR. With respect to loans originated prior to such date, all loans have index fallback language that, when USD LIBOR ceases to be published (a) follows the Alternative Reference Rate Committee ("ARRC") recommendation for replacement floating rate index (noting the ARRC already identifies SOFR as the recommended replacement index), or (b) allows Lender discretion to identify the appropriate replacement index, to the extent reasonably possible, calculated in substantially the same manner and upon the same economic basis as one-month USD LIBOR. We expect to complete the process of converting our LIBOR-based loans and CLO liabilities to term SOFR during the second quarter of 2023 in advance of the June 30, 2023 phase-out date for LIBOR investments.

We are subject to prepayment risk associated with the terms of our CLOs. Due to the generally short-term nature of transitional floating rate-commercial mortgage loans, our CLOs include a reinvestment period during which principal repayments and prepayments on our commercial mortgage loans may be reinvested in similar assets, subject to meeting certain eligibility criteria. While the interest-rate spreads of our collateralized loan obligations are fixed until they are repaid, the terms, including spreads, of newly originated loans are subject to uncertainty based on a variety of factors, including market and competitive conditions. To the extent that such conditions result in lower spreads on the assets in which we reinvest, we may be subject to a reduction in interest income in the future. It is expected that in 2023 the U.S. Federal Reserve will continue raise benchmark overnight interest rates. Any such increases would increase our borrowers interest payments and for certain borrowers may lead to defaults and losses to us. Such increases could also adversely affect CRE property values.

The market values of commercial mortgage assets are subject to volatility and may be adversely affected by real estate risks, 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;

changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and potential proceeds available to a borrower to repay the underlying loans, which could also cause us to suffer losses.

Our commercial mortgage loans and other investments are also subject to credit risk. The performance and value of our loans and other investments depend upon the sponsor's ability to operate properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal to us. To monitor this risk, the Manager's asset management team reviews our portfolio and maintains regular contact with borrowers, co-lenders and local market experts to monitor the performance of the underlying collateral, anticipate borrower, property and market issues and, to the extent necessary or appropriate, enforce our rights as lender.

Transitional mortgage loans involve greater risk than conventional mortgage loans.

The typical borrower in a transitional mortgage loan has usually identified an asset which the borrower believes is undervalued or that has been under-managed, or is undergoing a repositioning plan including a potential capital improvement. If the market in which the asset is located fails to perform according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional mortgage loan, and we bear the risk that we may not recover some or all of our investment.

In addition, borrowers typically use the proceeds of a conventional mortgage to repay a transitional mortgage loan. Transitional mortgage loans therefore are subject to the risk of a borrower's inability to obtain permanent financing to repay the transitional mortgage loan. Risks of cost overruns and renovations of properties in transition may result in significant losses. The renovation, refurbishment or expansion of a property by a borrower involves risks of cost overruns and non-completion. Estimates of the costs of improvements to bring an acquired property up to the standards established for the market position intended for the property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks, delays in legal and other approvals (e.g., for condominiums) and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment on a timely basis or at all. In the event of any default under transitional mortgage loans that may be held by us, we bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest on the transitional loan. To the extent we suffer such losses with respect to these transitional mortgage loans, it could adversely affect our results of operations and financial condition.

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

In recent years, interest rates had remained at relatively low levels on a historical basis. However, in 2022 and 2023, in light of increasing inflation, the U.S. Federal Reserve increased interest rates seven times. The U.S. Federal Reserve eleven times and may further increase rates in 2024, which has also indicated that it expects continued increases in 2023 increased, and 2024. Any such increases would could continue to increase, our borrowers' interest payments and could result in higher borrower default rates. Such payments. Interest rate increases could also adversely affect commercial real estate property values, values, and, for certain of our borrowers have contributed, and may continue to contribute, to loan non-performance, modification, defaults, foreclosures, and/or property sales, which could result in us realizing losses on our investments.

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

The relationship between short-term and longer-term interest rates is often referred to as the "yield curve." Ordinarily, short-term interest rates are lower than longer-term interest rates. If short-term interest rates rise disproportionately relative to longer-term interest rates (a flattening of the yield curve), our borrowing costs may increase more rapidly than the interest income earned on our assets. Because some of our future investments may bear interest based on longer-term rates than our borrowings, a flattening of the yield curve would tend to decrease our net income and the market value of our net assets. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested, the spread between the yields on the new investments and available borrowing rates may decline, which would likely decrease our net income. It is

also possible that short-term interest rates may exceed longer-term interest rates (a yield curve inversion), in which event our borrowing costs may exceed our interest income and we could incur operating losses. Given the current state of the U.S. economy due to the ongoing COVID-19 pandemic, inflationary pressures, there can be no guarantee that the yield curve will not become and/or remain inverted.

Difficulty in redeploying the proceeds from repayments of our existing loans and investments may cause our financial performance and returns to investors to suffer.

As our loans and investments are repaid, we will have to redeploy the proceeds we receive into new loans and investments (which can include future fundings associated with our existing loans), repay borrowings under our credit facilities, pay dividends to our stockholders or repurchase outstanding shares of our class A common stock. It is possible that we will fail to identify reinvestment options that would provide returns or a risk profile that is comparable to the asset that was repaid. If we fail to redeploy the proceeds we receive from repayment of a loan in equivalent or better alternatives, our financial performance and returns to investors could suffer.

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

We invest in transitional multifamily and other CRE loans, as well as other mortgage related investments. In a normal yield curve environment, an investment in the fixed-rate component of such assets will generally decline in value if future long-term interest rates increase. Declines in market value may ultimately reduce earnings or result in losses to us, which may negatively affect cash available for distribution to our stockholders.

A significant risk associated with our target assets is the risk that both long-term and short-term interest rates will increase significantly. If long-term rates increased significantly, the market value of these investments would decline, and the duration and weighted average life of the investments would increase. We could realize a loss if the securities were sold. At the same time, an increase in short-term interest rates would increase the amount of interest owed on any repurchase agreements we may enter into.

Our business model is such that rising interest rates will generally increase our net interest income, while declining rates will generally decrease our net interest income. As of December 31, 2022, 100% of our loans by unpaid principal balance earned a floating rate of interest and were financed with liabilities that require interest payments based on floating rates, which resulted in an amount of net equity that is positively correlated to rising interest rates.

Market values of our investments may decline without any general increase in interest rates for a number of reasons, such as increases or expected increases in defaults, or increases or expected increases in voluntary prepayments for those investments that are subject to prepayment risk or widening of credit spreads.

In addition, in a period of rising interest rates, our operating results will depend in large part on the difference between the income from our assets and our financing costs. We anticipate that, in most cases, the income from such assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence our net income. Increases in these rates will tend to decrease our net income and market value of our assets.

The planned discontinuation transition away from reference rates and the use of LIBOR alternative replacement reference rates may adversely affect the value of the financial obligations net income related to be held our loans and investments or issued by us that are linked to LIBOR and could otherwise affect our results of operations, and financial results.

On July 27, 2017, and in a subsequent speech by its chief executive on July 12, 2018, the U.K. Financial Conduct Authority (the "FCA"), which regulates LIBOR, confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021. On March 5, 2021, ICE Benchmark Administration Limited ("IBA"), the LIBOR administrator, and the FCA issued an announcement on the future cessation and loss of representativeness of the LIBOR benchmarks. For one-month USD LIBOR, this will occur immediately after June 30, 2023; however, in November 2022 the FCA announced a public consultation regarding whether it should compel the IBA to continue publishing "synthetic" USD LIBOR settings from June 2023 to the end of September 2024. Further, on March 15, 2022, the Consolidated Appropriations Act of 2022, which includes the Adjustable Interest Rate (LIBOR) Act, was signed into law in the U.S. This legislation establishes a uniform benchmark replacement process for financial contracts maturing after June 30, 2023 that do not contain clearly defined or practicable fallback provision. The legislation also creates a safe harbor that shields lenders from litigation if they choose a replacement rate recommended by the Federal Reserve. In addition, U.S. banking regulators have made clear that USD LIBOR originations are not permitted after December 31, 2021.

The Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions convened by the Federal Reserve, has recommended SOFR as a more robust reference rate alternative to USD LIBOR. The International Swaps and Derivatives Association, Inc. adopted fallback language for USD LIBOR-referencing derivatives contracts that provides for SOFR as the primary replacement rate in the event of a LIBOR cessation. SOFR is calculated based on overnight transactions under repurchase agreements, backed by Treasury securities. SOFR is observed on a daily basis and backward looking, which stands in contrast with LIBOR under the current methodology, which is an estimated forward-looking rate for specified tenors. Due to SOFR being a secured rate backed by government securities, it does not take into account bank credit risk (as is the case with LIBOR). SOFR is therefore likely to be lower than LIBOR and is less likely to correlate with the funding costs of financial institutions. As a result, parties may seek to adjust spreads relative to such reference rate in underlying contractual arrangements.

As of December 31, 2022, 22.6% and 77.4% of our loans by principal amount were indexed to SOFR and USD LIBOR, respectively; and 100% of our outstanding floating rate arrangements bear interest indexed to USD LIBOR. All of our USD LIBOR-based arrangements provide procedures for determining an alternative base rate in the event that LIBOR is discontinued. Regardless, there can be no assurances as to what additional alternative base rates may be and whether such base rate will be more or less favorable than USD LIBOR and any other unforeseen impacts of the potential discontinuation of USD LIBOR. Any changes, reforms or replacements relating to USD LIBOR could increase our interest expense and could have an adverse impact on the market for or value of any USD LIBOR-linked securities, loans, derivatives and other financial obligations or extensions of credit held by or due to us on our overall financial condition or results of operations. In addition, there could be a mismatch between the timing of adjusting floating base rate from USD LIBOR to an alternative base rate upon the discontinuation of USD LIBOR, between our financing arrangements and our loan investments, which may have an immediate and significant adverse impact on our results of operations and cash flows and the market value of our investments. We are monitoring

LIBOR and certain other floating rate benchmark indices have been the developments subject of national, international and regulatory guidance and proposals for reform or replacement. The U.S. Federal Reserve, in conjunction with respect the Alternative Reference Rates Committee, a steering committee composed of large U.S. financial institutions, identified SOFR, an index calculated using short-term repurchase agreements backed by U.S. Treasury securities, as its preferred alternative rate for USD LIBOR. As of December 31, 2023, all of our floating rate loans and related financings have transitioned to the planned discontinuation applicable replacement benchmark rate, or reference a benchmark rate that is not expected to be replaced. Our loan agreements generally allow us to choose a new index based upon comparable information if the current index is no longer available. While recently there has been a significant clarification of LIBOR guidance across products on the recommended timing and are form of certain transition milestones from industry working with our borrowers to minimize groups, overall there is still a substantial amount of uncertainty in the impact of marketplace regarding the transition away from USD LIBOR benchmarks. While we have completed the transition on of our financial condition loan portfolio to the extent it was tied to USD LIBOR, continuing market developments and uncertainty can materially impact our cost of capital and net investment income and any changes to benchmark interest rates could increase our financing costs, which could impact our results of operations, but can provide no assurances regarding cash flows and the impact market value of the discontinuation our investments. The elimination of USD LIBOR, LIBOR benchmarks and/or changes to another index could result in mismatches with the interest rate of investments that we are financing.

Our real estate investments are subject to risks particular to real property. These risks may result in a reduction or elimination of, our return from, a loan secured by a particular property.

Real estate investments are subject to various risks, including:

- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- costs of remediation and liabilities associated with environmental conditions such as indoor mold;
- the potential for uninsured or under-insured property losses
- acts of GOD, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks; and

- social unrest and civil disturbances

In the event any of these or similar events occurs, we may not realize our anticipated return on our investments and we may incur a loss on these investments. The ability of a borrower to repay these loans or other financial assets is dependent upon the income or assets of these borrowers.

The impact of any future terrorist attacks, the occurrence of a natural disaster, a significant climate change, health concerns regarding pandemic diseases or changes in laws and regulations expose us to certain risks.

Terrorist attacks, the anticipation of any such attacks, and the consequences of any military or other response by the United States and its allies may have an adverse impact on the U.S. financial markets and the economy in general. We cannot predict the severity of the effect that any such future events would have on the U.S. financial markets, the economy or our business. Any future terrorist attacks could adversely affect the credit quality of some of our loans and investments. Some of our loans and investments will be more susceptible to such adverse effects than others, particularly those secured by properties in major cities or properties that are prominent landmarks or public attractions. We may suffer losses as a result of the adverse impact of any future terrorist attacks and these losses may adversely impact our results of operations.

Moreover, the enactment of the Terrorism Risk Insurance Act of 2002, or TRIA, requires insurers to make terrorism insurance available under their property and casualty insurance policies and provides federal compensation to insurers for insured losses. TRIA was scheduled to expire at the end of 2020 but was reauthorized, with some adjustments to its provisions, in December 2019 for seven years through December 31, 2027. However, this legislation does not regulate the pricing of such insurance and there is no assurance that this legislation will be extended beyond 2027. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market's overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties that we invest in are unable to obtain affordable insurance coverage, the value of those investments could decline and in the event of an uninsured loss, we could lose all or a portion of our investment.

In addition, the occurrence of a natural disaster (such as an earthquake, tornado, hurricane, or a flood) or a significant adverse climate change may cause a sudden decrease in the value of real estate in the area or areas affected and would likely reduce the value of the properties securing debt instruments that we purchase. Because certain natural disasters are not typically covered by the standard hazard insurance policies maintained by borrowers, the affected borrowers may have to pay for any repairs themselves. Borrowers may decide not to repair their property or may stop paying their mortgages under those circumstances. This would likely cause defaults and credit loss severities to increase.

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic, such as coronavirus, or other widespread health emergency (or concerns over the possibility of such emergency) could create economic and financial disruptions, and could lead to operational difficulties that could impair our ability to manage our business.

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

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

Investments in non-conforming and non-investment grade rated CRE loans or securities involve increased risk of loss.

Certain CRE debt investments may not conform to conventional loan standards applied by traditional lenders and either will not be rated (as is typically the case for private loans) or will be rated as non-investment grade by the rating agencies. Private loans often are not rated by credit rating agencies. Non-investment grade ratings typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers' credit history, the underlying properties' cash flow or other factors. As a result, these investments should be expected to have a higher risk of default and loss than investment-grade rated assets. Any loss we incur may be significant and may adversely affect our results of operations and financial condition. There are no limits on the percentage of unrated or non-investment grade rated assets we may hold in our investment portfolio.

We may invest in transitional multifamily loans, CRE loans, CRE debt securities and other similar structured finance investments, which are secured by income producing properties. Such loans are typically made to single-asset entities, and the repayment of the loan is dependent principally on the net operating income from the performance and value of the underlying property. The volatility of income performance results and property values may adversely affect our transitional multifamily loans, CRE loans and CRE debt securities and similar structured finance investments.

Our transitional multifamily and CRE loans are secured by the underlying commercial property and, in each case are subject to risks of delinquency, foreclosure and loss. Transitional multifamily loans, CRE loans, CRE debt securities and other similar structured finance investments generally have a higher principal balance and the ability of a borrower to repay a loan secured by an income-producing property typically is dependent upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things: tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expenses or limit rents that may be charged, any need to address environmental contamination at the property, changes in national, regional or local economic conditions and/or specific industry segments, declines in regional or local real estate values and declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental and/or tax legislation, and acts of God, terrorism, social unrest and civil disturbances.

Multifamily and CRE property values and net operating income derived therefrom 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; changes in tax laws; local real estate conditions; changes or continued weakness in specific industry segments; perceptions by prospective tenants, retailers and shoppers of the safety, convenience, services and attractiveness of the property; the willingness and ability of the property's owner to provide capable management and adequate maintenance; construction quality, age and design; demographic factors; retroactive changes to building or similar codes; and increases in operating expenses (such as energy costs).

Declines in the borrowers' net operating income and/or declines in property values of collateral securing transitional multifamily loans, CRE loans or CRE debt securities and other similar structured finance investments could result in defaults on such loans, declines in our book value from reduced earnings and/or reductions to the market value of the investment.

Our target assets may include CRE loans which are funded with interest reserves and borrowers may be unable to replenish such interest reserves once they run out.

We invest in transitional CRE and we expect that borrowers may be required to post reserves to cover interest and operating expenses until the property cash flows are projected to increase sufficiently to cover debt service costs. We may also require the borrower to replenish reserves if they become depleted due to underperformance or if the borrower wishes to exercise extension options under the loan. Revenues on the properties underlying any CRE loan investments may decrease in an economic downturn which would make it more difficult for borrowers to meet their payment obligations to us. Some borrowers may have difficulty servicing our debt and may not have sufficient capital to replenish reserves, which could have a significant impact on our operating results and cash flows.

We may not have control over certain of our loans and investments.

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may:

- acquire investments subject to rights of senior classes, special servicers or collateral managers under intercreditor, servicing agreements or securitization documents;
- pledge our investments as collateral for financing arrangements;
- acquire only a minority and/or non-controlling participation in an underlying investment;
- co-invest with others through partnership, joint ventures or other entities, thereby acquiring non-controlling interests; or

- rely on independent third party management or servicing with respect to the management of an asset.

Therefore, we may not be able to exercise control over all aspects of our loans or investments. Such financial assets may involve risks not present in investments where senior creditors, junior creditors, servicers or third-party controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior or junior creditors or servicers whose interests may not be aligned with ours. A partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interests or goals that are inconsistent with ours, or may be in a position to take action contrary to our investment objectives.

Changes in laws or regulations governing our operations, changes in the interpretation thereof or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us, subject us to increased competition or otherwise adversely affect our business.

The laws and regulations governing our operations, as well as their interpretation, may change from time to time, and new laws and regulations may be enacted. Accordingly, any change in these laws or regulations, changes in their interpretation, or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us or otherwise adversely affect our business. For example, from time to time the market for real estate debt transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. Furthermore, if regulatory capital requirements, whether under the Dodd-Frank Act, Basel III (i.e., the framework for a comprehensive set of capital and liquidity standards for internationally active banking organizations, which was adopted in June 2011 by the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from 27 countries, including the United States) or other regulatory action, are imposed on private lenders that provide us with funds, or were to be imposed on us, they or we may be required to limit, or increase the cost of, financing they provide to us or that we provide to others. Among other things, this could potentially increase our financing costs, reduce our ability to originate or acquire loans and reduce our liquidity or require us to sell assets at an inopportune time or price.

Various laws and regulations currently exist that restrict the investment activities of banks and certain other financial institutions but do not apply to us, which we believe creates opportunities for us to participate in certain investments that are not available to these more regulated institutions. Any deregulation of the financial industry, including by amending the Dodd-Frank Act, may decrease the restrictions on banks and other financial institutions and would create more competition for investment opportunities that were previously not available to the financial industry. For example, in 2018, a bill was signed into law that eased the regulation and oversight of certain banks under the Dodd-Frank Act.

There has been increasing commentary amongst regulators and intergovernmental institutions on the role of nonbank institutions in providing credit and, particularly, so-called "shadow banking," a term generally taken to refer to credit intermediation involving entities and activities outside the regulated banking system. For example, in August 2013, the Financial Stability Board issued a policy framework for strengthening oversight and regulation of "shadow banking" entities. The report outlined initial steps to define the scope of the shadow banking system and proposed general governing principles for a monitoring and regulatory framework. A number of other regulators, such as the Federal Reserve, and international organizations, such as the International Organization of Securities Commissions, are studying the shadow banking system. At this time, it is too early to assess whether any rules or regulations will be proposed or to what extent any finalized rules or regulations will have on the nonbank lending market. If rules or regulations were to extend to us or our affiliates the regulatory and supervisory requirements, such as capital and liquidity standards, currently applicable to banks, then the regulatory and operating costs associated therewith could adversely impact the implementation of our investment strategy and our returns. In an extreme eventuality, it is possible that such regulations could render the continued operation of our company unviable.

In the United States, the process established by the Dodd-Frank Act for designation of systemically important nonbank firms has provided a means for ensuring that the perimeter of prudential regulation can be extended as appropriate to cover large shadow banking institutions. The Dodd-Frank Act established the Financial Stability Oversight Council (the "FSOC"), which is comprised of representatives of all the major U.S. financial regulators, to act as the financial system's systemic risk regulator. The FSOC has the authority to review the activities of nonbank financial companies predominantly engaged in financial activities and designate those companies as "systematically important financial institutions" ("SIFIs") for supervision by the Federal Reserve. Such designation is applicable to companies where material distress or failure could pose risk to the financial stability of the United States. On December 18, 2014, the FSOC released a notice seeking public comment on the potential risks posed by aspects of the asset management industry, including whether asset management products and activities may pose potential risks to the U.S. financial system in the areas of liquidity and redemptions, leverage, operational functions, and resolution, or in other areas. On April 18, 2016, the FSOC released an update on its multi-year review of asset management products and activities and created an interagency working group to assess potential risks associated with certain leveraged funds. On December 4, 2019, the FSOC issued final guidance regarding the FSOC's procedures for designating nonbank financial companies as SIFIs. This guidance implemented a number of reforms to the FSOC's prior SIFI designation approach by shifting from an "entity-based" approach to an "activities-based" approach whereby the FSOC will primarily focus on regulating activities that pose systematic risk to the financial stability of the United States, rather than designations of individual firms. Under the guidance, designation of a nonbank financial company as a SIFI would only occur if the FSOC determined that the expected benefits justify the expected costs of the designation. While the impact of this guidance cannot be known at this time, increased regulation of nonbank credit extension could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business.

The U.K.'s exit from the E.U. could adversely affect us.

The United Kingdom left the E.U. on January 31, 2020. On May 1, 2021, the E.U.-U.K. Trade and Cooperation Agreement (the "TCA") became effective. The TCA provides the United Kingdom and E.U. members with preferential access to each other's markets, without tariffs or quotas on imported products between the jurisdictions, provided that certain rules of origin requirements are complied with. However, economic relations between the United Kingdom and the E.U. will now be on more restricted terms than existed prior to Brexit. The long-term effects of Brexit are expected to depend on, among other things, any agreements the U.K. has made, or makes to retain access to E.U. markets. Brexit could adversely affect European or worldwide economic or market conditions and could contribute to instability in global financial and real estate markets. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, business opportunities, results of operations, financial condition and cash flows. Likewise, similar actions taken by other European and other countries in which we operate could have a similar or even more profound impact.

Changes in laws or regulations governing the operations of borrowers could affect our returns with respect to those borrowers.

Government counterparties or agencies may have the discretion to change or increase regulation of a borrower's operations, or implement laws or regulations affecting a borrower's operations, separate from any contractual rights it may have. A borrower could also be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on such company. Governments have considerable discretion in implementing regulations, for example, the possible imposition or increase of taxes on income earned by a borrower or gains recognized by us on our investment in such borrower, that could impact a borrower's business as well as our return on our investment with respect to such borrower. Changes in government rules, regulations and fiscal policies, including increases in property taxes, changes in zoning laws and increasing costs to comply with environmental law could increase operating expenses for our borrowers. Likewise, changes in rent control or rent stabilization laws or other residential landlord/tenant laws could result in lower revenue growth or significant unanticipated expenditures for our borrowers. These initiatives and any other future enactments of rent control or rent stabilization laws or other laws regulating multifamily housing may reduce our borrowers' rental revenues or increase their operating costs. Such laws and regulations may limit our borrowers' ability to charge market rents, increase rents, evict tenants or recover increases in their operating costs, which may, in turn, impact our return on our investment with respect to such borrowers.

Climate change, climate change-related initiative and regulation and the increased focus on environmental, social and governance issues, may adversely affect our business and financial results and damage our reputation.

Recently, there has been growing concern from advocacy groups, governments agencies and the general public over the effects of climate change on the environment. Transition risks, such as government restrictions, standards or regulations intended to reduce greenhouse gas emissions and potential climate change impacts, are emerging and may increase in the future in the form of restrictions or additional requirements on the development of commercial real estate. Such restrictions and requirements could increase our costs or require additional technology and capital investments by our borrowers, which could adversely affect our results of operations. This is a particular concern in the western and northeastern United States, where some of the most extensive and stringent environmental laws and building construction standards in the U.S. have been enacted and where we have properties securing our investment portfolio.

Additionally, ESG and other sustainability matters and our response to these matters could harm our business, including in areas such as diversity, equity and inclusion, human rights, climate change and environmental stewardship, support for local communities, corporate governance and transparency and considering ESG factors in our investment processes. Increasing governmental, investor and societal attention to ESG matters, including expanding mandatory and voluntary reporting, diligence, and disclosure on topics such as climate change, human capital, labor and risk oversight, could expand the nature, scope and complexity of matters that we are required to control, assess and report. These factors may alter the environment in which we do business and may increase the ongoing costs of compliance and adversely impact our results of operations and cash flows. If we are

unable to adequately address such ESG matters or we or our borrowers fail or are perceived to fail to comply with all laws, regulations, policies and related interpretation, it could negatively impact our reputation and our business results.

Further, significant physical effects of climate change including extreme weather events such as hurricanes or floods, can also have an adverse impact on certain of our borrowers' properties. As the effects of climate change increase, we expect the frequency and impact of weather and climate related events and conditions to increase as well. While the geographic distribution of our portfolio somewhat limits our physical climate risk, some physical risk is inherent in the properties of our borrowers, particularly in certain borrowers' locations and in the unknown potential for extreme weather or other events that could occur related to climate change.

We may be subject to lender liability claims, and if we are held liable under such claims, we could be subject to losses.

In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. We cannot assure prospective investors that such claims will not arise or that we will not be subject to significant liability if a claim of this type did arise.

Our investments in commercial mortgage backed securities, CLOs and other similar structured finance investments, as well as those we structure, sponsor or arrange, pose additional risks, including the risks of the securitization process and the risk that the special servicer, Lument Real Estate Capital, LLC ("LREC"), an affiliate of our Manager, may take actions that could adversely affect our interests.

We have invested in, and may from time to time invest in, commercial mortgage-backed securities, including in the most subordinated classes of such commercial mortgage-backed securities, CLOs and other similar securities, which may be subordinated classes of securities in a structure of securities secured by a pool of mortgages or loans. Accordingly, such securities may be the first or among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal, with only a nominal amount of equity or other debt securities junior to such positions. The estimated fair values of such subordinated interests tend to be much more sensitive to adverse economic downturns and underlying borrower developments than more senior securities. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality commercial mortgage-backed securities or CLOs because the ability of borrowers to make principal and interest payments on the mortgages or loans underlying such securities may be impaired.

Interests such as commercial mortgage-backed securities, CLOs and similar structured finance investments generally are not actively traded and are relatively illiquid investments. Volatility in commercial mortgage-backed securities and CLO trading markets may cause the value of these investments to decline. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral value is available to satisfy interest and principal payments and any other fees in connection with the trust or other conduit arrangement for such securities, we may incur significant losses.

With respect to the commercial mortgage-backed securities and CLOs in which we have invested and may invest in the future, overall control over the special servicing of the related underlying mortgage loans will be exercised by LREC or another special servicer or collateral manager designated by a "directing certificate holder" or a "controlling class representative," which is appointed by the holders of the most subordinated class of commercial mortgage-backed securities in such series. Unless we acquire the subordinate classes of existing series of commercial mortgage-backed securities and CLOs, we will not have the right to appoint the directing certificate holder. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificate holder, take actions with respect to the specially serviced mortgage loans that could adversely affect our interests.

If the loans that we originate or acquire do not comply with applicable laws, we may be subject to penalties, which could materially and adversely affect us.

Loans that we may originate or acquire may be directly or indirectly subject to U.S. federal, state or local governmental laws. Real estate lenders and borrowers may be responsible for compliance with a wide range of laws intended to protect the public interest, including, without limitation, the Truth in Lending, Equal Credit Opportunity, Fair Housing and American with Disabilities Acts and local zoning laws (including, but not limited to, zoning laws that allow permitted non-conforming uses). If we or any other person fails to comply with such laws in relation to a loan that we have originated or acquired, legal penalties may be imposed, which could materially and adversely affect us. Additionally, jurisdictions with "one action," "security first" and/or "antideficiency rules" may limit our ability to foreclose on a real property or to realize on obligations secured by a real property. In the future, new laws may be enacted or imposed by U.S. federal, state or local governmental entities, and such laws could have a material adverse effect on us.

If we are unable to implement and maintain effective internal controls over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may be negatively affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. In addition, we are required to furnish a report by management on the effectiveness of our internal controls over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act. **Once** if we are no longer **considered** a smaller reporting company, our independent registered public accounting firm will be required to formally attest to the effectiveness of our internal controls over financial reporting on an annual basis. The process of designing, implementing and testing the internal controls over financial reporting required to comply with this obligation is time consuming, costly and complicated. If we identify a material weakness in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or to assert that our internal controls over financial reporting is effective or if, once we are no longer a smaller reporting company, our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected. We could also become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

We depend on our accounting services provider for assistance with the preparation of our financial statements, access to appropriate accounting technology and assistance with portfolio valuation.

Pursuant to our agreement with SS&C Technologies ("SS&C"), SS&C currently maintains our general ledger and all related accounting records, reconciles all broker and custodial statements we routinely receive, provides us with monthly portfolio, cash and position reports, assists us with portfolio valuations, prepares draft quarterly financial statements for our review and provides us with access to data and technology services to facilitate the preparation of our annual financial statements. If our agreement with SS&C were to be terminated and no suitable replacement can be timely engaged, we may not be able to timely and accurately prepare our financial statements.

We may be required to make servicing advances and may be exposed to a risk of loss if such advances become non-recoverable and such advances and risk could adversely affect our liquidity or cash flow.

In connection with securitization transactions wherein Five Oaks Acquisition Corp. ("FOAC") sold mortgage loans to the securitization trust and holds the MSRs with respect to those mortgage loans, FOAC entered into sub-servicing agreements with two sub-servicers. Pursuant to the terms of the sub-servicing agreements, FOAC is required to refund or to fund any servicing advances that are obligated to be made by the sub-servicers. FOAC is therefore exposed to the potential loss of any servicing advance that becomes non-recoverable. Such advances and exposure going forward could adversely affect our liquidity or cash flow during a financial period.

We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments in assets we target and could also affect the pricing of these securities.

We are engaged in a competitive business. In our investing activities, we compete for opportunities with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by Lument IM and its affiliates), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs and other investment vehicles have raised significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and broader access to funding sources, such as the U.S. Government, that are not available to us. Many of our competitors are not subject to the operating constraints associated with REIT compliance or maintenance of an exclusion from regulation under the Investment Company Act. We could face increased competition from banks due to future legislative developments, such as amendments to key provisions of the Dodd-Frank Act, including, provisions setting forth capital and risk retention requirements. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of loans and investments and offer more attractive pricing or other terms than we would. Furthermore, competition for investments we target may lead to decreasing yields, which may further limit our ability to generate targeted returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders. Also, as a result of this competition, desirable investments in these assets may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

A prolonged economic recession and declining real estate values could impair our assets and harm our operations.

The risks associated with our business are more severe during economic recessions and are compounded by declining real estate values. The transitional multifamily and other CRE loans in which we may invest will be particularly sensitive to these risks. Declining real estate values will likely reduce the level of new mortgage loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase of additional properties. Borrowers will also be less able to pay principal and interest on loans underlying the securities in which we invest if the value of residential real estate weakens further. Further, declining real estate values significantly increase the likelihood that we will incur losses on the transitional multifamily and other CRE loans in the event of default because the value of collateral on the mortgages underlying such securities may be insufficient to cover the outstanding principal amount of the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could have an adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

The lack of liquidity in our investments may adversely affect our business.

We acquire assets that are not liquid or publicly traded. A lack of liquidity may result from the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale or the unavailability of financing for these assets. In addition, mortgage-related assets generally experience periods of illiquidity. Further, validating third-party pricing for illiquid assets may be more subjective than for liquid assets. Any illiquidity of our investments may make it difficult for us to sell such investments if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. Further, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or our Manager has or could be attributed with material, non-public information regarding such business entity. If we are unable to sell our assets at favorable prices or at all, it could adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders. Assets that are illiquid are more difficult to finance, and to the extent that we use leverage to finance assets that become illiquid, we may lose that leverage or have it reduced. Assets tend to become less liquid during times of financial stress, which is often the time that liquidity is most needed. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Our investment in CRE debt securities and other similar structured finance investments may be subject to losses.

We may acquire CRE debt securities and other similar structured finance investments. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the "first loss" subordinated security holder and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which we invest, we will not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline, less collateral is available to satisfy interest and principal payments due on the related CRE debt securities and other similar structured finance investments. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

Provisions for loan credit losses are difficult to estimate.

Our provision for loan credit losses is evaluated on a quarterly basis. The determination of our provision for loan credit losses requires us to make certain estimates and judgments, which may be difficult to determine. Our estimates and judgments are based on a number of factors, including assumptions regarding projected cash flow from the collateral securing our loans, capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, likelihood of repayment in full at the maturity of a loan, availability of financing, exit plan, actions of other lenders and other factors deemed necessary by Management, all of which remain uncertain and are subjective. Our estimates and judgments may not be correct and, therefore, our results of operations and financial condition could be severely impacted.

A new accounting standard will likely require Accounting standards have required us to increase our allowance for loan credit losses which has had an adverse effect on our business and results of operation and may in the future have a material adverse effect on our business, financial condition and results of operations.

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-13, or ASU 2016-13. ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 will replace the incurred loss model under existing guidance with a current expected credit loss, or CECL, model for instruments measured at amortized cost, and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as they do previously under the other-than-temporary impairment model. ASU 2016-13 also simplifies the accounting model for purchased credit-impaired debt securities and loan. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022.

The CECL reserve allowance for credit losses required under ASU 2016-13 is a valuation account that is deducted from the related loans' and debt securities' amortized cost basis on our consolidated balance sheets, and which will reduce our total stockholders' equity. The Our initial CECL reserve change to the allowance for credit losses, due to adoption of ASU 2016-13, was \$3.5 million and recorded on January 1, 2023 will be reflected as a direct charge to retained earnings; earnings on our consolidated statements of changes in equity, however future subsequent changes to CECL reserve the allowance for credit losses have been, and will continue to be, recognized through our net income on our consolidated statements of operations. See Notes 2 and 3 to our consolidated financial statements for further discussion of our allowance for credit losses.

While ASU 2016-13 does not require any particular method for determining the CECL allowance for credit losses, it does specify the allowance should be based on relevant information about past events, including historical loss experience, current portfolio and market conditions, and reasonable and supportable forecasts for the duration expected contractual term adjusted for prepayment and extensions, where applicable, of each respective loan. Because our methodology for determining CECL the allowance for credit losses may differ from the methodologies employed by other companies, our CECL allowances allowance for credit losses may not be comparable with the CECL allowances allowance for credit losses reported by other companies. In addition, other than a few narrow exceptions, ASU 2016-13 requires that all financial instruments subject to the CECL model have some amount of reserve to reflect the GAAP principal underlying the CECL model that all loans, debt securities, and similar assets have some inherent risk of loss, regardless of credit quality, subordinate capital, or other mitigating factors. Accordingly, we expect that the adoption of the CECL model has materially affected, and will continue to materially affect, how we determine our allowance for loan credit losses and could require us to significantly increase our allowance and recognize provisions for loan credit losses earlier in the lending cycle. Moreover, the CECL model may create more volatility in the level of our allowance for loan credit losses. If we are required to materially increase our level of allowance for loan credit losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

Our Manager's due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead to losses.

Before acquiring certain assets, such as transitional multifamily and other CRE loans or other mortgage-related assets, our Manager conducts (either directly or using third parties) due diligence. Such due diligence may include (1) an assessment of the strengths and weaknesses of the asset's credit profile, (2) a review of all or merely a subset of the documentation related to the asset, or (3) other reviews that we or our Manager may deem appropriate to conduct. There can be no assurance that we or our Manager will conduct any specific level of due diligence, or that, among other things, the due diligence process will uncover all relevant facts and potential liabilities or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our financial condition and results of operations.

Our Manager utilizes analytical models and data in connection with the valuation of certain of our assets, and any incorrect, misleading or incomplete information used in connection therewith would subject us to potential risks.

Given the complexity of certain of our target assets, our Manager may rely heavily on analytical models and information and data supplied by third parties. Models and data are used to value potential target assets, potential credit risks and reserves and also in connection with hedging our acquisitions. Many of the models are based on historical trends. These trends may not be indicative of future results. Furthermore, the assumptions underlying the models may prove to be inaccurate, causing the models to also be incorrect. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on incorrect models and data, especially valuation models, our Manager may be induced to buy for us certain target assets at prices that are too high, to sell certain other assets at prices that are too low or to miss favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful.

Any credit ratings assigned to our investments will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded.

Some of our investments may be rated by Moody's Investors Service, Fitch Ratings, Standard & Poor's, Kroll Bond Rating Agency, DBRS, Inc., Egan Jones, or other rating agencies. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value of these investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us.

We may be exposed to environmental liabilities with respect to properties to which we take title.

In the course of our business, we may take title to real estate, and, if we do take title, we could be subject to environmental liabilities with respect to these properties. In such a circumstance, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. If we ever become subject to significant environmental liabilities, our business, financial condition, results of operations and our ability to make distributions to our stockholders could be adversely affected.

The properties underlying our CRE loans may be subject to other unknown liabilities that could adversely affect the value of these properties, and as a result, our investments.

Properties underlying our commercial real estate loans may be subject to other unknown or unquantifiable liabilities that may adversely affect the value of our investments. Such defects or deficiencies may include title defects, title disputes, liens or other encumbrances on the mortgaged properties. The discovery of such unknown defects, deficiencies and liabilities could affect the ability of our borrowers to make payments to us or could affect our ability to foreclose and sell the underlying properties, which could adversely affect our results of operations and financial condition.

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

There continues to be uncertainty around the timing and ability of servicers to remove delinquent borrowers from their homes, so that they can liquidate the underlying properties and ultimately pass the liquidation proceeds through to owners of the mortgage loans. Given the magnitude of the housing crisis, and in response to the well-publicized failures of many servicers to follow proper foreclosure procedures (such as "robo-signing"), mortgage servicers are being held to much higher foreclosure-related documentation standards than they previously were. However, because many mortgages have been transferred and assigned multiple times (and by means of varying assignment procedures) throughout the origination, warehouse and securitization processes, mortgage servicers may have difficulty furnishing the requisite documentation to initiate or complete foreclosures. This leads to stalled or suspended foreclosure proceedings, and ultimately additional foreclosure-related costs. Foreclosure-related delays also tend to increase ultimate loan loss severities as a result of property deterioration, amplified legal and other costs, and other factors. Many factors delaying foreclosure, such as borrower lawsuits and judicial backlog and scrutiny, are outside of servicers' control and have delayed, and will likely continue to delay, foreclosure processing in both judicial states (where foreclosures require court involvement) and non-judicial states.

We may find it necessary or desirable to foreclose on certain of the loans we acquire. Whether or not we have participated in the negotiation of the terms of any such loans, we cannot assure you as to the adequacy of the protection of the terms of the applicable loan, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, claims may be asserted by lenders or borrowers that might interfere with enforcement of our rights. Borrowers may resist foreclosure actions by asserting numerous claims, counterclaims and defenses against us, including, without limitation, lender liability claims and defenses, even when the assertions may have no basis in fact, in an effort to prolong the foreclosure action and seek to force the lender into a modification of the loan or a favorable buy-out of the borrower's position in the loan. In some states, foreclosure actions can take several years or more to litigate. A servicer's failure to remove delinquent borrowers from their homes in a timely manner could increase our costs, adversely affect the value of the property and mortgage loans and have an adverse effect on our results of operations and business. In addition, foreclosure may create a negative public perception of the collateral property, resulting in a diminution of its value. Even if we are successful in foreclosing on a mortgage loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our investment. Any costs or delays involved in the foreclosure of the loan or a liquidation of the underlying property will reduce the net proceeds realized and, thus, increase the potential for loss.

Insurance on mortgage loans and real estate securities collateral may not cover all losses.

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, which may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might result in insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received with respect to a property relating to one of our investments might not be adequate to restore our economic position with respect to our investment. Any uninsured loss could result in the loss of cash flow from, and the asset value of, the affected property and the value of our investment related to such property.

The allocation of the net proceeds of any equity offering among our target assets, and the timing of the deployment of these proceeds is subject to, among other things, then prevailing market conditions and the availability of target assets.

Our allocation of the net proceeds from any equity offering among our target assets is subject to our investment guidelines and maintenance of our REIT qualification. Our Manager will make determinations as to the percentage of our equity that will be invested in each of our target assets and the timing of the deployment of the net proceeds of our equity offerings. These determinations will depend on then prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. Until appropriate assets can be identified, our Manager may decide to use the net proceeds of our offerings to pay down our short-term debt or to invest the net proceeds in interest-bearing short-term investments, including funds, which are consistent with maintenance of our REIT qualification. These investments are expected to provide a lower net return than we seek to achieve from our target assets. Prior to the time we have fully used the net proceeds of our offerings to acquire our target assets, we may fund our monthly and/or quarterly distributions out of such net proceeds.

Real estate valuation is inherently subjective and uncertain.

The valuation of real estate and therefore the valuation of any collateral underlying our loans is inherently subjective due to, among other factors, the individual nature of each property, its location, the expected future rental revenues from that particular property and the valuation methodology adopted. As a result, the valuations of the real estate assets against which we will make or acquire loans are subject to a large degree of uncertainty and are made on the basis of assumptions and methodologies that may not prove to be accurate, particularly in periods of volatility, low transaction flow or restricted debt availability in the commercial or residential real estate markets.

We may invest in CMBS which are subordinate in right of payment to more senior securities.

Our investments may include subordinated tranches of CMBS, which are a subordinated class of security in a structure of securities collateralized by a pool of mortgage loans and, accordingly, is the first or among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. Additionally, estimated fair value of these subordinated interests tend to be more sensitive to changes in economic conditions than more senior securities. As a result, such subordinated interests generally are not actively traded and may not provide holders thereof with liquid investments.

Changes in prepayment rates may adversely affect our profitability.

Our business is primarily focused on originating, investing in, financing and managing floating-rate mortgage loans secured by multifamily properties and other CRE assets. Generally, our mortgage loan borrowers may repay their loans prior to their stated maturities. Changes in prepayment rates are difficult to predict. In periods of declining interest rates and/or credit spreads, prepayment rates on loans generally increase. If general interest rates and credit spreads decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested in assets yielding less than the yields on the asset that were prepaid. We may not be able to reinvest the principal repaid at the same or higher yield of the original investments. Conversely, in periods of rising interest rates, prepayments are likely to decrease and the number of our borrowers who exercise extension options, which could extend beyond the term of certain secured financing agreements we use to finance our loan investments, is likely to increase. This could have a negative impact on our results of operations, and in some situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses. Prepayments can also occur when borrowers default on their mortgages and the mortgages are prepaid from the proceeds of a foreclosure sale of the property, or when borrowers sell the property and use the sale proceeds to prepay the mortgage. Prepayment rates may also be affected by conditions in the financial markets, general economic conditions and the relative interest rates on commercial mortgages, which could lead to an acceleration of the payment of the related principal. While we will seek to manage prepayment risk, in selecting our real estate investments we must balance prepayment risk against other risks, the potential returns of each investment and the cost of hedging our risks. Additionally, we are subject to prepayment risk associated with the terms of our CLOs. Due to the generally short-term nature of transitional floating-rate commercial mortgage loans, our CLOs include a reinvestment period during which principal repayments and prepayments on our commercial mortgage loans may be reinvested in similar assets, subject to meeting certain eligibility criteria. While the interest-rate spreads of our CLOs are fixed until they are repaid, the terms, including spreads, of newly originated loans are subject to uncertainty based on a variety of factors, including market and competitive conditions. To the extent that such conditions result in lower spreads on the assets in which we reinvest, we may be subject to a reduction in interest income in the future. No strategy can completely insulate us from prepayment or other such risks, and we may deliberately retain exposure to prepayment or other risks.

We are highly dependent on communications and information systems. Systems failures could significantly disrupt our operations, which may, in turn, negatively affect the market price of our equity securities and our ability to make distributions.

Our business is highly dependent on the communications and information systems of our Manager. Any failure or interruption of our Manager's systems could have a material adverse effect on our operating results and negatively affect the market price of our equity securities and our ability to make distributions.

The occurrence of cyber-incidents, or a deficiency in our Manager's cybersecurity or in those of any of our third party service providers, could negatively impact affect our business by causing a disruption to our operations, a compromise of our confidential information or damage to our business relationships or reputation, all of which could negatively impact our business and results of operations.

A cyber-incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our or our Manager's information resources or those of our third party service providers. A cyber-incident can be an intentional attack or an unintentional event and can include gaining unauthorized access to a system to disrupt operations, corrupt data or steal confidential information. The primary risks that could directly result from a cyber-incident include operational interruption and private data exposure. Our Manager has implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as our increased awareness of the risk of a cyber-incident, do not guarantee that our business and results of operations will not be negatively impacted by such an incident.

Any downgrades, or perceived potential of downgrades, of the credit ratings of the U.S. Government, GSEs or certain European countries may adversely affect our business, financial condition, results of operations and our ability to make distributions to our stockholders.

On August 5, 2011, Standard & Poor's downgraded the U.S. Government's credit rating for the first time in history, and on October 15, 2013, Fitch Ratings placed the ratings of all outstanding U.S. sovereign debt securities on Rating Watch Negative. Downgrades of the credit ratings of the U.S. Government, GSEs and certain European countries could create broader financial turmoil and uncertainty, which could weigh heavily on the global banking system. Therefore, any downgrades of the credit ratings of the U.S. Government, GSEs or certain European countries may adversely affect the value of our target assets and our business, financial condition, results of operations and our ability to make distributions to our stockholders.

Social, political, and economic instability, unrest, and other circumstances beyond our control could adversely affect our business operations.

Our business may be adversely affected by social, political, and economic instability, unrest, or disruption, including protests, demonstrations, strikes, riots, civil disturbance, disobedience, insurrection and looting in geographic regions where the properties securing our investments are located. Such events may result in property damage and destruction and in restrictions, curfews, or other governmental actions that could give rise to significant changes in regional and global economic conditions and cycles, which may adversely affect our financial condition and operations.

There have been demonstrations and protests, some of which involved violence, looting, arson and property destruction, in cities throughout the U.S., including Atlanta, Seattle, Los Angeles, Washington D.C., New York City, Minneapolis and Portland, as well as globally, including in Hong Kong. While protests have been peaceful in many locations, looting vandalism and fires have taken place in cities, which led to the imposition of mandatory curfews, and, in some locations, deployment of the U.S. National Guard. Governmental actions taken place to protect people and property, including curfews and restrictions on business operations, may disrupt operations, harm perceptions of personal well-being and increase the need for additional expenditures on security resources. The effect and duration of demonstrations, protests or other factors is uncertain, and we cannot assure there will not be further political or social unrest in the future or that there will not be other events that could lead to further social, political and economic instability. If such events or disruptions persist for a prolonged period of time, our overall business and results of operations may be adversely affected.

Any or all of the foregoing could have material adverse effect on our financial condition, results of operations and cash flows, or the market price of our common stock. Additional risks and uncertainties not currently known to us, or that we presently deem to be immaterial, may also have potential to materially adversely affect our business, financial condition and results of operations.

The long-term macroeconomic effects of the COVID-19 pandemic and any future pandemic or epidemic could have an adverse impact on our financial performance and results of operations.

Outbreaks of contagious disease, including COVID-19, or other adverse public health developments in the U.S. or worldwide could have a material adverse effect on our business, financial condition and results of operations. While many of the direct impacts of the COVID-19 pandemic have eased, the longer-term macroeconomic effects on global supply chains, inflation, labor shortages and wage increases continue to impact many industries. Moreover, with the potential for new strains of existing viruses to emerge, or other pandemics or epidemics, governments and businesses may re-impose aggressive measures to help slow its spread in the future.

The full extent of the impact and effects of COVID-19, and any future pandemics or epidemics, will depend on future developments, including, among other factors, how rapidly variants develop, availability, acceptance and effectiveness of vaccines along with related travel advisories, quarantines and restrictions, the recovery time of the disrupted supply chains and industries, the impact of labor market interruptions, the impact of government interventions, and uncertainty with respect to the duration of the global economic slowdown. COVID-19, or any future pandemics or epidemics, and resulting impacts on the financial, economic and capital markets environment, and future developments in these and other areas present uncertainty and risk with respect to our performance, results of operations and ability to pay dividends.

Risks Related to Financing and Hedging

Our strategy involves leverage, which may amplify losses and there is no specific limit on the amount of leverage that we may use.

We leverage our portfolio investments in our target assets principally through borrowings under collateralized loan obligations. Our leverage (on both a GAAP and non-GAAP basis) currently ranges, and we expect that it will continue to range, between three and six times the amount of our stockholders' equity. We will incur this leverage by borrowing against a substantial portion of the market or face value of our assets. Our leverage, which is fundamental to our investment strategy, creates significant risks.

To the extent that we incur leverage, we may incur substantial losses if our borrowing costs increase. Our borrowing costs may increase for any of the following, or other, reasons:

- short-term interest rates increase;
- the market value of our securities decreases;
- interest rate volatility increases;
- the availability of financing in the market decreases; or
- changes in advance rates.

Our return on our investments and cash available for distributions may be reduced if market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets acquired, which could adversely affect the price of our equity securities. In addition, our debt service payments will reduce cash flow available for distributions to stockholders. In addition, if the cost of our financing increases, we may not be able to meet our debt service obligations. To the extent that we cannot meet our debt service obligations, we risk the loss of some or all of our assets to satisfy our debt obligations. To the extent we are compelled to liquidate qualified REIT assets to repay debts, our compliance with the REIT rules regarding our assets and our sources of income could be negatively affected, which would jeopardize our qualification as a REIT. Losing our REIT status would cause us to lose tax advantages applicable to REITs and would decrease our overall profitability and distributions to our stockholders.

We may incur significant additional debt in the future, which will subject us to increased risk of loss and may reduce cash available for distributions to our stockholders.

Subject to market conditions and availability, we may incur significant additional debt in the future. Although we are not required by our board of directors to maintain any particular assets-to-equity leverage ratio, the amount of leverage we may deploy for particular assets will depend upon our Manager's assessment of the credit and other risks of those assets. Our board of directors may establish and change our leverage policy at any time without stockholder approval. Incurring debt could subject us to many risks that, if realized, would adversely affect us, including the risk that:

- our cash flow from operations may be insufficient to make required payments of principal and interest on the debt or we may fail to comply with all of the other covenants contained in the debt, which is likely to result in (1) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision) that we may be unable to repay from internal funds or to refinance on favorable terms, or at all, (2) our inability to borrow unused amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements, and/or (3) the loss of some or all of our assets to foreclosure or sale;

- our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase with higher financing costs;
- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, investments, stockholder distributions or other purposes; and
- we may not be able to refinance debt that matures prior to the investment it was used to finance on favorable terms or at all.

There can be no assurance that our Manager will be able to prevent mismatches in the maturities of our assets and liabilities.

Because we employ financial leverage in funding our portfolio, mismatches in the maturities of our assets and liabilities can create risk in the need to continually renew or otherwise refinance our liabilities. Our net interest margins will be dependent upon a positive spread between the returns on our asset portfolio and our overall cost of funding. Our Manager's risk management tools include software and services licensed or purchased from third parties, in addition to proprietary systems and analytical methods developed internally. There can be no assurance that these tools and the other risk management techniques described above will protect us from asset/liability risks.

Lenders generally require us to enter into restrictive covenants relating to our operations.

When we obtain financing, lenders typically impose restrictions on us that would affect our ability to incur additional debt, our capability to make distributions to stockholders and our flexibility to determine our operating policies. Loan documents we execute may contain negative covenants that limit, among other things, our ability to repurchase stock, distribute more than a certain amount of our funds from operations and employ leverage beyond certain amounts.

Our inability to meet certain financial covenants related to our credit agreements could adversely affect our business, financial condition and results.

In connection with our credit and guaranty agreement, we are required to maintain certain financial covenants with respect to our net worth, asset values, loan portfolio composition, leverage ratios and debt service coverage levels. Compliance with these financial covenants will depend on market factors and the strength of our business and operating results. Various risks, uncertainties and events beyond our control could affect our ability to comply with our financial covenants. Failure to comply with our financial covenants could result in an event of default, termination of the credit facility and acceleration of all amounts owing under our credit facility and gives the counterparty the right to exercise certain other remedies under the credit agreement, unless we were able to negotiate a waiver. Any such waiver could be conditioned on an amendment to our credit facility and any related guaranty agreement on terms that may be unfavorable to us. If we are unable to negotiate a covenant waiver or replace or refinance our assets under a new credit facility on favorable terms or at all, our financial condition, results of operations and cash flows could be adversely affected.

We may enter into repurchase agreements, and our rights under such repurchase agreements may be subject to the effects of the bankruptcy laws in the event of the bankruptcy or insolvency of us or our counterparties under the repurchase agreements.

In the event of our insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under Title 11 of the United States Code, as amended, or the U.S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender under the applicable repurchase agreement to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to take possession of and liquidate the assets that we have pledged under their repurchase agreements. In the event of the insolvency or bankruptcy of a lender during the term of a repurchase agreement, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our securities under a repurchase agreement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes. These claims would be subject to significant delay and, if and when received, may be substantially less than the damages we actually incur.

An increase in our borrowing costs relative to the interest that we receive on investments in our mortgage related investments may adversely affect our profitability and cash available for distribution to our stockholders.

As our financings mature, we will be required either to enter into new borrowings or to sell certain of our investments. In recent years, interest rates had remained at relatively low levels on a historical basis. However, in 2022 and 2023, in light of increasing inflation, the U.S. Federal Reserve increased interest rates seven times. The U.S. Federal Reserve has also indicated that it expects continued increases in interest eleven times and may further increase rates in 2023 2024, which has increased, and 2024. Any such increases would could continue to increase, our borrowers borrowers' interest payments and could result in higher borrower default rates. Such payments. Interest rate increases could also adversely affect commercial real estate property value. An increase values, and, for certain of our borrowers have contributed, and may continue to contribute, to loan non-performance, modification, defaults, foreclosures, and/or property sales, which could result in short-term interest rates at the time that we seek to enter into new borrowings would reduce the spread between our returns us realizing losses on our assets and the cost of our borrowings. This would adversely affect our returns on our assets, which might reduce earnings and, in turn, cash available for distribution to our stockholders, investments.

We have utilized and may utilize in the future non-recourse securitizations to finance our loans and investments, which may expose us to risks that could result in losses.

We have utilized and may utilize in the future, non-recourse securitizations of our portfolio investment to generate cash for funding new loans and investments and other purposes. These transactions generally involve creating a special-purpose entity, contributing a pool of our assets to the entity, and selling interest in the entity on a non-recourse basis to purchasers (whom we would expect to be willing to accept a lower interest to invest in investment-grade loan pools). We would expect to retain all or a portion of the equity and potentially other tranches in the securitized pool of loans or investments. In addition, we have retained in the past and may in the future retain a pari passu participation in the securitized pool of loans.

Prior to any such financing, we may use short-term facilities to finance the acquisition of assets until a sufficient quantity of investments had been accumulated, at which time we would refinance these facilities through a securitization, such as a CMBS, or issuance of CLOs, or the private placement of loan participations or other long-term financing. As a result, we would be subject to the risk that we would not be able to acquire, during the period that our short-term facilities are available, a sufficient amount of eligible investment to maximize the efficiency of a CMBS, CLO or other private placement issuance. We also would be subject to the risk that we would not be able to obtain short-term credit facilities or would not be able to renew any short-term credit facilities after they expire should we find it necessary to extend our short-term credit facilities to allow more time to seek and acquire the necessary eligible investment for a long-term financing. The inability to consummate securitizations of our portfolio to finance our loans and investments on a long-term basis could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect or performance and our ability to grow our business. Moreover, conditions in the capital markets, including volatility and disruption in the capital and credit markets, may not permit a non-recourse securitization at any particular time or may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets. We may also suffer losses if the value of the mortgage loans we acquire declines prior to securitization. Declines in the value of a mortgage loan can be due to, among other things, changes in interest rates and changes in the credit quality of the loan. In addition, we may suffer a loss due to the incurrence of transaction costs related to executing these transactions. To the extent that we incur a loss executing or participating in future securitizations for the reasons described above or for other reasons, it could materially and adversely impact our business and financial condition. In addition, the inability to securitize our portfolio may hurt our performance and our ability to grow our business.

In addition, the securitization of our portfolio might magnify our exposure to losses because any equity interest or other subordinate interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses. Moreover, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or Dodd-

Frank Dodd-Frank Act, contains a risk retention requirement for all asset-backed securities, which requires both public and private securitizers to retain not less than 5% of the credit risk of the assets collateralizing any asset-backed issuance. Significant restrictions exist, and additional restrictions may be added in the future, regarding who may hold risk retention interest, the structure of the entities that hold risk retention interest and when and how such risk retention interests may be transferred. Therefore such risk retention interests will generally be illiquid. As result of the risk retention requirements, we have and may in the future be required to purchase and retain certain interests in a securitization into which we sell mortgage loans and/or when we act as an issuer, may be required to sell certain interests in a securitization at prices below levels that such interests have historically yielded and/or may be required to enter into certain arrangements related to risk retention that we have not historically been required to enter into. Accordingly, the risk retention rules may increase our potential liabilities and/or reduce our potential profits in connections with securitization of mortgage loans. It is likely, therefore, that these risk retentions rules will increase the administrative and operational cost of asset securitizations.

We may enter into hedging transactions that expose us to contingent liabilities in the future, which may adversely affect our financial results or cash available for distribution to stockholders.

We may engage in hedging transactions intended to hedge various risks to our portfolio, including the exposure to adverse changes in interest rates. Our hedging activity varies in scope based on, among other things, the level and volatility of interest rates, the type of assets held and other changing market conditions. Although these transactions are intended to reduce our exposure to various risks, hedging may fail to protect or could adversely affect us because, among other things:

- hedging can be expensive, particularly during periods of volatile or rapidly changing interest rates;
- available hedges may not correspond directly with the risks for which protection is sought;
- the duration of the hedge may not match the duration of the related liability;
- the amount of income that a REIT may earn from certain hedging transactions is limited by U.S. federal income tax provisions governing REITs;
- the credit quality of a hedging counterparty may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty may default on its obligation to pay.

Subject to maintaining our qualification as a REIT, there are no current limitations on the hedging transactions that we may undertake. However, our Manager's reliance on the CFTC's December 7, 2012 no action letter relieving CPOs of mortgage REITs from the obligation to register with the CFTC as CPOs depends on the satisfaction of several conditions, including that we comply with additional limitations on our hedging activity. The letter limits the initial margin and premiums required to establish our Manager's commodity interest positions to no more than 5% of the fair market value of our total assets and limits the net income derived annually from our commodity interest positions that are not qualifying hedging transactions to less than 5% of our gross income.

Therefore, our and our Manager's reliance on this no action letter places additional restrictions on our hedging activity. Our hedging transactions could require us to fund large cash payments in certain circumstances (e.g., the early termination of the hedging instrument caused by an event of default or other early termination event or a demand by a counterparty that we make increased margin payments). Our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time. The need to fund these obligations could adversely affect our financial condition. Further, hedging transactions, which are intended to limit losses, may actually result in losses, which would adversely affect our earnings and could in turn reduce cash available for distribution to stockholders.

Hedging instruments involve various kinds of risk because they are not always traded on regulated exchanges, guaranteed by an exchange or its clearinghouse or regulated by any U.S. or foreign governmental authorities. The CFTC is still in the process of proposing rules under the Dodd-Frank Act that may make our hedging more difficult or increase our costs. Furthermore, the enforceability of agreements underlying hedging transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty will most likely result in its default. Default by a hedging counterparty may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price. Although we generally seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty, and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot assure you that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in losses.

Hedging against interest rate exposure may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders, and such transactions may fail to protect us from the losses that they were designed to offset.

Subject to maintaining our qualification as a REIT and exemption from registration under the Investment Company Act, we may employ techniques that limit the adverse effects of rising interest rates on a portion of our short-term repurchase agreements and on a portion of the value of our assets. In general, our interest rate risk mitigation strategy depends on our view of our entire portfolio, consisting of assets, liabilities and derivative instruments, in light of prevailing market conditions. We could misjudge the condition of our portfolio or the market. Our interest rate risk mitigation activity varies in scope based on the level and volatility of interest rates and principal repayments, the type of securities held and other changing market conditions. Our actual interest rate risk mitigation decisions are determined in light of the facts and circumstances existing at the time and may differ from our currently anticipated strategy. These techniques may include purchasing or selling futures contracts, entering into interest rate swap, interest rate cap or interest rate floor agreements, swaptions, purchasing put and call options on securities or securities underlying futures contracts, or entering into forward rate agreements.

Because a mortgage borrower typically has no restrictions on when a loan may be paid off either partially or in full, there are no perfect interest rate risk mitigation strategies, and interest rate risk mitigation may fail to protect us from loss. Alternatively, we may fail to properly assess a risk to our portfolio or may fail to recognize a risk entirely leaving us exposed to losses without the benefit of any offsetting interest rate mitigation activities. The derivative instruments we select may not have the effect of reducing our interest rate risk. The nature and timing of interest rate risk mitigation transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. In addition, interest rate risk mitigation activities could result in losses if the event against which we mitigate does not occur.

Our loans and investments may be subject to fluctuations in interest rates that may not be adequately protected, or protected at all, by our hedging strategies.

Our assets include loans with either floating interest rates or fixed interest rates. Floating rate loans earn interest at rates that adjust from time to time based upon an index (typically **LIBOR** or Term SOFR). These floating rate loans are insulated from changes in value specifically due to changes in interest rates;

however, the coupons they earn fluctuate based upon interest rates and, in a declining and/or low interest rate environment, these loans will earn lower rates of interest and this will impact our operating performance. For more information about our risks related to the planned discontinuation of LIBOR, see "Risks Related to Our Investment Strategies and Our Businesses—The **planned discontinuation transition away from reference rates and the use of LIBOR alternative replacement reference rates** may **adversely affect the value of the financial obligations net interest income related to be held our loans and investments** or **issued by us that are linked to LIBOR** and **could otherwise adversely affect our results of operations, or financial condition, cash flows and the market value of our investments.**" Fixed interest rate loans, however, do not have adjusting interest rates and the relative value of the fixed cash flows from these loans will decrease as prevailing interest rates rise or increase as prevailing interest rates fall, causing potentially significant changes in value. We may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other interest rate derivative products. We believe that no strategy can completely insulate us from the risks associated with interest rate changes and there is a risk that such strategies may provide no protection at all and potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks such as counterparty risk, leverage risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the contract and a change in current period expense. We cannot make assurances that we will be able to enter into hedging transactions or that such hedging transactions will adequately protect us against the foregoing risks.

Accounting for derivatives under GAAP may be complicated. Any failure by us to meet the requirements for applying hedge accounting in accordance with GAAP could adversely affect our earnings. In particular, derivatives are required to be highly effective in offsetting changes in the value or cash flows of the hedged items (and appropriately designated and/or documented as such). If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued and the changes in fair value of the instrument are included in our reported net income.

Risks Associated with Our Relationship with Our Manager

Our board of directors has approved very broad investment guidelines for our Manager and will not approve each investment and financing decision made by our Manager.

Our Manager is authorized to follow very broad investment guidelines. Our board of directors periodically reviews and updates our investment guidelines and also reviews our investment portfolio but does not generally review or approve specific investments. In addition, in conducting periodic reviews, our board of directors may rely primarily on information provided to them by our Manager. Furthermore, our Manager may use complex strategies, and transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our board of directors. Our Manager will have great latitude within the broad parameters of our investment guidelines in determining the types and amounts of mortgage related investments it may decide are attractive investments for us, which could result in investment returns that are substantially below expectations or that result in losses, which would adversely affect our business operations and results. In addition, our Manager may invest up to \$75 million in any investment on our behalf without restriction and generally without prior approval of our board of directors. Our Manager is generally permitted to invest our assets in its discretion, provided that such investments comply with our investment guidelines. Our Manager's failure to generate attractive risk-adjusted returns on an investment which represents a significant dollar amount would adversely affect us. Further, decisions made and investments and financing arrangements entered into by our Manager may not fully reflect the best interests of our stockholders.

We are dependent on our Manager and its key personnel for our success.

We have no separate facilities and are completely reliant on our Manager. All of our officers are employees of an affiliate of our Manager. Our Manager has significant discretion as to the implementation of our investment and operating policies and strategies. Accordingly, we believe that our success will depend to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the officers and key personnel of our Manager. The officers and key personnel of our Manager evaluate, negotiate, close and monitor our investments; therefore, our success will depend on their continued service. The departure of any of the officers or key personnel of our Manager could have a material adverse effect on our performance. In addition, there can be no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager's officers and professionals. The initial term of our management agreement with our Manager **only extends until matured on January 3, 2023, with automatic and automatically renewed for a one-year renewals thereafter, term on such date and will automatically renew every year thereafter unless it is terminated in accordance with its terms.** If the management agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan.

There are conflicts of interest in our relationship with ORIX, including with our Manager and in the allocation of investment opportunities to between ORIX affiliates and us, which could result in decisions that are not in the best interests of our stockholders.

We are subject to conflicts of interests arising out of our relationship with ORIX, including our Manager and its affiliates. In addition, we are managed by our Manager, an ORIX affiliate, and our executive officers are employees of an affiliate of our Manager or one or more of its affiliates. There is no guarantee that the policies and procedures adopted by us, the terms and conditions of the Management Agreement or the policies and procedures adopted by our Manager, ORIX and their respective affiliates, will enable us to identify, adequately address or mitigate all potential conflicts of interest. Some examples of conflicts of interest that may arise by virtue of our relationship with our Manager and ORIX includes:

- **Allocation of Investment Opportunities.** Certain conflicts of interest may arise from the fact that ORIX, its affiliates, and our Manager may provide investment management and other services both to us and to other persons or entities, whether or not the investment objectives or policies of such other person or entity are similar to those of ours, including without limitation, the sponsoring, closing and/or managing of any Lument IM fund.
- **ORIX's Investment Advisory and Proprietary Activities.** ORIX makes investments pursuant to an investment strategy that is similar to the investment strategy implemented by Lument IM with respect to LFT, on behalf of itself and its own investment vehicles. Further, certain affiliates of ORIX originate investment opportunities that may be suitable for LFT but which are allocated to other investment funds managed by an affiliate of ORIX. Therefore ORIX or an affiliate may originate opportunities that are suitable for LFT but are allocated to entities primarily owned by ORIX or its affiliates.

In addition, we are expected, from time to time, to make an investment in, or a loan to, a company in which ORIX and its affiliates (each, an "Investing Party") are also expected to invest, or already have invested, in a different part of the capital structure, which may mean that one investor's interest in that company may have different rights, preferences and privileges than the company interests held by us. There may be instances where such a company may become insolvent or bankrupt and where an Investing Party's interests in such company may otherwise conflict with the interests of other Investing Parties. To

the extent that we hold securities or other financial interests (e.g., bank debt) in a company with rights, preferences and privileges that are different than interests held by an Investing Party in the same company, the Manager and its affiliates may be presented with decisions when and/or where our interests and the interests of the Investing Parties are in conflict. It is possible that our interest may be subordinated or otherwise adversely affected by virtue of other Investing Parties' involvement and actions relating to such investment, in a bankruptcy proceeding or otherwise. In addition, we can be expected, from time to time, to hold an interest in the more senior portion of an issuer's capital structure while another Investing Party holds a more junior security of that issuer. Because ORIX is the owner of the Manager, the Manager would experience a conflict of interest in making determinations regarding the senior securities we held, as decisions on behalf of such entity to enforce remedies or take other actions against the obligors under such senior securities or the related collateral could

adversely impact the value of the more junior securities held by another Investing Party. In such situation, the Manager is incentivized to decline to enforce such remedies or take such actions on behalf of the senior securities we held in order to protect the value of the junior securities held by the other Investing Party, which could adversely affect **the** our returns. To address such conflicts, an Investing Party would generally not take a control position in one part of an issuer's capital structure while another affiliated entity takes a control position in another part of the same issuer's capital structure.

The incentive fee payable to our Manager under the management agreement is payable quarterly and is based on our core earnings and, therefore, may cause our Manager to select investments in more risky assets to increase its incentive compensation.

Our Manager is entitled to receive incentive compensation based upon our achievement of targeted levels of core earnings. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on core earnings may lead our Manager to place undue emphasis on the maximization of core earnings at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

Core earnings is not a measure calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP") and is defined in our management agreement in this Annual Report on Form 10-K.

The management agreement with our Manager may be costly and difficult to terminate, including for our Manager's poor performance.

The Management Agreement automatically renews for successive one year terms beginning January 3, 2023 and each January 3 thereafter, unless it is sooner terminated upon written notice delivered to the Company or Manager, as applicable, no later than 180 days prior to a renewal date either (i) by the Company upon the affirmative vote of at least two-thirds (2/3) of the independent directors of the Board or by a vote of at least two-thirds of the Company's outstanding shares of common stock, based upon a determination that (a) the Manager's performance is unsatisfactory and materially detrimental to the Company or (b) the compensation payable to the Manager under the Management Agreement is not fair to the Company (provided that in the instance of (b), we shall not have the right to terminate the Management Agreement if the Manager agrees to continue to provide services under the Management Agreement at fees that at least two-thirds of the independent directors of the Board determine to be fair, provided further that in the instance of (b), the Manager will be afforded the opportunity to renegotiate its compensation prior to termination) or (ii) by the Manager. We may also terminate the Management Agreement at any time, including during the initial term, without the payment of any termination fee, with at least 30 days' prior written notice from us "for cause" as described in the Management Agreement. In the event of a termination of the Manager other than a termination for cause, we are required to pay a termination fee to the Manager. The termination fee is equal to three times the sum of (a) the average annual Base Management Fee and (b) the average annual Incentive Compensation, in each case, earned by the Manager during the twenty-four month period immediately preceding the effective date of termination, calculated as of the end of the most recently completed fiscal quarter before the effective date of termination. Our Manager may terminate the Management Agreement upon written notice delivered no later than 180 days prior to a renewal date.

Our Manager's liability is limited under the management agreement and we have agreed to indemnify our Manager and its affiliates against certain liabilities. As a result, we could experience poor performance or losses for which our Manager would not be liable.

Pursuant to the management agreement, our Manager does not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual as opposed to a fiduciary relationship with us, although our officers who are also employees of an affiliate of our Manager will have a fiduciary duty to us under Maryland Law, as our officers. Under the terms of the management agreement, our Manager, its officers, members, managers, directors, personnel, trustees, partners, stockholders, equity holders, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager will not be liable to us, our directors, our stockholders or any partners for acts or omissions performed in accordance with and pursuant to the management agreement, except because of acts or omissions constituting bad faith, willful misconduct, gross negligence or reckless disregard of their duties under the management agreement, as determined by a final non-appealable order of a court of competent jurisdiction. In addition, we have agreed to indemnify our Manager, its officers, stockholders, members, managers, directors, personnel, trustees, partners, stockholders, equity holders, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts or omissions of our Manager not constituting bad faith, willful misconduct, gross negligence or reckless disregard of duties, performed in good faith in accordance with and pursuant to the management agreement. As a result, we could experience poor performance or losses for which our Manager would not be liable.

Our Manager is subject to extensive regulation as an investment adviser, which could adversely affect its ability to manage our business.

Our Manager is an investment adviser registered with the SEC and is subject to regulation by various regulatory authorities that are charged with protecting the interests of its clients, including us. Our Manager could be subject to civil liability, criminal liability or sanction, including revocation or denial of its registration as an investment adviser, revocation of the licenses of its employees, censures, fines or temporary suspension or permanent bar from conducting business, if it is found to have violated any of laws or regulations applicable to it. Any such liability or sanction could adversely affect its ability to manage our business.

Employee litigation and unfavorable publicity could negatively affect our future business.

Employees may, from time to time, bring lawsuits against us or our Manager regarding injury, creation of a hostile work place, discrimination, wage and hour, sexual harassment and other employment issues. In recent years there has been an increase in the number of discrimination and harassment claims generally. Coupled with the expansion of social media platforms and similar devices that allow individuals access to a broad audience, these claims have had a significant negative impact on some businesses. Companies that have faced employment or harassment related lawsuits have had to terminate management or other key personnel and have suffered reputational harm that has negatively impacted their sales. If we were to face any employment related claims, our business could be negatively affected.

Risks Related to Our Securities

The market price and trading volume of our securities may vary substantially.

Our common stock is listed on the NYSE under the symbol "LFT." Stock markets, including the NYSE, have experienced significant price and volume fluctuations over the past several years. As a result, the market price of our securities has been and is likely to continue to be similarly volatile, and investors in our securities have experienced since the initial offering of our securities and may continue to experience a decrease in the value of their securities. Accordingly, no assurance can be given as to the ability of our stockholders to sell their securities or the price that our stockholders may obtain for their securities.

Some of the factors that negatively affect the market price of our securities include:

- changes in our dividend rates or frequency of payments thereof;
- actual or anticipated variations in our quarterly operating results;
- changes in our earnings estimates or publication of research reports about us or the real estate industry;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions to or departures of our Manager's key personnel;
- actions by our stockholders;
- speculation in the press or investment community;
- trading prices of common and preferred equity securities issued by REITs and other similar companies;
- failure to satisfy REIT requirements;
- general economic and financial conditions;
- government action or regulation; and
- our issuance of additional preferred equity or debt securities.

Market factors unrelated to our performance could negatively impact the market price of our securities, and broad market fluctuations could also negatively impact the market price of our securities.

Market factors unrelated to our performance could negatively impact the market price of our securities. One of the factors that investors may consider in deciding whether to buy or sell our securities is our distribution rate as a percentage of our stock price relative to market interest rates. If market interest rates increase, prospective investors may demand a higher distribution rate or seek alternative investments paying higher distributions or interest. As a result, interest rate fluctuations and conditions in the capital markets can affect the market value of our securities. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performances. These broad market fluctuations could reduce the market price of our securities. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could lead to a material decline in the market price of our securities.

The performance of our securities may be affected by the performance of our investments, which may be speculative and aggressive compared to other types of investments.

The investments we make in accordance with our investment objectives may result in a greater amount of risk as compared to alternative investment options, including relatively higher risk of volatility or loss of principal. Our investments may be speculative and aggressive, and therefore an investment in our securities may not be suitable for someone with lower risk tolerance.

One of the factors that investors may consider in deciding whether to buy or sell shares of our securities is our distribution rate as a percentage of the trading price of our securities relative to market interest rates and distribution rates of our competitors. If the market price of our securities is based primarily on the earnings and return that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions are likely to adversely affect the market price of our securities. For instance, if market rates rise without an increase in our distribution rate, the market price of our securities could decrease as potential investors may require a higher distribution yield on our securities or seek other securities paying higher distributions or interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby reducing cash flow and our ability to service our indebtedness and make distributions to our stockholders.

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

One of the factors that investors may consider in deciding whether to buy or sell shares of our stock is our dividend rate, or our future expected dividend rate, as a percentage of our common stock price, relative to market interest rates. If market interest rates increase, prospective investors may demand a higher dividend rate on our shares or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and capital market conditions can affect the market price of our stock independent of the effects such conditions may have on our portfolio.

We have not established a minimum distribution payment level on our common stock and we cannot assure you of our ability to make distributions in the future, or that our board of directors will not reduce distributions in the future regardless of such ability.

We intend to announce quarterly dividends in arrears on a quarterly basis to holders of our common stock. If substantially all of our taxable income has not been paid by the close of any calendar year, we intend to declare a special dividend to holders of our common stock prior to December 31st of the current year, to achieve this result.

We have not established a minimum distribution payment level on our common stock and our ability to make distributions may be adversely affected by the risk factors described in this Annual Report on Form 10-K. All distributions to our common stockholders will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. There can be no assurance of our ability to make distributions to our common stockholders, or that our board of directors will not determine to reduce such distributions, in the future. In addition, some of our distributions to our common stockholders may continue to include a return of capital.

Future offerings of debt or equity securities that rank senior to our common stock may adversely affect the market price of our common stock.

If we decide to issue additional equity securities or to issue debt in the future that rank senior to our common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us. Furthermore, the compensation payable to our Manager will increase as a result of future issuances of our equity securities even if the issuances are dilutive to existing stockholders.

Risks Related to Our Organization and Structure

Because of their significant ownership of our common stock, Lument Investment Holdings, an affiliate of our Manager, and the Hunt Investors have the ability to influence the outcome of matters that require a vote of our stockholders, including a change of control.

Lument Investment Holdings and the Hunt Investors hold a significant interest in our outstanding common stock. As of **March 1, 2023** **March 1, 2024**, Lument Investment Holdings owned 27.4% of our outstanding common stock and the Hunt Investors owned 12.2% of our outstanding common stock. In addition, James C. Hunt, one of the Hunt Investors, is a member of our board of directors. As a result, each of Lument Investment Holdings and the Hunt Investors has the ability to influence the outcome of matters that require a vote of our stockholders, including election of our board of directors and other corporate transactions, regardless of whether others believe that the transaction is in our best interests.

Maintenance of our exclusion from the Investment Company Act will impose limits on our business; we have not sought formal guidance from the staff of the SEC as to our treatment of loans in securitization trusts and there can be no assurance that the staff will not adopt a contrary interpretation which could cause us to sell material amounts of our assets and to change our investment strategy.

We intend to conduct our operations so that neither we nor our subsidiaries are required to register as investment companies under the Investment Company Act. Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. We believe that we do not meet the definition of investment company under Section 3(a)(1)(A) of the Investment Company Act because we do not engage primarily, or hold ourselves out as being engaged primarily, in the business of investing, reinvesting or trading in securities. Rather, we are primarily engaged in a non-investment company businesses related to real estate.

Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis. Excluded from the term "investment securities," among other things, are U.S. Government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. We intend to conduct our operations so that we do not come within the definition of an investment company under Section 3(a)(1)(C) of the Investment Company Act, or we otherwise qualify for an exclusion from the definition. We generally rely on guidance published by the SEC or its staff or on our own analyses to determine whether we fall outside of this definition, including, for example, whether a particular subsidiary is a "majority-owned subsidiary" or "wholly-owned subsidiary" (as those terms are defined in and interpreted under the Investment Company Act) for this purpose.

We hold our assets primarily through our direct or indirect subsidiaries, certain of which we believe are excluded from the definitions of investment company pursuant to Section 3(c)(5)(C) of the Investment Company Act. As interpreted by the SEC staff, this exception generally requires that at least 55% of the subsidiary's total assets be comprised of certain qualifying real estate interests, and at least 80% of the subsidiary's total assets be comprised of qualifying real estate interests and, as needed, certain real estate-related assets. We generally rely on guidance published by the SEC or its staff, or on our own analyses, to determine which assets are qualifying real estate assets and real estate-related assets.

Certain of our subsidiaries **[may]** **may** seek to rely on Rule 3a-7 under the Investment Company Act. Rule 3a-7 under the Investment Company Act is available to certain structured financing vehicles that are engaged in the business of holding financial assets that, by their terms, convert into cash within a finite time period and that issue fixed income securities entitling holders to receive payments that depend primarily on the cash flows from these assets, provided that, among other things, the structured finance vehicle does not engage in certain portfolio management practices resembling those employed by management investment companies (e.g., mutual funds). Accordingly, each such subsidiary's ability to acquire and dispose of assets is limited. As a result of this limitation as well as others imposed by the rule, these subsidiaries may suffer losses on their assets and we may in turn suffer losses.

We and/or certain of our subsidiaries may seek to rely on the exclusion from the definition of investment company provided by Section 3(c)(6). As a general matter, this section excepts any company primarily engaged, directly or through majority-owned subsidiaries, in one or more other business excepted under the Investment Company Act (including Section 3(c)(5)(C)) or in one or more of such businesses together with an additional business or businesses other than investing, reinvesting, owning, holding, or trading in securities. Little interpretive guidance has been issued by the SEC or its staff with respect to Section 3(c)(6).

SEC and staff no-action and other guidance under the Investment Company Act is based in large part on specific factual situations, some of which differ from the factual situations we and our subsidiaries face from time to time. As a result, we apply SEC or staff guidance that relates to other factual situations by analogy. A number of the staff no-action positions were issued more than twenty years ago. There may be no guidance from the SEC staff that applies directly to our factual situations. No assurance can be given that the SEC or its staff will concur with our analysis, conclusions or approach. In addition, the SEC or its staff may, in the future, issue further guidance that may require us and/or our subsidiaries to re-classify our assets; modify our organizational structure; acquire or sell assets; or make other changes for purposes of the Investment Company Act, any or all of which could materially and adversely affect us. For example, on August 31, 2011, the SEC issued a concept release and request for comments regarding the Section 3(c)(5)(C) exclusion (Release No. IC-29778) in which it solicited public comment on a wide range of issues relating to Section 3(c)(5)(C), including the nature of the assets that qualify for purposes of the exclusion and whether mortgage REITs should be regulated in a manner similar to registered investment companies.

Conducting our business so that we are not required to register under the Investment Company Act limits, among other things: the types of businesses in which we may engage through our subsidiaries; our organizational structure and business strategy; and the types of assets we and our subsidiaries originate,

acquire or sell; and the timing of such originations, acquisitions and dispositions (including doing so when we would not otherwise choose to do so). We cannot assure you that we would be able to complete any such originations, acquisitions or on favorable terms, or at all. Any or all of the above could materially and adversely affect us.

Although we monitor our holdings and organizational structure for ongoing compliance with the above, there can be no assurance that we will be able to continue to avoid registration as an investment company, or that the laws and regulations governing, or regulatory guidance pertaining to, investment company status will not change in a manner that materially and adversely affects us. If the fair market value or income potential of our assets changes, we may need to increase or decrease our holdings of certain of our assets to maintain our exclusion from the Investment Company Act.

If it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that we would be unable to enforce contracts with third parties, that third parties could seek to obtain rescission of transactions undertaken during the period for which it was established that we were an unregistered investment company. In addition, in this case, we would need to register as an investment company under the Investment Company Act, modify our operations, perhaps significantly, to seek to continue to avoid being required to register under the Investment Company Act, or seek some form of exemptive or other relief from the SEC or its staff. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use borrowings), management, operations, transactions with affiliated persons (as defined in the Investment Company Act) and portfolio composition, including disclosure requirements and restrictions with respect to diversification and industry concentration and other matters. Compliance with the Investment Company Act would, accordingly, limit our ability to make certain investments and require us to significantly restructure our business strategy. Any of the foregoing results would have a material adverse effect on us.

Since we are not expected to be subject to the Investment Company Act and the rules and regulations promulgated thereunder, we will not be subject to its substantive provisions, and thus investors will not receive the protections that the Investment Company Act provides to investors in registered investment companies.

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

Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of our shares of stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights

and other terms of the classified or reclassified shares. As a result, our board of directors may establish a series of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our share class or of common stock or otherwise be in the best interest of our stockholders.

Ownership limitations may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares.

In order for us to maintain our REIT qualification for each taxable year after December 31, 2012, during the last half of any taxable year no more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals. "Individuals" for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. To assist us in maintaining our qualification as a REIT among other purposes and subject to certain exceptions, our charter generally prohibits any person from directly or indirectly owning more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock or more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our capital stock. On February 17, 2022, in connection with the closing of our rights offering, in which we issued and sold an aggregate of 27,277,269 shares of our common stock, our board of directors adopted resolutions decreasing the common stock ownership limit and the aggregate stock ownership limit from 9.8% to 8.75% for all stockholders who are not excepted holders. The ownership limitations in our charter could have the effect of discouraging a takeover or other transaction in which holders of our equity securities might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests.

Our board of directors has granted exemptions to the aggregate stock ownership limit and the common stock ownership limit in our charter to (i) XL Bermuda Ltd, (ii) Lument Investment Holdings, LLC, an affiliate of our Manager, and (iii) James C. Hunt, a member of our board of directors and Hunt Company Equity Holdings, LLC.

Certain provisions of Maryland law may limit the ability of a third-party to acquire control of our company.

Certain provisions of the Maryland General Corporation Law ("MGCL") may have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium price for holders of our equity securities or otherwise be in their best interests.

Subject to certain limitations, provisions of the MGCL prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who beneficially owned 10% or more of the voting power of our then outstanding stock during the two-year period immediately prior to the date in question) or an affiliate of the interested stockholder for five years after the most recent date on which the stockholder became an interested stockholder. After the five-year period, business combinations between us and an interested stockholder or an affiliate of the interested stockholder must generally either provide a minimum price to our stockholders (as defined in the MGCL) in the form of cash or other consideration in the same form as previously paid by the interested stockholder or be recommended by our board of directors and approved by the affirmative vote of at least 80% of the votes entitled to be cast by holders of our outstanding shares of voting stock and at least two-thirds of the votes entitled to be cast by stockholders other than the interested stockholder and its affiliates and associates. These provisions of the MGCL relating to business combinations do not apply, however, to business combinations that are approved or exempted by our board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has by resolution exempted business combinations between us and the XL Companies and certain affiliates thereof, the parent of which is AXA SA, between us and Hunt Investors and affiliates thereof and between us and Lument Investment Holdings and affiliates thereof. Consequently, the five-year prohibition and the supermajority vote requirements will not apply to business combinations between us and the exempted parties. As a result, the exempted companies may be able to enter into business combinations with us that may not be in the best interest of our stockholders without compliance by us with the supermajority vote requirements and other provisions of the statute. However, our board of directors may repeal or modify these exemptions at any time in the future, in which case the applicable provisions of this statute will become applicable to business combinations between us and the previously exempted parties.

The "control share" provisions of the MGCL provide that holders of "control shares" of a Maryland corporation (defined as shares which, when aggregated with other shares controlled by the stockholder (except solely by virtue of a revocable proxy), entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights with respect to such shares except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquirer of control shares, our officers and our employees who are also our directors. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. There can be no assurance that this provision will not be amended or eliminated at any time in the future.

Additionally, Title 3, Subtitle 8 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to elect to be subject to certain provisions relating to corporate governance that may have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium to the market price of our equity securities or otherwise be in our stockholders' best interests. Those provisions are (i) a classified board; (ii) a two-thirds vote requirement for removing a director; (iii) a requirement that the number of directors be fixed only by vote of the directors; (iv) a requirement that a vacancy on the board be filled only by affirmative vote of a majority of the remaining directors in office and for the remainder of the full term of the class of directors in which the vacancy occurred; (v) and a majority requirement for the calling of a special meeting of stockholders. We are subject to all of those provisions except for a classified board, either by provisions of our charter and bylaws unrelated to Subtitle 8 or by reason of an election in our charter to be subject to certain provisions of Subtitle 8.

Stockholders have limited control over changes in our policies and operations.

Our board of directors determines our major policies, including with regard to financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under our charter and the MGCL, our common stockholders generally have a right to vote only on the following matters:

- the election or removal of directors;
- the amendment of our charter, except that our board of directors may amend our charter without stockholder approval to:
 - change our name;
 - change the name or other designation or the par value of any class or series of stock and the aggregate par value of our stock;
 - increase or decrease the aggregate number of shares of stock that we have the authority to issue; and
 - increase or decrease the number of our shares of any class or series of stock that we have the authority to issue;
- our liquidation and dissolution; and
- our being a party to a merger, consolidation, sale or other disposition of all or substantially all of our assets or statutory share exchange.

All other matters are subject to the discretion of our board of directors.

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

Our charter provides that, subject to the rights of any class or series of preferred stock, a director may be removed only by the affirmative vote of at least two-thirds of all the votes entitled to be cast generally in the election of directors. Our charter and bylaws provide that vacancies generally may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements make it more difficult to change management by removing and replacing directors and may prevent a change in control that is in the best interests of stockholders.

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

As permitted by Maryland law, our charter eliminates the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter requires us, to the maximum extent permitted by Maryland law, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any individual who is a present or former director or officer and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity or any individual who, while a director or officer and at our request, serves or has served as a director, officer, partner, trustee of another corporation, REIT, partnership, joint venture, trust, employee benefit plan or any other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity. Maryland law permits indemnification of our directors and officers in connection with a proceeding, unless it is established that (i) the act or omission of the individual was material to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, or the individual actually received an improper personal benefit in money, property or services, or (ii) in the case of a criminal proceeding, the individual had reasonable cause to believe that the act or omission was unlawful. As part of these indemnification obligations, we may be obligated to fund the defense costs incurred by our directors and officers.

We also are permitted to purchase and maintain insurance or provide similar protection on behalf of any directors, officers, employees and agents, including our Manager and its affiliates, against any liability asserted which was incurred in any such capacity with us or arising out of such status. This may result in us having to expend significant funds, which will reduce the available cash for distribution to our stockholders.

We have made, and in the future may make, distributions of offering proceeds, borrowings or the sale of assets to the extent that distributions exceed earnings or cash flow from our operations.

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

We are a "smaller reporting company" and we may avail ourselves of the reduced disclosure requirements, which may make the Company's securities less attractive to investors.

As a "smaller reporting company," the Company has relied on exemptions from certain disclosure requirements that are applicable to other public companies. The Company may continue to rely on such exemptions for so long as the Company remains a "smaller reporting company." These exemptions include reduced financial disclosure and reduced disclosure obligations regarding executive compensation. We may continue to rely on such exemptions for so long as we remain a smaller reporting company under applicable SEC rules and regulations. The Company's reliance on these exemptions may result in the public finding the Company's securities to be less attractive and adversely impact the market price of the Company's securities or the trading market thereof.

We are subject to financial reporting and other requirements for which our accounting, internal audit and other management systems and resources may not be adequately prepared.

We are subject to reporting and other obligations under the Exchange Act, including the requirements of Section 404 of the Sarbanes-Oxley Act. These reporting and other obligations may place significant demands on our management, administrative, operational, internal audit and accounting resources and cause us to incur significant expenses. We may need to upgrade our systems or create new systems, implement additional financial and management controls, reporting systems and procedures, expand or outsource our internal audit function and hire additional accounting, internal audit and finance staff. If we are unable to accomplish these objectives in a timely and effective fashion, our ability to comply with the financial reporting requirements and other rules that apply to reporting companies could be impaired. Any failure to maintain effective internal controls could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We are required to make critical accounting estimates and judgments, and our financial statements may be materially affected if our estimates or judgments prove to be inaccurate.

Financial statements prepared in accordance with GAAP require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions reasonably could be used that would have a material effect on our financial statements, and changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. Significant areas of accounting requiring the application of management's judgment include, but are not limited to (1) determining the fair value of our investments, (2) assessing the adequacy of the allowance for **loan credit** losses or credit reserves and (3) appropriately consolidating VIEs for which we have determined we are the primary beneficiary. These estimates, judgments and assumptions are inherently uncertain, and, if they prove to be inaccurate, then we face the risk that charges to income will be required. In addition, because we have limited operating history in some of these areas and limited experience in making these estimates, judgments and assumptions, the risk of future charges to income may be greater than if we had more experience in these areas. Any such charges could significantly harm our business, financial condition, results of operations and our ability to make distributions to our stockholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies" for a discussion of the accounting estimates, judgments and assumptions that we believe are the most critical to an understanding of our business, financial condition and results of operations.

Tax Risks

If we fail to remain qualified as a REIT, we will be subject to U.S. federal income tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our stockholders.

We elected to be taxed as a REIT commencing with our short taxable year ended December 31, 2012, and our subsidiary, Lument Commercial Mortgage Trust, Inc. elected to be taxed as a REIT commencing with its short taxable year ended December 31, 2018 and in each case to comply with the provisions of the Internal Revenue Code with respect thereto. Our and its continued qualification as a REIT will depend on our and its satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Our and its ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Further, there can be no assurance that the U.S. Internal Revenue Service, or the IRS, will not contend that our interests in subsidiaries or in securities of other issuers will not cause a violation of the REIT requirements.

If we were to fail to maintain our REIT qualification in any taxable year and were not able to qualify for, or fail to satisfy the requirements of certain statutory relief provisions, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of our equity securities. Unless we were entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Furthermore, any REIT in which we invest directly or indirectly, including Lument Commercial Mortgage Trust, Inc., the REIT through which we own our interests in our CLOs, is independently subject to, and must comply with, the same REIT requirements that we must satisfy in order to qualify as a REIT. If the subsidiary fails to qualify as a REIT and certain statutory relief provisions do not apply, then (a) the subsidiary REIT would become subject to U.S. federal income tax, (b) the subsidiary REIT will be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost, (c) our investment in the subsidiary REIT could cease to be a qualifying asset for purposes of the asset tests applicable to REITs and any dividend income or gains derived by us from such subsidiary REIT may cease to be treated as income that qualifies for purposes of the 75% gross income test, and (d) we may fail certain of the asset or income tests applicable to REITs, in which event we will fail to qualify as REIT unless we are able to avail ourselves of certain statutory relief provisions.

If we fail to remain qualified as REIT, we may default on our current financing facilities and be required to liquidate our assets, and we may face delays or inability to procure future financing.

Failure to maintain qualified as a REIT could result in an event of default under our credit facility and CLOs, and we may be required to liquidate all or substantially all of our assets, unless we were able to negotiate a waiver. Any such waiver could be conditioned on an amendment to our CLOs or credit facility and any related guaranty agreements on terms that may be unfavorable to us. If we are unable to negotiate a waiver or replace or refinance our assets under a new credit facility or CLO on favorable terms or at all, our financial conditions, results of operations and cash flows could be adversely affected.

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

The maximum tax rate applicable to income from "qualified dividends" payable to U.S. stockholders that are individuals, trusts and estates is 20%, exclusive of a 3.8% investment tax surcharge. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Thus, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our equity securities. However, REIT dividends (other than capital gain dividends) received by non-corporate taxpayers may be eligible for a 20% deduction. This deduction is only applicable to investors of LFT that receive dividends and does not have any impact on us. Without further legislation, the deduction would sunset after 2025. Investors should consult their own tax advisors regarding the effect of this change on their effective tax rate with respect to REIT dividends.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our REIT taxable income determined without regard to the deduction for dividends paid and excluding net capital gain and 90% of our net income, if any, (after tax) from foreclosure property, in order for us to maintain our REIT qualification. To the extent that we satisfy such distribution requirements but distribute less than 100% of our REIT taxable income we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal income tax laws. We intend to make distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code.

From time to time, differences in timing between our recognition of taxable income and our actual receipt of cash may occur. If we do not have other funds available in these situations we could be required to borrow funds on unfavorable terms, sell investments at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, make a taxable distribution of our shares as part of a distribution in which stockholders may elect to receive shares or (subject to certain limits) cash or use cash reserves, in order to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid the U.S. federal income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our equity securities.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on certain types of income including as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease cash available for distribution to our stockholders.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities and may require us to dispose of our target assets sooner than originally anticipated.

To maintain our qualification as a REIT, we must satisfy five tests relating to the nature of our assets at the end of each calendar quarter. First, at least 75% of the value of our total assets must consist of cash, cash items, government securities and real estate assets, including certain mortgage loans and securities and debt instruments issued by publicly offered REITs. Second, we may not own more than 10% of any one issuer's outstanding securities, as measured by either value or voting power. Third, no more than 5% of the value of our total assets can consist of the securities of any one issuer. Fourth, no more than 20% of our total assets can be represented by securities of one or more TRSs. Fifth, not more than 25% of our assets may consist of debt instruments issued by publicly offered REITs to the extent that such debt instruments constitute "real estate assets" for purposes of the 75% asset test described above only because of the express inclusion of "debt instruments issued by publicly offered REITs" in the definition. If we fail to comply with these requirements at the end of any calendar quarter, we will lose our REIT qualification unless we are able to qualify for certain statutory relief provisions, which may involve paying taxes and penalties. In order to comply with the asset tests, we may be required to liquidate from our investment portfolio otherwise attractive investments. These actions could have the effect of reducing our income and the amount available for distribution to our stockholders.

In addition to the asset tests set forth above, to maintain our REIT qualification, we must continually satisfy tests concerning, among other things, the sources of our income, the amounts we distribute to our stockholders and the ownership of our stock. We may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the income test, the asset tests, and the other REIT requirements. Thus, compliance with the REIT requirements may hinder our ability to make certain attractive investments. If we fail to comply with any of these other REIT requirements at the end of any fiscal year, we will lose our REIT qualification unless we are able to satisfy or qualify for certain statutory relief provisions which may involve paying taxes and penalties.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may continue to acquire mortgage-backed securities in the secondary market for less than their face amount. In addition, as a result of our ownership of certain mortgage-backed securities, we may be treated for tax purposes as holding certain debt instruments acquired in the secondary market for less than their face amount. The discount at which such securities or debt instruments are acquired may reflect doubts about their ultimate collectability rather than current market interest rates. The amount of such discount will nevertheless generally be treated as "market discount" for U.S. federal income tax purposes. Accrued market discount is generally reported as income when, and to the extent that, any payment of principal of the mortgage-backed security or debt instrument is made. If we collect less on the mortgage-backed security or debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

In addition, as a result of our ownership of certain mortgage-backed securities, we may be treated for tax purposes as holding distressed debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are "significant modifications" under applicable U.S. Treasury Department regulations, the modified debt may be considered to have been reissued to us at a gain in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt, even if the value of the debt or the payment expectations have not changed.

Moreover, some of the mortgage-backed securities that we acquire may have been issued with original issue discount. We will be required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such **mortgage-backed mortgage-**

backed securities will be made. If such mortgage-backed securities turn out not to be fully collectible, an offsetting loss deduction will become available only in the later year that lack of collectability is provable.

Finally, in the event that any debt instruments or mortgage-backed securities acquired by us are delinquent as to mandatory principal and interest payments, or in the event a borrower with respect to a particular debt instrument acquired by us encounters financial difficulty rendering it unable to pay stated interest as due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, we may be required to accrue interest income with respect to subordinate mortgage-backed securities at the stated rate regardless of whether corresponding cash payments are received or are ultimately collectible. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectable, the utility of that deduction could depend on our having taxable income in that later year or thereafter.

The "taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

Securitizations by us or our subsidiaries could result in the creation of taxable mortgage pools for U.S. federal income tax purposes, resulting in "excess inclusion income." As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we generally would not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as non-U.S. stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt U.S. stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the excess inclusion income. In the case of a stockholder that is a REIT, a regulated investment company, or RIC, common trust fund or other pass-through entity, our allocable share of our excess inclusion income could be considered excess inclusion income of such entity. In addition, to the extent that our stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of any excess inclusion income. Because this tax generally would be imposed on us, all of our stockholders, including stockholders that are not disqualified organizations, generally would bear a portion of the tax cost associated with the classification of us or a portion of our assets as a taxable mortgage pool. A RIC, or other pass-through entity owning our stock in record name will be subject to tax at the highest U.S. federal corporate tax rate on any excess inclusion income allocated to their owners that are disqualified organizations. Moreover, we could face limitations in selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. Finally, if we were to fail to maintain our REIT qualification, any taxable mortgage pool securitizations would be treated as separate taxable corporations for U.S. federal income tax purposes that could not be included in any consolidated U.S. federal income tax return. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

Liquidation of our assets may jeopardize our REIT qualification.

To maintain our qualification as a REIT, we must comply with requirements regarding our assets and our sources of income. If we liquidate our investments including to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge our assets and liabilities. Under these provisions, any income from a hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute "gross income" for purposes of the 75% or 95% gross income tests, if certain requirements are met. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the REIT gross income tests.

Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In

addition, our ability to satisfy the requirements to maintain our REIT qualification depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes. Thus, while we intend to continue to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we will maintain our qualification for any particular year.

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

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

We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the market price of shares of our equity securities.

The present U.S. federal income tax treatments of REITs may be modified, possibly with retroactive effect, by legislative, judicial, or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in us. The U.S. federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS, and the U.S. Treasury, which results in statutory changes as well as frequent revisions to regulations and interpretations. We cannot predict when or if any new U.S. federal income tax law, regulation or administrative interpretation, or any amendment to any existing U.S. federal tax law, regulations or administrative interpretations, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. Future revisions in the U.S. federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investments in us.

Any such revisions could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your tax advisor with respect to the impact of such revisions on your investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares.

On August 14, 2022, President Biden signed into law the Inflation Reduction Act of 2022, or the IRA. The IRA includes numerous tax provisions that impact corporations, including the implementation of a corporate alternative minimum tax as well as a 1% excise tax on certain stock repurchases and economically similar transactions. However, REITs are excluded from the definition of an "applicable corporation" and therefore are not subject to the corporate alternative minimum tax. Additionally, the 1% excise tax specifically does not apply to stock repurchases by REITs. Any taxable REIT subsidiaries of ours operate as standalone corporations and therefore could be adversely affected by the IRA. We will continue to analyze and monitor the application of the IRA to our business, however, the effect of these changes on the value of our assets, shares of our common stock or market conditions generally, is uncertain.

Although REITs generally receive certain tax advantage compared to entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purpose as a corporation. Our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a regular corporation, without the vote of our stockholders. Our board of directors has duties to us and could only cause such changes in our tax treatment if it determines in good faith that such changes are in our best interest.

Distributions to tax-exempt investors may be classified as unrelated business taxable income, or UBTI, as defined under Section 512(a) of the Internal Revenue Code.

Neither ordinary nor capital gain distributions with respect to our stock nor gain from the sale of stock should generally constitute UBTI to a tax-exempt investor. However, there are certain exceptions to this rule, including: (1) part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as UBTI if shares of our stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as UBTI; (2) part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute UBTI if the investor incurs debt in order to acquire the stock; (3) part or all of the income or gain recognized with respect to our stock by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from U.S. federal income taxation under the Internal Revenue Code may be treated as UBTI; and (4) to the extent that we are (or a part of us, or a disregarded subsidiary of ours, is) a "taxable mortgage pool," or if we hold residual interests in a REMIC, a portion of the distributions paid to a tax-exempt stockholder that is allocable to excess inclusion income may be treated as UBTI.

The value of our assets represented by our TRS is required to be limited and a failure to comply with this and certain other rules governing transactions between a REIT and its TRSs would jeopardize our REIT qualification and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. Other than certain activities relating to lodging and healthcare facilities, a TRS generally may engage in any business and may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. No more than 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT, or by a TRS on behalf of its parent REIT, that are not conducted on an arm's-length basis.

Our current TRS, and any future TRSs, will pay U.S. federal, state and local income tax on their respective taxable incomes, if any. We anticipate that the aggregate value of the securities of our TRS will be less than 20% of the value of our total assets (including our TRS securities). Furthermore, we intend to monitor the value of our investments in our TRS for the purpose of ensuring compliance with TRS-ownership limitations. In addition, we will review all our transactions with our TRS to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to continue to comply with the TRS-ownership limitation or to avoid application of the 100% excise tax discussed above.

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

We urge you to consult your tax advisor concerning the effects of U.S. federal, state, local and foreign tax laws to you with regard to an investment in shares of our stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

As an externally managed company, our day-to-day operations are managed by our Manager and our executive officers under the supervision of our board of directors and its committees. Our executive officers are senior investment professionals provided to us through our Manager pursuant to our management agreement with our Manager. Our business is highly dependent on the communications and information systems of our Manager, its affiliates and third-party service providers. Our Manager is an affiliate of ORIX Corporation USA ("ORIX USA"), a diversified financial company and a subsidiary of ORIX Corporation ("ORIX") and participates in and is subject to ORIX USA's cybersecurity program. Accordingly, we rely and Manager relies on ORIX USA and its cybersecurity risk management program to identify, assess and manage material risks to our business from cybersecurity threats.

To date, Cybersecurity threats, including as a result of any previous Cybersecurity incidents, have not had a material impact nor, are they anticipated to significantly affect the Company, including our business strategy, results of operations or financial condition. For a discussion of how risks from cybersecurity threats affect our business see, "Part I. Item 1A. Risk Factors - the occurrence of cyber-incidents, or a deficiency in our Manager's Cybersecurity or those of any of our third party service providers, could negatively affect our business by causing a disruption to our operations, a compromise of our confidential information or damage to our business relationships or reputation, all of which could negatively impact our business and results of operations" in this Annual Report on Form 10-K.

Cybersecurity Governance

Our board of directors is responsible for directing and overseeing our risk management. Our board of directors administers this oversight function directly, with support from its committees. In particular, the audit committee of our board of directors (the "audit committee") has the responsibility to consider and discuss our major financial risk exposures and the steps our Manager takes, or is required to take, to monitor and control these exposures.

including guidelines and policies to govern the process by which risk assessment and management is undertaken. Our audit committee also monitors compliance with legal and regulatory requirements, in addition to overseeing the performance of our internal audit function.

Pursuant to the management agreement between us and our Manager, our Manager is responsible for identifying, assessing, and managing our material risks from cybersecurity threats. Our Manager relies on ORIX USA and ORIX USA information and security team, including the ORIX USA CIO, to provide us with a comprehensive cybersecurity risk management program.

Periodically, at least annually, ORIX USA's CIO and/or other members of the ORIX USA information and cybersecurity team will present to the LFT audit committee on various topics relating to ORIX USA's technology risks, including ORIX USA's cybersecurity program (including the results of cybersecurity tabletop exercises), cybersecurity issues (including those relating to data protection, insider threats, regulatory changes and geopolitical cyber threat management) and risk management (including the results of periodic technology audits).

Cybersecurity Risk Management and Strategy

ORIX USA has a Chief Information Officer (the "ORIX USA CIO"), who leads an information and cybersecurity team (the "ORIX USA information and cybersecurity team") responsible for managing information security at ORIX USA's asset management business, including its Cybersecurity strategy and program, which encompasses annual employee training about Cybersecurity risks and new employee onboarding about ORIX USA's security policies. The ORIX USA information and cybersecurity team's responsibilities cover three main areas: (i) operations and engineering, (ii) threat detection and response, and (iii) governance. The team comprises members with diverse and relevant skill sets and expertise. The ORIX USA CIO leads the cybersecurity team with over twenty years of experience at ORIX USA and prior experience as a principal with a large management consulting firm. This team has developed a program aligned with the NIST CSF framework, emphasizing training and development, with team members holding industry-recognized certifications complemented by industry-recognized third-party providers for threat and incident management.

ORIX USA employs a 'defense in depth' cybersecurity strategy and program based on the NIST Cybersecurity Framework, which includes multiple layers of security policies, protections, and controls designed to safeguard the confidentiality, integrity, and availability of infrastructure, network and information assets from malware and threats. This includes the deployment of firewalls, email protection technologies and web gateway, antivirus, and endpoint detection and response ("EDR") systems.

Our firewalls (intrusion detection systems and intrusion prevention systems) are designed to secure the organization's perimeter complemented by an antivirus and EDR platform designed to detect malware and threats on systems. Web application firewalls are designed to protect external facing applications, while our email security gateway utilizes machine learning and multilayered detection techniques designed to filter malicious emails.

Mobile device management software monitors security events via a Security Information and Event Management platform, managed by a detection and response provider. Mobile device management software is employed with the objective of protecting corporate email and data on mobile devices and is designed to prevent unauthorized data transfer.

ORIX USA maintains a Cybersecurity incident response capability that includes detailed policies, plans and modular run books and maps designed around different types of Cyber Incidents. The plan and run books are tested annually through Cybersecurity tabletop simulations where incident response technical, and executive team members go through real-world scenarios focused on current Cyber threats. ORIX USA's Cybersecurity incident response plan provides for escalation of identified Cybersecurity threats and incidents, including, as appropriate, to our management. These discussions provide a mechanism for the identification of Cybersecurity threats and incidents, assessment of Cybersecurity risk profile or certain newly identified risks relevant to our company, and evaluation of the adequacy of our Cybersecurity program, including risk mitigation, compliance and controls. ORIX USA has established a notification decision framework to determine when the notifications regarding certain cybersecurity incidents, with different severity thresholds triggering notification to different recipient groups, including our Manager and officers of LFT.

ITEM 2. PROPERTIES

We do not own any real estate or other physical properties. We maintain our corporate headquarters at 230 Park Avenue, 20th Floor, New York, NY 10169 in office space furnished to us by our Manager. We reimburse our Manager under the management agreement between us for lease and other related expenses incurred in furnishing us with our offices. We believe that our property is maintained in good condition and is suitable and adequate for our purposes.

ITEM 3. LEGAL PROCEEDINGS

As of the date of this filing, we are not party to any litigation or legal proceeding or, to the best of our knowledge, any threatened litigation or legal proceeding.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

On **March 21, 2023** **March 13, 2024**, the last reported sales price for our common stock on the New York Stock Exchange under symbol "LFT" was **\$1.94**, **\$2.28**.

Holders

At **December 31, 2022** **December 31, 2023**, there were **52,231,152** 52,248,631 shares of our common stock outstanding. As of **March 21, 2023** **March 13, 2024**, there were **16** 17 registered holders. The number of beneficial stockholders is substantially greater than the number of holders of record as a large portion of our stock is held in "street name" through banks or broker dealers.

Dividends

Dividends on our common stock are paid on a quarterly basis.

All dividend distributions are made with the authorization of the board of directors at its discretion and depend on such items as our REIT taxable earnings, financial condition, maintenance of REIT status, and other factors that the board of directors may deem relevant from time to time.

The holders of our common stock share proportionally on a per share basis in all declared dividends on our common stock. We are required to distribute to our stockholders as dividends at least 90% of our REIT taxable income, computed without regard to our net capital gains and the deduction for dividends paid, and 90% of our net income, if any (after tax) from foreclosure property in order to maintain our qualification as a REIT. See Item 1A, "Risk Factors," and Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations," of this Annual Report on Form 10-K, for information regarding the sources of funds used for dividends and for a discussion of factors, if any, which may adversely affect our ability to pay dividends at the same level in **2023** **2024** and thereafter.

The following table presents cash dividends declared on our common stock from **January 1, 2021** **January 1, 2022** through **December 31, 2022** **December 31, 2023**:

Declaration Date	Common Dividends Declared per Share			Date of Payment
	Amount	Record Date		
March 15, 2021	\$ 0.090	March 31, 2021		April 15, 2021
June 15, 2021	\$ 0.090	June 30, 2021		July 15, 2021
September 15, 2021	\$ 0.090	September 30, 2021		October 15, 2021
December 15, 2021	\$ 0.090	December 31, 2021		January 18, 2022
March 15, 2022	\$ 0.060	March 31, 2022		April 15, 2022
June 15, 2022	\$ 0.060	June 30, 2022		July 15, 2022
September 15, 2022	\$ 0.060	September 30, 2022		October 17, 2022
December 15, 2022	\$ 0.060	December 31, 2022		January 17, 2023
March 16, 2023	\$ 0.060	March 31, 2023		April 17, 2023
June 14, 2023	\$ 0.060	June 30, 2023		July 17, 2023
September 14, 2023	\$ 0.070	September 29, 2023		October 16, 2023
December 12, 2023	\$ 0.070	December 29, 2023		January 16, 2024

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On December 16, 2015, we announced a share repurchase program, pursuant to which our Board authorized us to repurchase up to \$10 million of our common shares. Under this program, we have discretion to determine the dollar amount of common shares to be repurchased and the timing of any repurchases in compliance with applicable law and regulations. The program does not have an expiration date.

The Company did not purchase any common shares under the plan during the twelve months ended **December 31, 2022** **December 31, 2023**.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the accompanying notes included in this Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect our current expectations, estimates, forecasts and projections.

Overview

We are a Maryland corporation that is focused on investing in, originating, financing and managing a portfolio of commercial real estate ("CRE") debt investments.

In January 2020, we entered into a series of transactions with subsidiaries of ORIX Corporation USA ("ORIX USA"), a diversified financial company with the ability to provide investment capital and asset management services to clients in the corporate, real estate and municipal finance sectors. We entered into a new management agreement with Lument IM, while another affiliate of ORIX USA purchased an ownership stake of approximately 5.0% through a privately-placed stock issuance. On February 22, 2022, the affiliate purchased an additional 13,071,895 shares of common stock from the transferable common stock rights offering, increasing its beneficial ownership in the Company to approximately 27.4%. These transactions have enhanced the scale of LFT and are expected to generate shareholder value through leveraging ORIX USA's expansive originations, asset management and servicing platform.

Lument IM is an affiliate of Lument, a nationally recognized leader in multifamily and seniors housing and **health** care finance. The Company leverages Lument's broad platform and significant expertise when originating and underwriting investments.

We invest primarily in transitional floating rate CRE mortgage loans with an emphasis on middle market multifamily assets. We may also invest in other CRE-related investments including mezzanine loans, preferred equity, commercial mortgage-backed securities, fixed rate loans, construction loans and other CRE debt instruments. We finance our current investments in transitional multifamily and other CRE loans primarily through **match matched** term non-recourse **CRE secured borrowings, including** collateralized loan obligations ("CLOs" "CLO"), **which are not subject to margin calls or additional collateralization requirements**. We may utilize warehouse repurchase agreements or other forms of financing in the future. Our primary sources of income are net interest from our investment portfolio and non-interest income from our mortgage loan-related activities. Net interest income represents the interest income we earn on investments less the expense of funding these investments.

Our investments typically have the following characteristics:

- Sponsors with experience in particular real estate sectors and geographic markets;
- Located in U.S. markets with multiple demand drivers, such as growth in employment and household formation;
- Fully funded principal balance greater than \$5 million and generally less than \$75 million;
- Loan to Value ratio up to 85% of as-is value and up to 75% of as stabilized value;
- Floating rate loans tied to one-month term SOFR, previously to one-month U.S. denominated LIBOR, and/or in the future potentially other index replacement; and
- Three-year term with two one-year extension options.

We believe that our current investment strategy provides significant opportunities to achieve attractive risk-adjusted returns for our stockholders over time. However, to capitalize on the investment opportunities at different points in the economic and real estate investment cycle, we may modify or expand our investment strategy. We believe that the flexibility of our strategy, which is supported by significant CRE experience of Lument's investment team, and the extensive resources of ORIX USA, will allow us to take advantage of changing market conditions to maximize risk-adjusted returns to our stockholders.

We have elected to be taxed as a REIT and comply with the provisions of the Internal Revenue Code with respect thereto. Accordingly, we are generally not subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders so long as we maintain our qualification as a REIT. Our continued qualification as a REIT depends on our ability to meet, on a continuing basis, various complex requirements under the Internal Revenue Code relating to, among other things, the source of our gross income, the composition and values of our assets, our distribution levels and the concentration of ownership of our capital stock. Even if we maintain our qualification as a REIT, we may become subject to some federal, state and local taxes on our income generated in our wholly owned taxable REIT subsidiary ("TRS"), Five Oaks Acquisition Corp. ("FOAC").

Recent Developments

The year ended **December 31, 2022** **December 31, 2023** has been characterized by significant volatility in global markets, driven by heightened inflation, changes to fiscal and monetary policy, higher interest rates, slowing economic growth, currency fluctuations, labor shortages and challenges in the supply chain and geopolitical uncertainty. Inflation reached generational highs in many economies, prompting central banks to take monetary policy

tightening actions that have and are likely continue to create headwinds to economic growth. The ongoing war in Ukraine is also contributing to economic and geopolitical uncertainty.

The U.S. Federal Reserve has and other central banks have taken action to increase interest rates in order to control inflation, which has created begun to moderate as a result of monetary tightening. While it is anticipated that central banks may begin to lower interest rates in 2024, interest rates may remain at or near recent highs, which creates further uncertainty for the economy and for our borrowers. Although our business model is such that rising higher interest rates will, all else being equal, correlate to increases in our net income, increases in interest rates remaining elevated for an extended period of time may adversely affect our existing borrowers. Additionally, the anticipated continual rise in higher interest rates and unpredictable geopolitical landscape may cause further dislocation in the capital markets resulting in a continual reduction of available liquidity and an increase in borrowing costs. A lack of liquidity for a prolonged period of time could limit our ability to grow our business. It is remains difficult to predict the full impact of recent changes events and any future changes in interest rates, inflation rate or its impact on the debt capital markets. inflation.

2022 2023 Highlights

Operating results

- Net income attributable to common stockholders of \$5.1 million \$15.0 million, or \$0.11 \$0.29 per share of common stock and
- Distributable Earnings of \$9.2 million \$13.3 million, or \$0.19 \$0.26 per share of common stock with
- Declared common dividends declared of \$12.5 million \$13.6 million, or \$0.24 \$0.26 per share of common stock. Distributable Earnings is in the third quarter we increased the common dividend from \$0.06 per share of common stock to \$0.07 per share of common stock, a non-GAAP financial measure. For a definition 17% increase from the second quarter. The fourth quarter dividend of Distributable Earnings and a reconciliation \$0.07 per share of common stock produced an annualized yield of 12.0% on our Distributable Earnings to our net income attributable to common stockholders, see "Key Financial Measure and Indicators." closing stock price as of December 31, 2023
- Book value per share of common stock as of December 31, 2023 was \$182.9 million \$180.7 million, or \$3.50 \$3.46 per share of common stock. stock

Investment Activity

- Acquired eleven thirty-eight loans with an initial unpaid principal balance of \$137.0 million with a weighted average interest rate of one month U.S. LIBOR plus 3.27% and a weighted average LIBOR floor of 0.11%.
- Acquired twelve loans \$570.6 million, acquired twenty-one funded advances with an initial unpaid principal balance of \$132.6 million \$31.7 million and received loan repayments of \$281.7 million
- \$1.4 billion senior loan portfolio is 100% floating rate with a weighted an average interest rate of spread to 30-day term SOFR plus 3.76% and a weighted average SOFR floor of 0.39%. 3.54% as of December 31, 2023
- Originated five loans with an initial unpaid principal balance Multifamily assets represent 94% of \$76.3 million with a weighted average interest rate loan portfolio

Portfolio Financing

- Non-mark-to-market financing is \$1.2 billion as of 30-day term SOFR plus 3.98% and a weighted average SOFR floor December 31, 2023, representing 100% of 0.82%, our secured financings
- On February 22, 2022, the Company Entered into and closed LMF 2023-1, a transferable common stock rights offering. The Company collateralized commercial real estate financing, secured by \$386.4 million of first lien floating-rate multifamily assets, consisting of \$270.4 million of an investment-grade rated senior secured floating rate loan, approximately \$47.3 million of investment-grade notes issued and sold 27,277,269 shares to an affiliate of common stock for gross proceeds of approximately \$83.5 million.
- On February 22, 2022, our Manager and the Company together with its Credit Parties, entered into an amendment (the "Fourth Amendment") to the Credit and Guaranty Agreement. This amendment amended the maximum total net leverage covenant.
- Incurred a \$4.3 million provision for loan loss against our sole office loan, collateralized by an office building in Chicago, retained \$68.6 million subordinate notes

Factors Impacting Our Operating Results

Market conditions. The results of our operations are and will continue to be affected by a number of factors and primarily depend on, among other things, the level of our net interest income, the market value of our assets and the supply of, and demand for, our target assets in the marketplace. Our net interest income, will vary primarily as a result of changes in market interest rates and prepayment speeds, and by the ability of the borrowers underlying our commercial mortgage loans to continue making payments in accordance with the contractual terms of their loans, which may be impacted by unanticipated credit events experienced by such borrowers. Interest rates vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. Our operating results will also be affected by general U.S. real estate fundamentals and the overall U.S. economic environment. In particular, our strategy is influenced by the specific characteristics of the underlying real estate markets, including prepayment rates, credit market conditions and interest rate levels, rates. This year has been characterized by significant volatility in global markets, driven by investor concerns over inflation, rising interest rates, slowing economic growth, geopolitical uncertainty and geopolitical uncertainty. While there is debate among economists as whether such factors, coupled with economic contraction instability in the U.S. in 2022, indicate that the U.S. has entered, or in the near term will enter a recession, it remains difficult to predict the full impact of the recent changes and any future changes in interest rates or inflation. banking sector.

Changes in market interest rates. Generally, our business model is such that rising interest rates will generally increase our net interest income, while declining interest rates will decrease our net interest income. As of December 31, 2022 December 31, 2023, 99.9% of our investments by total investment exposure earned a floating rate of interest, of which 77.4% were indexed to one-month LIBOR and 22.6% 100.0% were indexed to 30-day term SOFR, and all of our collateralized loan obligations and secured financings were indexed to one-month LIBOR, 30-day term SOFR, and as a result we are less sensitive to variability in our net interest income resulting from interest rate changes. Our net interest income currently benefits from LIBOR/SOFR floors in our commercial loan portfolio, with a weighted average LIBOR/SOFR floor of 0.27% as of December 31, 2022. As of December 31, 2022, 99.0% of the loans in our commercial loan portfolio are structured with LIBOR/SOFR floors with a weighted average SOFR floor of 0.38%, none of which currently has a floor greater than the current spot interest rate. When interest rates are below our average interest rate floor, an increase in interest rates will decrease our net interest income until such time as interest rates rise above our average interest rate floor. Although our Manager is currently originating loans with SOFR floors, there can be no assurance that we will continue to obtain SOFR floors on future originations or LIBOR floors on future acquisitions. Similarly, net interest income is also impacted by the spread in our commercial mortgage loan portfolio As of December 31, 2022 December 31, 2023, the weighted average spread of our commercial loan portfolio was 8.43% 3.54%, but there is no assurance that these spreads will be maintained as market environments fluctuate. Current market conditions have reflected a widening trend in commercial mortgage loan credit spreads which provide a benefit to interest income.

The Federal Reserve maintained the federal funds target range at 0.0% to 0.25% for much of 2021, however, 2021. However, in March 2022, the Federal Reserve approved a 0.25% rate increase and subsequently increased rates an additional six times during the year, 2022, raising the federal funds target range to 4.25% to 4.50%. On February 2, 2023, March 20, 2023, May 3, 2023 and March 22, 2023 July 26, 2023, the Federal Reserve approved its eighth, ninth, tenth and ninth eleventh rate increases, increasing the federal funds target range to 4.75% 5.25% to 5.00% 5.50%. The Federal Reserve has indicated that they remain highly attentive to inflation risks and foresee potential for further increases in it may decrease interest rates throughout 2023 and in 2024.

In addition to the risk related to fluctuations in cash flows associated with movement in interest rates, there is also the risk of non-performance on floating rate assets. In the case of significant increase in interest rates, the additional debt service payments due from our borrowers may strain the operating cash flows of the real estate assets underlying our mortgages and/or impact their ability to be refinanced at such higher interest rates, potentially, contribute to non-performance or, in severe cases, default. This risk is partially mitigated during the underwriting process, which generally includes a requirement for our borrowers to purchase interest rate cap contracts with an unaffiliated third-party, provide an interest rate reserve deposit, and/or provide other structural protections. As of December 31, 2023, 97.7% of our performing loans have interest rate caps with a weighted-average strike price of 2.5%.

On November 30, 2020, the ICE Benchmark Administration ("IBA"), with the support of the United States Federal Reserve and United Kingdom's Financial Conduct Authority ("FCA"), announced plans to consult on ceasing publication of LIBOR on December 31, 2021 for only the one week and two month LIBOR tenors, and on June 30, 2023 for all other LIBOR tenors. While this announcement extends extended the transition period to June 2023, the United States Federal Reserve concurrently issued a statements advising banks to stop new LIBOR issuance issuances by the end of 2021. On March 5, 2021, the FCA confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative representative: (a) immediately after December 31, 2021, in the case of the one week and two month U.S. dollar settings; and (b) immediately after June 30, 2023, in the case of the remaining U.S. dollar settings. In November 2022, the FCA announced a public consultation regarding whether it should compel the IBA to continue publishing "synthetic" USD LIBOR settings from June 2023 to the end of September 2024. The ARRC, Alternative Reference Rate Committee ("ARRC"), a committee convened by the Federal Reserve that includes major market participants, has proposed an alternative rate to replace U.S. Dollar LIBOR: the Secured Overnight Financing Rate ("SOFR"). On July 29, 2021 the RRC ratified term rates for the one-, three- and six-month tenors based on SOFR futures traded. As of December 31, 2022 December 31, 2023, 77.4% 100.0% of our commercial loans by principal balance and 100% of our collateralized loan obligations bear interest related to one-month U.S. LIBOR. We expect to complete the process of converting our LIBOR-based loans and CLO liabilities to 30-day term SOFR during the second quarter of 2023 in advance of the June 30, 2023 phase-out date for LIBOR.

Credit risk. Our commercial mortgage loans and other investments are also subject to credit risk. The performance and value of our loans and other investments depend upon the sponsor's ability to operate properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due to us. To monitor this risk, the Manager's asset management team reviews our portfolio and maintains regular contact with borrowers, co-lenders

and local market experts to monitor the performance of the underlying collateral, anticipate borrower, property and market issues and, to the extent necessary or appropriate, enforce our rights as lender. The market values of commercial mortgage assets are subject to volatility and may be adversely affected 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; changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and potential proceeds available to a borrower to repay the underlying loans, which could also cause us to suffer losses. As of December 31, 2022 December 31, 2023, 100% 96.7% of the commercial mortgage loans in our portfolio were current as to principal and interest. Additionally, we have reviewed the loans designated as High Risk and Default Risk for impairment. Impairment of these loans, which are collateral dependent, is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. As of December 31, 2022, the Company has identified one office loan as impaired and established an allowance for loan loss of \$4.3 million for the year ended December 31, 2022. Uncertainty about the severity and duration of the economic impact of the COVID-19 pandemic, as exacerbated by events related to virus strains, persist and potential exists for the credit risk of our portfolio to heighten further. We can provide no assurances that our borrowers will remain current as to principal and interest, or that we will not enter into forbearance agreements or loan modifications in order to protect the value of our commercial mortgage loan assets. Should that occur, it could have a material negative impact on our results of operations.

Liquidity and financing markets. Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to pay dividends, fund investments and repay borrowings and other general business needs. Our primary sources of liquidity have been proceeds of common or preferred stock issuance, net proceeds from corporate debt obligations, net cash provided by operating activities and other financing arrangements. We finance our commercial mortgage loans primarily with collateralized loan obligations, non-recourse secured borrowings, the maturities of which are matched to the maturities of the loans, and which are not subject to margin calls or additional collateralization requirements. However, to the extent that we seek to invest in additional commercial mortgage loans, outside of our CLO, secured borrowings, we will in part be dependent on our ability to issue additional collateralized loan obligations, to secure alternative financing facilities or to raise additional common or preferred equity. The anticipated continual rise in interest rates and unpredictable geopolitical landscape may cause a further dislocation in the capital markets resulting in a continual reduction of available liquidity and an increase in borrowing costs. A lack of liquidity for a prolonged period of time could limit our ability to grow our business.

Prepayment speeds. Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, causing the return on certain investments to be less than expected. As we receive prepayments of principal on our assets, any premiums paid on such assets are amortized against interest income. In general, an increase in prepayment rates accelerates the amortization of purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates accelerates the accretion of purchase discounts, thereby increasing the interest earned on the assets. With the exception of nine twenty-nine loans acquired and seventeen funded loan advances with an initial aggregate unpaid principal balance of \$117.0 million \$473.1 million with an aggregate purchase premium of \$538,146 and aggregate purchase discount of \$171,186, \$8.1 million, all of our commercial mortgage loans were acquired at par. As of December 31, 2022 December 31, 2023, our aggregate unamortized purchase premium was \$19,253 and our unaccreted purchase discount was fully amortized, \$7.0 million, and accordingly we do not believe this to be a material risk to interest income for us at present. Additionally, we are subject to prepayment risk associated with the terms of our collateralized loan obligations, secured borrowings. Due to the generally short-term nature of transitional floating-rate commercial mortgage loans, our CLOs secured borrowings include a reinvestment period during which principal repayments and prepayments on our commercial mortgage loans may be reinvested in similar assets, subject to meeting certain eligibility criteria. The reinvestment period for LFT the 2021-FL1 CLO expired in December 2023 and for LMF 2023-1 remains in place through December 2023, July 2025. While the interest rate spreads of our collateralized loan obligations secured borrowings are fixed until they are repaid, the terms, including spreads, of newly originated loans are subject to uncertainty based on a variety of factors, including market and competitive conditions, conditions, which remain uncertain and volatile in light of the current inflationary environment. To the extent that such conditions result in lower spreads on the assets in which we reinvest, we may be subject to a reduction in interest income in the future. However, our loan agreements provide for prepayment penalties which are intended to offset any potential reduction in future interest income.

Changes in market value of our assets. We account for our commercial mortgage loans at amortized cost. As such, our earnings will generally not be directly impacted by changes in the market values of these loans. However, if a loan is considered to be impaired as the result of adverse credit performance, an allowance is recorded to reduce the carrying value through a charge to the provision for loan credit losses. Impairment is typically measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. Provisions for loan credit losses will directly impact our earnings.

Governmental actions. Since 2008, when both Fannie Mae and Freddie Mac were placed under the conservatorship of the U.S. government, there have been a number of proposals to reform the U.S. housing finance system in general, and Fannie Mae and Freddie Mac in particular. We anticipate debate on residential housing and mortgage reform to continue through 2023 2024 and beyond, but a deep divide persists between factions in Congress and as such it remains unclear what shape any reform would take and what impact, if any, reform would have on mortgage REITs.

Key Financial Measure and Indicators

As a real estate investment trust, we believe the key financial measures and indicators for our business are earnings per share, dividends declared, Distributable Earnings, and book value per share of common stock. For the three months ended December 31, 2022 December 31, 2023, we recorded earnings per share of \$0.02, \$0.07, declared a quarterly common dividend of \$0.06 \$0.07 per share, and reported \$0.06 \$0.10 per share of

Distributable Earnings. In addition, our book value per share was \$3.50 \$3.46 per share. For the year ended December 31, 2022 December 31, 2023, we recorded earnings per share of \$0.11 \$0.29, declared aggregate common dividends of \$0.24 \$0.26 per share, and reported \$0.19 \$0.26 per share of Distributable Earnings.

As further described below, Distributable Earnings is a measure that is not prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, which helps us to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current loan portfolio and operations. In addition, Distributable Earnings is a performance metric we consider when declaring our dividends.

Earnings Per Share and Dividends Declared

The following table sets forth the calculation of basic and diluted net income per share and dividends declared per share:

		Three Months Ended December 31,		Year Ended December 31,	
		2022	2022	2021	
		Three Months Ended December 31,	Three Months Ended December 31,		Year Ended December 31,
		2023	2023	2023	2022
Net income attributable to common stockholders	Net income attributable to common stockholders	\$ 879,776	\$ 5,123,660	\$ 7,414,722	
Weighted-average shares outstanding, basic and diluted	Weighted-average shares outstanding, basic and diluted	52,231,152	48,342,347	24,945,824	
Net income per share, basic and diluted	Net income per share, basic and diluted	\$ 0.02	\$ 0.11	\$ 0.30	
Dividends declared per share	Dividends declared per share	\$ 0.06	\$ 0.24	\$ 0.36	

Distributable Earnings

Distributable Earnings is a non-GAAP financial measure, which we define as GAAP net income (loss) attributable to holders of common stock, or, without duplication, owners of our subsidiaries, computed in accordance with GAAP, including realized losses not otherwise included in GAAP net income (loss) and excluding (i) non-cash equity compensation, (ii) depreciation and amortization, (iii) any unrealized gains or losses or other similar non-cash items that are included in net income for that applicable reporting period, regardless of whether such items are included in other comprehensive income (loss) or net income (loss), and (iv) one-time events pursuant to changes in GAAP and certain material non-cash income or expense items after discussions with the Company's board of directors Board and approved by a majority of the Company's independent directors.

While Distributable Earnings excludes the impact of any unrealized provisions for credit losses, any loan credit losses are charged off and realized through Distributable Earnings when deemed non-recoverable. Non-recoverability is determined (i) upon the resolution of a loan (i.e. when the loan is repaid, fully or partially, or in the case of foreclosures, when the underlying asset is sold), or (ii) with respect to any amount due under any loan, when such amount is determined to be non-collectible.

We believe that Distributable Earnings provides meaningful information to consider in addition to our net income (loss) and cash flows from operating activities determined in accordance with GAAP. We believe Distributable Earnings is a useful financial metric for existing and potential future holders of our common stock as historically, over time, Distributable Earnings has been a strong indicator of our dividends per share. As a REIT, we generally must distribute annually at least 90% of our taxable income, subject to certain adjustments, and therefore we believe our dividends are one of the principal reasons stockholders may invest in our common stock. Refer to Note 16 to our consolidated financial statements for further discussion of our distribution requirements as a REIT. Furthermore, Distributable Earnings help us to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current loan portfolio and operations, and is a performance metric we consider when declaring our dividends.

Distributable Earnings does not represent net income (loss) or cash generated from operating activities and should not be considered as an alternative to GAAP net income (loss), or an indication of GAAP cash flows from operations, a measure of our liquidity, or an indication of funds available for our cash needs. In addition, our methodology for calculating Distributable Earnings may differ from the methodologies employed by other companies to calculate the same or similar performance measures, and accordingly, our reported Distributable Earnings may not be comparable to the Distributable Earnings reported by other companies.

The following table provides a reconciliation of Distributable Earnings to GAAP net income:

[illegible]

Weighted-average shares outstanding, basic and diluted	Weighted-average shares outstanding, basic and diluted	52,231,152	48,342,347	24,945,824
Distributable Earnings per share, basic and diluted	Distributable Earnings per share, basic and diluted	\$ 0.06	\$ 0.19	\$ 0.39

Book Value Per Share

The following table calculates our book value per share:

		December 31,	
		December 31, 2022	2021
		December 31, 2023	December 31, 2022
Total stockholders' equity	Total stockholders' equity	\$ 242,901,997	\$ 169,276,000
Less preferred stock (liquidation preference of \$25.00 per share)	Less preferred stock (liquidation preference of \$25.00 per share)	(60,000,000)	(60,000,000)
Total common stockholders' equity	Total common stockholders' equity	182,901,997	109,276,000
Common stock outstanding	Common stock outstanding	52,231,152	24,947,883
Book value per share	Book value per share	\$ 3.50	\$ 4.38
Book value per share ⁽¹⁾	Book value per share ⁽¹⁾		

As (1) Book value as of December 31, 2022, our common stockholders' equity was \$182.9 million, and our book value December 31, 2023 includes the impact of an estimated CECL allowance of \$6,059,006 or \$0.12 per common share was \$3.50 on a basic and fully diluted basis. Our equity increased by \$73.6 million compared to our stockholders' equity as of December 31, 2021 primarily as a result of the closing of the transferable rights offering generating net proceeds of approximately \$81.1 million partially offset by \$4.3 million allowance for loan loss and \$3.2 million in distributions greater than net income, share.

Investment Portfolio

Commercial Mortgage Loans

As of December 31, 2022 December 31, 2023, we have determined that we are the primary beneficiary of LFT CRE the 2021-FL1 Ltd CLO and LMF 2023-1 Financing based on our obligation to absorb losses derived from ownership of our residual interests. Accordingly, the Company consolidated the assets, liabilities, income and expenses of the underlying issuing entities, collateralized loan obligations.

The following table details our loan activity by unpaid principal balance:

Year Ended **December 31, 2022** **December 31, 2023**

Balance at December 31, 2021 December 31, 2022	\$	1,001,825,294	1,071,889,518
Purchases and advances		345,158,577	594,201,680
Proceeds from principal repayments		(270,926,723)	(277,481,511)
Accretion of purchase discount		\$ 1,070,701	125,098
Amortization of purchase discount		\$ (19,253)	(61,144)
Accretion of deferred loan fees		27,084	292,073
Cumulative-effect adjustment upon adoption of ASU 2016-13			(3,549,501)
Provision for loan credit losses		(4,258,668)	(2,522,510)
Balance at December 31, 2022 December 31, 2023	\$	1,071,889,518	1,383,881,197

The following table details overall statistics for our loan portfolio as of **December 31, 2022** December 31, 2023 and **December 31, 2021** December 31, 2022:

Loan Type	Unpaid Principal Balance	Carrying Value	Loan Count	Floating Rate Loan %	Weighted Average		
					Coupon ⁽¹⁾	Term (Years) ⁽²⁾	LTV ⁽³⁾
<u>December 31, 2022</u>							
<u>Loans held-for-investment</u>							
Senior secured loans ⁽⁴⁾	\$ 1,076,865,099	\$ 1,076,148,186	71	100.0 %	7.6 %	3.5	71.5 %
Allowance for loan losses	N/A	\$ (4,258,668)					
	\$ 1,076,865,099	\$ 1,071,889,518	71	100.0 %	7.6 %	3.5	71.5 %

Loan Type	Unpaid Principal Balance	Carrying Value ⁽¹⁾	Loan Count	Floating Rate Loan %	Weighted Average		
					Coupon ⁽²⁾	Term (Years) ⁽³⁾	LTV ⁽⁴⁾
December 31, 2023							
<u>Loans held-for-investment</u>							
Senior secured loans ⁽⁵⁾	\$ 1,397,385,160	\$ 1,389,940,203	88	100.0 %	8.9 %	2.9	72.8 %
Allowance for credit losses	N/A	\$ (6,059,006)					
	\$ 1,397,385,160	\$ 1,383,881,197	88	100.0 %	8.9 %	2.9	72.8 %

Weighted Average											
Weighted Average											
Loan Type	Loan Type	Unpaid Principal Balance	Carrying Value	Loan Count	Floating Rate Loan %	Coupon ⁽¹⁾	Life (Years) ⁽²⁾	LTV ⁽³⁾	Loan Type	Unpaid Principal Balance	Carrying Value
December 31, 2021											
December 31, 2022											
<u>Loans held-for-investment</u>											
<u>Loans held-for-investment</u>											
Loans held-for-investment	Loans held-for-investment										
Senior secured loans ⁽⁴⁾	Senior secured loans ⁽⁴⁾	\$1,001,869,994	\$1,001,825,294	66	100.0 %	3.9 %	3.7	71.2 %			
		<u>\$1,001,869,994</u>	<u>\$1,001,825,294</u>	<u>66</u>	<u>100.0 %</u>	<u>3.9 %</u>	<u>3.7</u>	<u>71.2 %</u>			
Senior secured loans ⁽⁴⁾	Senior secured loans ⁽⁴⁾								\$1,076,865,099	\$1,076,148,186	71
Senior secured loans ⁽⁴⁾	Senior secured loans ⁽⁴⁾										100.0 %

[illegible]

The table below sets forth additional information relating to the Company's portfolio as of December 31, 2022 December 31, 2023.

25	Senior secured	April 13, 2022	20,651,725	18,989,494	18,989,494	Decatur, GA	Multi-Family	1mS + 3.6	3.4	75.7 %
26	Senior secured	November 21, 2022	21,135,000	18,920,000	18,920,000	Houston, TX	Healthcare	1mS + 4.0	3.0	67.0 %
27	Senior secured	November 23, 2021	19,925,000	19,086,151	18,834,024	Orange, NJ	Multi-Family	1mS + 3.3	3.0	78.0 %
28	Senior secured	February 2, 2022	19,740,000	18,963,264	18,660,822	Houston, TX	Multi-Family	1mS + 3.5	3.2	77.5 %
29	Senior secured	February 11, 2022	20,165,000	19,346,365	18,599,480	Tampa, FL	Multi-Family	1mS + 3.6	3.3	78.0 %
30	Senior secured	October 12, 2021	17,500,000	17,500,000	17,500,000	Atlanta, GA	Multi-Family	1mS + 3.3	0.8	42.9 %
31	Senior secured	May 26, 2022	17,500,000	17,263,000	17,263,000	Brooklyn, NY	Multi-Family	1mS + 3.8	1.5	64.3 %
32	Senior secured	March 31, 2022	18,140,000	16,956,276	16,956,276	Tallahassee, FL	Multi-Family	1mS + 3.3	3.3	74.8 %
33	Senior secured	November 10, 2022	18,590,000	16,690,000	16,690,000	Austin, TX	Healthcare	1mS + 4.0	3.0	65.0 %
34	Senior secured	December 1, 2021	16,071,800	16,008,526	15,449,323	Horn Lake, MS	Multi-Family	1mS + 3.4	3.0	75.7 %
35	Senior secured	February 1, 2022	16,160,000	15,792,145	15,400,000	San Antonio, TX	Multi-Family	1mS + 3.5	3.2	79.8 %

36	Senior secured	April 6, 2022	16,400,000	15,674,743	15,347,180	Vineland, NJ	Multi-Family	1mS + 3.8	3.3	77.0 %
37	Senior secured	April 6, 2022	17,443,500	16,091,603	15,156,425	Haltom City, TX	Multi-Family	1mS + 3.5	3.3	74.1 %
38	Senior secured	December 2, 2021	16,250,000	15,010,343	15,010,343	Colorado Springs, CO	Multi-Family	1mS + 3.1	3.0	72.5 %
39	Senior secured	February 22, 2022	18,241,527	15,524,795	15,000,000	Philadelphia, PA	Multi-Family	1mS + 3.8	3.3	80.0 %
40	Senior secured	June 15, 2022	15,371,600	14,881,463	14,511,455	Denton, TX	Multi-Family	1mS + 3.9	3.6	73.0 %
41	Senior secured	July 26, 2022	17,100,000	14,886,485	14,351,599	Atlanta, GA	Multi-Family	1mS + 3.7	3.7	65.2 %
42	Senior secured	April 27, 2022	15,000,000	14,171,704	14,171,704	Houston, TX	Multi-Family	1mS + 3.7	3.4	79.6 %
43	Senior secured	January 13, 2022	15,180,000	14,341,699	14,119,842	Indianapolis, IN	Multi-Family	1mS + 3.8	3.2	80.0 %
44	Senior secured	November 21, 2022	15,735,000	14,030,000	14,030,000	Southlake, TX	Healthcare	1mS + 4.0	3.0	48.0 %
45	Senior secured	December 28, 2021	14,000,000	14,000,000	14,000,000	Houston, TX	Multi-Family	1mS + 3.3	3.1	71.2 %
46	Senior secured	May 13, 2022	18,500,000	15,108,835	13,885,769	Decatur, AL	Multi-Family	1mS + 3.5	3.5	59.2 %
47	Senior secured	April 12, 2021	15,000,000	13,666,721	13,666,721	Cedar Park, TX	Multi-Family	1mS + 3.9	2.4	66.7 %
48	Senior secured	June 10, 2022	15,250,000	13,880,081	13,625,505	Blakely, PA	Multi-Family	1mS + 3.9	3.6	75.0 %
49	Senior secured	October 6, 2023	13,191,852	13,191,852	13,191,852	Garfield, NJ	Multi-Family	1mS + 4.0	1.8	65.5 %
50	Senior secured	December 13, 2021	15,656,650	12,919,018	12,600,000	Evansville, IN	Multi-Family	1mS + 3.4	3.1	74.3 %
51	Senior secured	December 28, 2021	38,800,000	37,613,170	12,322,717	Houston, TX	Multi-Family	1mS + 3.3	3.1	71.2 %
52	Senior secured	January 25, 2022	13,000,000	12,406,810	12,249,079	Corpus Christi, TX	Multi-Family	1mS + 3.6	3.2	78.8 %
53	Senior secured	May 12, 2022	12,750,000	11,926,591	11,926,591	Ypsilanti, MI	Multi-Family	1mS + 3.5	3.5	68.4 %
54	Senior secured	December 10, 2021	13,000,000	11,815,776	11,662,582	Los Angeles, CA	Multi-Family	1mS + 3.6	3.1	67.9 %
55	Senior secured	March 4, 2022	12,047,625	11,738,608	11,467,505	Houston, TX	Multi-Family	1mS + 3.5	3.3	78.3 %
56	Senior secured	April 14, 2022	11,823,000	11,749,195	11,287,602	Irving, TX	Multi-Family	1mS + 3.5	3.4	74.9 %
57	Senior secured	October 28, 2021	12,250,000	11,828,154	11,202,535	Tampa, FL	Multi-Family	1mS + 3.1	2.9	75.7 %
58	Senior secured	April 23, 2021	11,600,000	11,245,262	10,986,357	Tualatin, OR	Multi-Family	1mS + 3.3	2.4	73.9 %
59	Senior secured	May 3, 2022	11,349,250	11,056,240	10,818,945	Port Richey, FL	Multi-Family	1mS + 3.6	3.4	79.1 %
60	Senior secured	September 30, 2021	11,300,000	11,022,226	10,795,000	Clearfield, UT	Multi-Family	1mS + 3.3	2.8	68.0 %
61	Senior secured	December 29, 2021	11,000,000	10,795,116	10,615,094	Phoenix, AZ	Multi-Family	1mS + 3.8	3.1	75.9 %
62	Senior secured	June 28, 2022	12,880,000	10,531,845	10,531,845	Colorado Springs, CO	Multi-Family	1mS + 3.9	3.6	73.1 %

63	Senior secured	December 2, 2021	9,975,000	9,975,000	9,975,000	Tomball, TX	Multi-Family	1mS + 3.5	3.0	68.5 %
64	Senior secured	November 23, 2021	10,706,000	10,433,651	9,856,000	Atlanta, GA	Multi-Family	1mS + 3.5	3.0	79.5 %
65	Senior secured	January 14, 2022	10,234,000	9,902,979	9,609,250	Houston, TX	Multi-Family	1mS + 3.6	3.2	78.8 %
66	Senior secured	July 14, 2022	10,153,000	9,580,765	9,429,206	Bradenton, FL	Multi-Family	1mS + 3.9	3.7	74.4 %
67	Senior secured	August 5, 2022	10,232,000	9,127,649	9,127,649	San Antonio, TX	Multi-Family	1mS + 4.4	3.7	75.0 %
68	Senior secured	October 21, 2021	11,500,000	9,699,777	9,100,000	Madison, TN	Multi-Family	1mS + 3.3	2.9	68.4 %

Loan #	Form of Investment	Origination Date	Total Loan Commitment ⁽¹⁾	Current Principal Amount	Location	Property Type	Coupon	Max Remaining Term (Years)	LTV ⁽²⁾
1	Senior secured	December 16, 2021	54,455,784	51,375,000	Daytona, FL	Multi-Family	1mL + 3.1	4.1	71.7%
2	Senior secured	November 22, 2019	42,600,000	36,781,588	Virginia Beach, VA	Multi-Family	1mS + 3.3	2.0	77.1%
3	Senior secured	June 28, 2021	39,263,000	34,690,000	Barrington, NJ	Multi-Family	1mL + 3.1	3.6	78.1%
4	Senior secured	November 2, 2021	33,500,000	33,500,000	Warner Robins, GA	Multi-Family	1mL + 3.0	1.9	51.4%
5	Senior secured	June 8, 2021	35,877,500	33,360,000	Chattanooga, TN	Multi-Family	1mL + 3.7	3.6	79.8%
6	Senior secured	June 8, 2021	32,500,000	30,576,666	Miami, FL	Multi-Family	1mL + 3.2	3.6	74.3%
7	Senior secured	May 20, 2021	33,000,000	27,803,800	Marietta, GA	Multi-Family	1mL + 3.1	3.5	77.0%
8	Senior secured	June 7, 2021	29,400,000	26,400,000	San Antonio, TX	Multi-Family	1mL + 3.4	3.6	80.0%
9	Senior secured	August 26, 2021	27,268,000	24,832,000	Clarkston, GA	Multi-Family	1mL + 3.5	3.7	79.0%
10	Senior secured	November 15, 2021	26,003,000	24,330,000	El Paso, TX	Multi-Family	1mL + 3.1	4.0	76.0%
11	Senior secured	October 18, 2021	28,250,000	23,348,000	Cherry Hill, NJ	Multi-Family	1mL + 3.0	3.9	72.4%
12	Senior secured	August 26, 2021	23,370,000	21,957,240	Union City, GA	Multi-Family	1mL + 3.4	3.8	70.4%
13	Senior secured	November 16, 2021	21,975,000	20,960,000	Dallas, TX	Multi-Family	1mL + 3.2	4.0	73.5%
14	Senior secured	August 31, 2021	21,750,000	20,700,000	Houston, TX	Multi-Family	1mL + 3.3	3.8	74.2%
15	Senior secured	October 29, 2021	20,500,000	20,500,000	Knoxville, TN	Multi-Family	1mL + 3.8	3.9	70.0%
16	Senior secured	November 29, 2022	21,283,348	20,360,000	Glendale, WI	Healthcare	1mS + 4.0	4.0	45.0%
17	Senior secured	June 30, 2021	21,968,000	20,188,700	Jacksonville, FL	Multi-Family	1mL + 3.5	3.6	77.1%
18	Senior secured	October 13, 2017	20,000,000	19,648,818	Seattle, WA	Self Storage	1mL + 3.6	1.9	46.5%
19	Senior secured	November 5, 2021	20,965,000	19,200,000	Orlando, FL	Multi-Family	1mL + 3.0	3.9	78.1%
20	Senior secured	November 21, 2022	21,135,000	18,920,000	Houston, TX	Healthcare	1mS + 4.0	4.0	67.0%
21	Senior secured	February 11, 2022	20,165,000	18,599,480	Tampa, FL	Multi-Family	1mS + 3.6	4.3	78.0%
22	Senior secured	November 23, 2021	19,925,000	18,400,000	Orange, NJ	Multi-Family	1mL + 3.2	4.0	78.0%
23	Senior secured	October 12, 2021	17,500,000	17,500,000	Atlanta, GA	Multi-Family	1mL + 3.2	1.8	42.9%
24	Senior secured	July 8, 2021	17,000,000	17,000,000	Knoxville, TN	Multi-Family	1mL + 4.0	1.7	69.7%
25	Senior secured	November 10, 2022	18,590,000	16,690,000	Austin, TX	Healthcare	1mS + 4.0	4.0	65.0%
26	Senior secured	December 28, 2018	24,123,000	16,672,623	Austin, TX	Retail	1mL + 4.6	0.1	60.5%
27	Senior secured	September 30, 2021	17,583,000	16,663,000	Hanahan, SC	Multi-Family	1mL + 3.2	3.8	76.4%
28	Senior secured	February 1, 2022	16,160,000	15,400,000	San Antonio, TX	Multi-Family	1mS + 3.5	4.2	79.8%
29	Senior secured	April 12, 2021	17,000,000	15,000,000	Cedar Park, TX	Multi-Family	1mL + 3.8	3.4	66.7%
30	Senior secured	February 22, 2022	18,241,527	15,000,000	Philadelphia, PA	Multi-Family	1mS + 3.8	4.3	80.0%
31	Senior secured	December 2, 2021	16,250,000	14,857,637	Colorado Springs, CO	Multi-Family	1mL + 3.0	4.0	72.5%
32	Senior secured	December 1, 2021	16,071,800	14,080,000	Horn Lake, MS	Multi-Family	1mL + 3.3	4.0	75.7%

33	Senior secured	November 21, 2022	15,735,000	14,030,000	Southlake, TX	Healthcare	1mS + 4.0	4.0	48.0%
34	Senior secured	November 3, 2021	13,870,000	13,720,000	Louisville, KY	Multi-Family	1mL + 3.4	3.9	75.4%
35	Senior secured	June 15, 2022	15,371,600	13,575,000	Denton, TX	Multi-Family	1mS + 3.9	4.6	73.0%
36	Senior secured	May 28, 2021	13,675,000	13,332,734	Houston, TX	Multi-Family	1mL + 3.4	1.5	73.8%
37	Senior secured	May 26, 2022	17,500,000	13,300,000	Brooklyn, NY	Multi-Family	1mS + 3.8	2.5	64.3%
38	Senior secured	May 12, 2021	13,930,000	13,026,000	Fort Worth, TX	Multi-Family	1mL + 3.4	3.5	74.9%
39	Senior secured	August 16, 2021	15,886,000	12,750,000	Columbus, OH	Multi-Family	1mL + 3.7	3.8	75.0%

40	Senior secured	December 13, 2021	15,656,650	12,600,000	Evansville, IN	Multi-Family	1mL + 3.3	4.1	74.3%
41	Senior secured	October 1, 2021	13,775,000	12,100,000	East Nashville, TN	Multi-Family	1mL + 3.4	3.8	79.1%
42	Senior secured	June 28, 2022	12,880,000	11,470,000	Colorado Springs, CO	Multi-Family	1mS + 3.9	4.6	73.1%
43	Senior secured	October 28, 2021	12,250,000	11,202,535	Tampa, FL	Multi-Family	1mL + 3.0	3.9	75.7%
44	Senior secured	September 30, 2021	11,300,000	10,795,000	Clearfield, UT	Multi-Family	1mL + 3.2	3.8	68.0%
45	Senior secured	April 23, 2021	11,600,000	10,497,000	Tualatin, OR	Multi-Family	1mL + 3.2	3.4	73.9%
46	Senior secured	July 23, 2018	16,200,000	10,258,668	Chicago, IL	Office	1mL + 3.8	0.7	72.7%
47	Senior secured	December 29, 2021	11,000,000	10,239,800	Phoenix, AZ	Multi-Family	1mL + 3.7	4.1	75.9%
48	Senior secured	December 2, 2021	9,975,000	9,975,000	Tomball, TX	Multi-Family	1mL + 3.4	4.0	68.5%
49	Senior secured	November 23, 2021	10,706,000	9,856,000	Atlanta, GA	Multi-Family	1mL + 3.4	4.0	79.5%
50	Senior secured	January 14, 2022	10,234,000	9,609,250	Houston, TX	Multi-Family	1mS + 3.6	4.2	78.8%
51	Senior secured	October 21, 2021	11,500,000	9,100,000	Madison, TN	Multi-Family	1mL + 3.2	3.9	68.4%
52	Senior secured	November 30, 2021	11,276,000	8,400,000	Lindenwood, NJ	Multi-Family	1mL + 3.6	4.0	76.4%
53	Senior secured	May 12, 2021	8,950,000	8,220,000	Lakeland, FL	Multi-Family	1mL + 3.4	3.5	76.8%
54	Senior secured	June 22, 2022	9,772,000	8,175,500	Des Moines, IA	Multi-Family	1mS + 4.0	4.6	72.0%
55	Senior secured	April 7, 2021	10,152,000	7,963,794	Phoenix, AZ	Multi-Family	1mL + 3.6	3.4	69.5%
56	Senior secured	June 24, 2022	7,934,160	7,934,160	Monks Corner, SC	Multi-Family	1mS + 4.2	4.6	67.8%
57	Senior secured	October 29, 2021	9,000,000	7,934,000	Riverside, MO	Multi-Family	1mL + 3.4	3.9	76.6%
58	Senior secured	November 16, 2021	7,680,000	7,680,000	Cape Coral, FL	Multi-Family	1mL + 3.3	2.0	79.2%
59	Senior secured	September 28, 2021	8,125,000	7,286,000	Chicago, IL	Multi-Family	1mL + 3.7	3.8	75.9%
60	Senior secured	February 18, 2022	7,800,000	7,200,000	Drexel Hills, PA	Multi-Family	1mS + 4.0	4.3	78.1%
61	Senior secured	December 19, 2022	6,325,000	6,325,000	Asheville, NC	Multi-Family	1mS + 3.8	2.6	41.1%
62	Senior secured	July 1, 2021	7,285,000	6,290,000	Harker Heights, TX	Multi-Family	1mL + 3.6	3.6	72.3%
63	Senior secured	April 27, 2022	55,220,000	6,000,000	North Brunswick, NJ	Multi-Family	1mS + 3.4	4.4	79.9%
64	Senior secured	May 21, 2021	7,172,000	5,994,000	Youngtown, AZ	Multi-Family	1mL + 3.7	3.5	71.4%
65	Senior secured	October 26, 2021	6,807,000	5,812,000	Indianapolis, IN	Multi-Family	1mL + 3.9	3.9	77.1%

66	Senior secured	June 10, 2019	6,000,000	5,295,605	San Antonio, TX	Multi-Family	1mL + 2.9	1.6	62.9%
67	Senior secured	April 30, 2021	5,472,000	5,285,500	Daytona Beach, FL	Multi-Family	1mL + 3.7	3.4	77.4%
68	Senior secured	December 13, 2021	6,799,000	5,250,000	Evansville, IN	Multi-Family	1mL + 3.3	4.1	73.9%
69	Senior secured	July 14, 2021	6,048,000	5,248,000	Birmingham, AL	Multi-Family	1mL + 3.7	3.7	71.7%
70	Senior secured	November 19, 2021	6,453,000	5,040,000	Huntsville, AL	Multi-Family	1mL + 3.8	4.0	78.8%
71	Senior secured	December 28, 2021	52,800,000	2,800,000	Houston, TX	Multi-Family	1mS + 3.3	4.1	71.2%
72	Senior secured	June 22, 2022							
73	Senior secured	May 26, 2022							

69	Senior secured	August 16, 2021	8,889,177	8,889,177		8,889,177		8,889,177	Columbu OH
70	Senior secured	October 29, 2021	9,000,000	8,824,877		8,824,877		8,717,380	Riverside MO
71	Senior secured	May 12, 2021	8,950,000	8,866,850		8,866,850		8,220,000	Lakeland FL
72	Senior secured	June 22, 2022	9,772,000			8,499,173		8,175,500	Des Moi
73	Senior secured	May 26, 2022	8,497,500			8,116,833		8,116,833	Haltom C

74	74	Senior secured	June 24, 2022	7,934,160	7,934,160	7,934,160	Moncks
75	75	Senior secured	November 16, 2021	7,680,000	7,680,000	7,680,000	Cape Co
76	76	Senior secured	June 03, 2022	10,367,500	7,367,500	7,367,500	Deer Pai
77	77	Senior secured	September 28, 2021	8,125,000	7,286,000	7,286,000	Chicago,
78	78	Senior secured	July 01, 2021	7,285,000	7,262,519	7,169,838	Harker H TX
79	79	Senior secured	October 07, 2022	7,000,000	7,000,000	7,000,000	Fairborn
80	80	Senior secured	October 24, 2022	6,100,000	6,100,000	6,100,000	Various,
81	81	Senior secured	April 08, 2022	6,191,853	6,096,412	6,096,412	St. Peter FL
82	82	Senior secured	May 21, 2021	7,172,000	6,937,427	5,994,000	Youngton
83	83	Senior secured	July 14, 2021	6,048,000	5,913,912	5,913,912	Birmingham
84	84	Senior secured	October 26, 2021	6,807,000	6,133,736	5,812,000	Indianap
85	85	Senior secured	November 19, 2021	6,453,000	5,519,604	5,519,604	Huntsvill
86	86	Senior secured	April 30, 2021	5,472,000	5,472,000	5,285,500	Daytona FL
87	87	Senior secured	December 13, 2021	6,799,000	5,685,398	5,250,000	Evansvill
88	88	Senior secured	October 06, 2023	4,808,148	4,808,148	4,808,148	Garfield,

(1) Total Loan Commitment represents the total commitment of the entire whole loan originated. See Note 11 Commitments and Contingencies to our consolidated financial statements for further discussion of unfunded commitments.

(2) Committed Principal Amount includes funded participations by LFT affiliated entities and third parties that are syndicated/sold.

(3) LTV as of the date the loan was originated by a Hunt/ORIX affiliate and is calculated after giving effect to capex and ~~earnout~~ ~~earn-out~~ reserves, if applicable. LTV has not been updated for any subsequent draws or loan modifications and is not reflective of any changes in value, which may have occurred subsequent to origination date.

During We did not have any impaired loans, non-accrual loans, or loans in maturity default other than the period ended loans discussed below as of December 31, 2023 or December 31, 2022, management identified one loan, collateralized by an

In February 2023, in connection with the sale of the office building with collateralizing an impaired loan by the borrower to an unaffiliated third-party, the Company accepted a discounted payoff of approximately \$6.0 million on the impaired loan, which had an unpaid principal value balance of \$10.3 million as impaired, reflecting a decline in collateral value attributable to (i) recent and near term vacancies at the property; (ii) new information available during the year ended December 31, 2022 regarding the addition \$10.3 million. A specific allowance for credit loss of office space supply that will increase the submarket vacancy rate in the local market and (iii) declining market conditions. As of August 8, 2022, this loan has been placed in maturity default. We entered into a forbearance agreement with the borrower extending the maturity date to December 2022 to allow the borrower more time to market and sell the property, however the borrower was unable to execute a sale in this timeframe. Subsequent to the December 2022 maturity, the loan paid off generating net proceeds of approximately \$6 million. Based on this review, a reserve of \$4.3 million \$4.3 million was recorded for this impaired loan in the year ended December 31, 2022. Additionally, this loan Upon the discounted payoff, a \$4.3 million charge off against the allowance for credit losses was placed on non-accrual as result of recorded, with de minimis impact to income in the impaired loan classification, however, the borrower remained current on debt service payments through December 31, 2022 year ended December 31, 2023.

During the period ended December 31, 2022 and throughout 2023, management identified one loan, collateralized by a multifamily property in Columbus, Ohio, with an initial unpaid principal value of \$12.8 million as impaired due to monetary default resulting in a risk rating of "5." In the first quarter of 2023, this loan was placed on non-accrual status with interest collections accounted for under the cost recovery method. As of December 31, 2023, the carrying value of this loan was \$8.9 million, which reflects a \$5.0 million payment received on November 25, 2023 under an insurance claim, of which \$3.1 million was applied to principal reduction and a \$1.9 million liability established primarily for a tenant settlement. As of December 31, 2023, no specific reserves were required after analysis of the underlying collateral value. Subsequent to December 31, 2023, we received additional insurance proceeds in the amount of \$13.5 million which reduced the carrying value of this loan on our consolidated balance sheets to \$0. See Note 16 for further discussion.

During the period ended December 31, 2023, management identified one loan, collateralized by a multifamily property in Virginia Beach, VA, with an unpaid principal value balance of \$12.8 million \$36.8 million as impaired due to monetary default resulting in a risk rating of "5"; however no reserve is specific asset reserves were required after analysis of underlying collateral value. However, this This loan was placed is on non-accrual status as a result as a result of the monetary default and impaired loan classification.

We maintain strong relationships Subsequent to December 31, 2023, the Company and the borrower entered into a loan modification and the loan was loan returned to accrual status. See Note 16 for further discussion.

During the period ended December 31, 2023, a previously risk rated "5" loan collateralized by a multifamily property in Orlando, FL with our borrowers and utilized those relationships to address potential impacts on loans secured by properties experiencing cash flow pressure. All an unpaid principal balance of our loans are \$19.6 million, was brought current with respect to interest payments and restored to accrual status.

Our Manager's asset management team pro-actively manages the Company's investment portfolio. The asset management team, together with our Manager's underwriting and servicing teams, monitors the credit performance of the investment portfolio, working closely with borrowers to manage all of our positions and monitor financial performance of our collateral assets, including execution of business plans and daily activities within our investment portfolio.

Loan modifications and amendments are commonplace in the transitional lending business. We may amend or modify a loan depending on the loan's specific fact and circumstances. These loan modifications typically include additional time for a borrower to refinance or sell their property, adjustment or waiver of performance tests that are prerequisite to the extension of a loan maturity, modification of terms of interest rate cap agreements, and/or deferral of scheduled principal and payments. In exchange for a modification, we often receive a partial repayment of principal, a cash infusion to replenish interest other than or capital improvement reserves, termination of all or a portion of the loans discussed above, however, we will remaining unfunded loan commitment, additional call protection and/or an increase in the loan coupon or additional fees. We continue to engage in discussions work with them should our borrowers to address issues as they arise while seeking to preserve the credit attributes of our loan. However, we cannot assure you that these difficulties arrive, efforts will be successful, and we may experience payment delinquencies, defaults, foreclosures or losses.

We have not entered into any forbearance agreements or loan modifications As discussed in Note 2 to date, other than the forbearance agreement discussed above. However, we can provide no assurances that our borrowers will remain current as to principal and interest, or that we will not enter into any forbearance agreements or loan modifications on order to protect the value consolidated financial statements, our Manager performs a quarterly review of our commercial mortgage loan assets.

portfolio, assesses the performance of each loan, and assigns a risk rating between "1" and "5," from less risk to greater risk. The weighted average risk rating of the portfolio has increased during the year ended our total loan exposure was 3.5 as of December 31, 2023 and 3.0 as of December 31, 2022, respectively. The change in underlying risk rating consisted of loans that paid off with a risk rating of "2" of \$144.6 \$41.2 million, a risk rating of "3" of \$103.5 \$192.6 million and a risk rating of "4" "5" of \$9.5 \$14.1 million, offset by purchases of commercial mortgage loans with a risk rating of "2" of \$85.9 \$7.0 million, a risk rating of "3" of \$231.7 \$475.5 million and a risk rating of "4" of \$15.0 million \$85.9 million during the year ended December 31, 2022 December 31, 2023. Additionally, \$437.0 \$82.1 million of loans with a risk rating of "2" transitioned to a risk rating of "3", \$32.4 million of loans with a risk rating of "2" transitioned to a risk rating of "4", \$47.7 \$169.9 million of loans with a risk rating of "3" transitioned to a risk rating of "2" "4", \$12.8 \$36.8 million of loans transitioned from a risk rating of "3" to a risk rating of "5", \$5.3 and \$9.1 million of loans transitioned from a risk rating of "4" to a risk rating of "3", and a loan with an unpaid principal balance of \$10.3 million transitioned from a risk rating of "4" to a risk rating of "5". The following table presents the principal balance and net book value based on our internal risk ratings:

December 31, 2022															
Amortized Cost by Year of Origination															
December 31, 2023															
Amortized Cost by Year of Origination									Amortized Cost by Year of Origination						
Risk Rating	Risk Rating	Number of Loans	Outstanding Principal	2022	2021	2019	2018	2017	Risk Rating	Number of Loans	Outstanding Principal	2023	2022	2021	2019
1	1	—	\$ —	—	—	—	—	—							
2	2	11	153,933,750	85,198,084	67,999,500	—	—	—							
3	3	55	852,474,681	101,654,140	672,421,907	42,077,193	16,672,623	19,668,071							
4	4	3	47,448,000	15,000,000	32,448,000	—	—	—							
5	5	2	23,008,668	—	12,750,000	—	6,000,000	—							
		71	1,076,865,099	201,852,224	785,619,407	42,077,193	22,672,623	19,668,071							
	88														

Total Financing

Our financing arrangements include our term loan facility, collateralized loan obligations and secured financings. All of our current financing arrangements are not subject to credit or capital markets mark-to-market provisions.

The following table summarizes our financing agreements:

	December 31, 2023					December 31, 2022	
	Non-/Mark-to-Market	Maximum Facility Size ⁽¹⁾	Collateral Assets ⁽²⁾	Borrowings		Borrowings	
				Outstanding	Available	Outstanding	
Collateralized loan obligations	Non-Mark-to-Market	\$ 1,000,000,000	\$ 1,002,144,587	\$ 1,000,000,000	\$ —	\$ 1,000,000,000	

Secured Financings	Non-Mark-to-Market	386,300,000	386,351,397	386,300,000	—	—
Secured term loan	Non-Mark-to-Market	47,750,000	N/A	47,750,000	—	47,750,000
		<u>\$ 1,434,050,000</u>		<u>\$ 1,434,050,000</u>	<u>\$ —</u>	<u>\$ 1,047,750,000</u>

(1) Maximum facility size represents the largest amount of borrowings under a given facility once sufficient collateral assets have been approved by the lender and pledged by us.

(2) Represents the principal balance of the collateral assets.

Collateralized Loan Obligations and Secured Financings

We may seek On June 14, 2021, the Company completed the 2021-FL1 CLO, issuing eight tranches of CLO notes through two newly-formed wholly-owned subsidiaries totaling \$903.8 million. Of the total CLO notes issued \$833.8 million were investment grade notes issued to enhance returns on our third party investors and \$70 million were below investment-grade notes retained by us. In addition, a \$96.25 million equity interest in the portfolio was retained by us. The financing had an initial two-and-a-half year reinvestment period that allows principal proceeds of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Initially, the proceeds of the issuance of the securities also included \$330.3 million for the purpose of acquiring additional loan obligations for a period up to 180 days from the CLO closing date, resulting in the issuer owning loan obligations with a face value of \$1.0 billion, representing leverage of 83%.

On July 12, 2023, the Company entered into and closed a matched-term non-recourse collateralized commercial real estate financing (the "LMF 2023-1 Financing"), secured by \$386.4 million of first lien floating-rate multifamily mortgage assets and is not subject to margin calls or additional collateralization requirements. In connection with the LMF 2023-1 Financing, approximately \$270.4 million of an investment-grade rated senior secured floating rate loan investments through securitizations, or CLOs, if available, as well as was provided by a private lender and approximately \$47.3 million of investment-grade rated notes (collectively, the "Senior Debt") were issued and sold to an affiliate of warehouse or repurchase agreement financing. To the extent available, we intend to securitize the senior portion LFT's external manager, Lument IM. A consolidated subsidiary of some of our loans, while retaining LFT retained the subordinate securities interests in our investment portfolio, the issuing vehicle of approximately \$68.6 million. The securitizations Senior Debt has an initial weighted average spread of this senior portion approximately 0.0314 basis points over 30-day Term SOFR, excluding fees and transaction costs. The Senior Debt matures on the payment date in July 2032, unless it is sooner repaid or redeemed in accordance with its terms. The financing has an initial two-year reinvestment period that allows principal proceeds of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be accounted for reduced as either a "sale" or loans are repaid.

The following table presents certain loan and borrowing characteristics of 2021-FL1 CLO and LMF 2023-1 Financing as a "financing." If they are accounted for as a sale, the loan will be removed from the balance sheet and if they are accounted for as a financing the loans will be classified as "commercial mortgage loans held-for-investment" in our consolidated balance sheets, depending on the structure of December 31, 2023:

As of December 31, 2023				
Collateralized Loan Obligations	Count	Principal Value	Carrying Value ⁽¹⁾	Wtd. Avg. Coupon ⁽²⁾
Collateral (loan investments)	87	1,388,495,984	1,375,277,312	8.91 %
Debt (notes issued) ⁽¹⁾	2	1,151,450,000	1,146,210,752	7.35 %

(1) The carrying value of the securitization collateral is net of purchase discounts of \$7,159,664 as of December 31, 2023. The carrying value for 2021-FL1 CLO is net of debt issuance costs of \$1,911,547 and \$4,439,502 for December 31, 2023, and December 31, 2022, respectively, and the carrying value for LMF 2023-1 Financing is net of debt issuance costs of \$3,327,701.

(2) Weighted average coupon assumes applicable one-month LIBOR of 4.18% as of December 31, 2022 and 30-day Term SOFR of 5.33% and 4.19% as of December 31, 2023 and December 31, 2022, respectively, inclusive of weighted average interest rate floors of 0.38% and 0.25%, respectively. As of December 31, 2023, 100.0% of the investments by total exposure earned a floating rate indexed to 30-day Term SOFR. As of December 31, 2022, 80.4% of the carrying investments by total investment exposure earned a floating rate indexed to one-month LIBOR and 19.6% of the investments by total investment exposure earned a floating indexed to 30-day term SOFR. Weighted average coupon for the financings assumes applicable 30-day term SOFR of 5.36% as of December 31, 2023 and one-month LIBOR of 4.32% as of December 31, 2022, respectively and spreads of 1.99% and 1.43% for December 31, 2023 and December 31, 2022.

Secured Term Loan

In January 2020, we entered into a \$40.25 million secured term loan with an initial maturity of February 2025. In April 2021, we entered into an amendment, providing, among other things, an incremental secured term loan in the amount of \$7.5 million and a one-year maturity extension to February 2026. In August 2021, the Company drew down the \$7.5 million incremental secured term loan.

Borrowings under the Secured Term Loan bear interest at a fixed rate of 7.25% for the six-year period following the initial draw-down, which is subject to step up by 0.25% for the first four months after the sixth anniversary of the borrowing of the Senior Secured Term Loan, then by 0.375% for the following four months, then by 0.50% for the last four months until maturity.

The Credit Agreement contains affirmative and negative covenants binding the Company and its subsidiaries that are customary for credit facilities of this type, including, but not limited to: minimum asset coverage ratio; minimum unencumbered assets ratio; maximum total net leverage ratio; minimum tangible net worth; and an interest charge coverage ratio. As of December 31, 2023 and December 31, 2022, we were in compliance with these covenants.

The Credit Agreement contains events of default that are customary for facilities of this type, including, but not limited to, nonpayment of principal, interest, fees and other amounts when due, violation of covenants, cross default with material indebtedness, and outstanding principal balances change of our collateralized loan obligations were \$803.3 million and \$833.8 million, respectively. See Note 4 to our consolidated financial statements included in this Annual Report on Form 10-K for additional terms and details of our CLOs, control.

FOAC and Changes to Our Residential Mortgage Loan Business

In June 2013, we established FOAC as a Taxable REIT Subsidiary, or TRS, to increase the range of our investments in mortgage-related assets. Until August 1, 2016, FOAC aggregated mortgage loans primarily for sale into securitization transactions, with the expectation that we would purchase the subordinated tranches issued by the related securitization trusts, and that these would represent high quality credit investments for our portfolio. Residential mortgage loans for which FOAC owns the MSRs continue to be directly serviced by two licensed sub-servicers since FOAC does not directly service any residential mortgage loans.

As noted above, we previously determined to cease the aggregation of prime jumbo loans for the foreseeable future, and therefore no longer maintain warehouse financing to acquire prime jumbo loans. We do not expect the previous changes to our mortgage loan business strategy to impact the existing MSRs that we own, nor the securitizations we have sponsored to date.

Pursuant to a Master Agreement dated June 15, 2016, as amended on August 29, 2016, January 30, 2017 and June 27, 2018, among MAXEX, LLC ("MAXEX"), MAXEX Clearing LLC, MAXEX's wholly-owned clearinghouse subsidiary and FOAC, FOAC provided seller eligibility review services under which it reviewed, approved and monitored sellers that sold loans via MAXEX Clearing LLC. To the extent that a seller approved by FOAC fails to honor its obligations to repurchase a loan based on an arbitration finding that it breached its representations and warranties, FOAC was obligated to backstop the seller's repurchase obligation. The term of such backstop guarantee was the earlier of the contractual maturity of the underlying mortgage and its repayment in full. However, the incidence of claims for breaches of representations and warranties over time is considered unlikely to occur more than five years from the sale of a mortgage. FOAC's obligations to provide such seller eligibility review and backstop guarantee services terminated on November 28, 2018. Pursuant to an Assumption Agreement dated December 31, 2018, among MAXEX Clearing LLC and FOAC, MAXEX Clearing LLC assumed all of FOAC's obligations under its backstop guarantees and agreed to indemnify and hold FOAC harmless against any losses, liabilities, costs, expenses and obligations under the backstop guarantee. FOAC paid MAXEX Clearing LLC, as the replacement backstop provider, a fee of \$426,770 (the "Alternative Backstop Fee"). MAXEX Clearing LLC represented to FOAC in the Assumption Agreement that it (i) is rated at least "A" (or equivalent) by at least one nationally recognized statistical rating agency or (ii) has (a) adjusted tangible net worth of at least \$20.0 million and (b) minimum available liquidity equal to the greater of (x) \$5.0 million and (y) 0.1% multiplied by the scheduled unpaid principal balance of each outstanding loan covered by the backstop guarantees. MAXEX's chief financial officer is required to certify ongoing compliance by MAXEX Clearing LLC with the aforementioned criteria on a quarterly basis and if MAXEX Clearing LLC fails to satisfy such criteria, MAXEX Clearing

LLC is required to deposit into an escrow account for FOAC's benefit an amount equal to the greater of (A) the unamortized Alternative Backstop Fee for each outstanding loan covered by the backstop guarantee and (B) the product of 0.01% multiplied by the scheduled unpaid principal balance of each outstanding loan covered by the backstop guarantees. See [Notes 13 and 14](#) [Note 10](#) to our consolidated financial statements included in this Annual Report for a further description of MAXEX.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and use of assumptions as to future uncertainties. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to understanding our financial statements because they involve significant judgments and uncertainties that could affect our reported assets and liabilities, as well as our reported revenues and expenses. All of these estimates reflect our best judgments about current, and for some estimates, future economic and market conditions and their effects based on information available as of the date of the financial statements. If conditions change from those expected, it is possible that the judgments and estimates described below could change, which may result in a change in our interest income recognition, allowance for [loan credit](#) losses, future impairment of our investments, and valuation of our investment portfolio, among other effects. We believe that the following accounting policies are among the most important to the portrayal of our financial condition and results of operations and require the most difficult, subjective or complex judgments:

Commercial Mortgage Loans Held-for-Investment

[Commercial mortgage loans held-for-investment represent floating-rate transitional](#) On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") and amendments, which replaces the incurred loss methodology with an expected loss model known as the Current Expected Credit Loss ("CECL") model. CECL amends the previous credit loss model to reflect a reporting entity's current estimate of all expected credit losses, not only based on historical experience and current economic conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, and off-balance credit exposures such as unfunded loan commitments. The allowance for credit losses required under ASC 2016-13 is included in "Allowance for credit losses" on our consolidated balance sheets. The allowance for credit losses attributed to unfunded loan commitments is included in "Other liabilities" in the consolidated balance sheets. The change to the allowance for credit loss recorded on January 1, 2023 is reflected as a direct charge to retained earnings on our consolidated statements of changes in equity; however subsequent changes to the allowance for credit losses are recognized through net income on our consolidated statements of operations. In connection with the adoption of ASU 2016-13, we recorded a \$3.6 million decrease to accumulated earnings as of January 1, 2023.

The Company's implementation process included a selection of a credit loss analytical model, completion and documentation of policies and procedures, changes to internal reporting processes and related internal controls and additional disclosures. A control framework for governance, data, forecast and model controls was developed to support the allowance for credit losses process. Determining an allowance for credit loss estimate requires significant judgment and a variety of subjective assumptions, including (i) determination of relevant historical loan loss data sets, (ii) the current credit quality of loans and [other](#) operating performance of loan collateral and the Company's expectations of performance and (iii) expectation of macroeconomic forecasts over the relevant time period.

The Company estimates the allowance for credit losses for its portfolio on a collective basis, including unfunded loan commitments, for loans that share similar risk characteristics. The calculation is applied at the loan level. The allowance for credit losses estimation methodology used by LFT includes a probability of default and loss given default method utilizing a widely-used third-party analytical model with historical loan losses for over 100,000 commercial [mortgage](#) real estate loans [purchased](#) dating back to 1998. Within this data set, we focused our historical loss information on the most relevant subset of available CRE data, which we determined based on loan metrics that are most comparable to our loan portfolio including asset type, spread to interest rate, unpaid principal balance and origination loan-to-value, or LTV. The Company expects to use this proxy data set, or variants of it, unless the Company develops its own sufficient history of realized losses. The Company determined the key variables driving its allowance for credit losses estimate are debt service coverage ratio and LTV ratio. Other notable variables include property type, property location and loan vintage. The Company determines its allowance for credit loss estimate based on the weighting of multiple macroeconomic forecast scenarios driven by macroeconomic variables such as gross domestic product ("GDP"), unemployment rate, federal funds target rate and core personal consumption expenditure ("CPR") among others, during the [Company](#). [These](#) reasonable and supportable forecast period. The reasonable and supportable forecast period is currently one year, however, the Company regularly evaluates the reasonable and supportable forecast period to determine if a change is needed based on our assessment of the most likely scenario of assumptions and plausible outcomes for the U.S. economy. For the period beyond which the Company is able to make reasonable and supportable forecasts, the Company reverts, on a straight-line basis over four quarters, to the historical loss information derived from CRE data set.

Any loans [include loans sold into securitizations](#) considered to be a Default Risk or otherwise deemed to be collateral dependent will be individually evaluated for a specific allowance for credit losses. A loan is considered collateral dependent when the Company determines that the [Company consolidates](#). [Commercial mortgage loans held-for-investment are intended facts and circumstances of the loan deem the debtor to be held-to-maturity](#) experiencing financial difficulty and [accordingly, are carried at their unpaid principal balances, adjusted repayment is expected to be provided substantially through the sale or operation of the collateral.](#) If a loan is considered to be collateral dependent, a specific allowance for [net unamortized loan fees and costs \(in respect of originated loans\), premiums and discounts \(in respect of purchased loans\) and impairment, if any.](#)

[Interest income is recognized as revenue using the effective interest method and credit losses](#) is recorded [on](#) to reduce the [accrual basis according](#) carrying value of the loan through a charge to the [terms](#) provision for (reversal of) credit losses. The specific allowance for credit losses is measured by comparing the estimated fair value of the underlying loan agreement. [Any fees, collateral, less costs premiums and discounts associated with these loan investments are deferred and to sell, to the amortized over the term cost of the respective loan.](#) These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, actions of other lenders, and other factors deemed necessary by the Manager. Actual losses, if any, could ultimately differ from estimated losses.

Prior to the adoption of ASU 2016-13, the Company established an allowance for credit loss under the incurred loss model which required analysis of Default Risk loans and those determined to be collateral dependent in a manner consistent with the specific allowance described above. In addition, the Company evaluated the entire loan [on](#) portfolio to determine whether the portfolio had any impairment that required a straight line basis approximating the effective interest method. Income accrual is generally suspended and loans are placed on non-accrual status valuation allowance on the [earlier](#) remainder of the [date at which payment has become 90 days past due or when full and timely collection of interest and principal is considered not probable.](#) portfolio.

The [Company may return a loan to accrual status when repayment of principal and interest is reasonably assured under](#) following table illustrates the [terms](#) day-one financial statement impact of the [underlying](#) adoption of ASU 2016-13 on January 1, 2023:

	Pre-adoption	Transition adjustment	Post-adoption
Assets			
Commercial mortgage loans, held-for-investment	\$ 1,076,148,186	\$ —	\$ 1,076,148,186
Less: Allowance for credit losses	(4,258,668)	(3,549,501)	(7,808,169)
Commercial mortgage loans, held-for-investment, net	\$ 1,071,889,518	\$ (3,549,501)	\$ 1,068,340,017
Liabilities			
Other liabilities ⁽¹⁾	\$ 583,989	\$ 41,939	\$ 625,928
Equity			
Accumulated earnings	\$ 31,250,852	\$ (3,591,440)	\$ 27,659,412

(1) [Includes reserve for unfunded loan agreement. As of December 31, 2022, the Company held two loans placed on non-accrual status where interest income is accounted for on a cash basis.](#) commitments

Quarterly, the Company assesses the risk factors of each loan classified as held-for-investment and assigns a risk rating based on a variety of factors, including, without limitation, debt-service coverage ratio ("DSCR"), loan-to-value ratio ("LTV"), property type, geographic and local market dynamics, physical condition, leasing and tenant profile, adherence to business plan and exit plan, maturity default risk and project sponsorship. The Company's loans are rated on a 5-point scale, from least risk to greatest risk, respectively, which ratings are described as follows:

1. **Very Low Risk:** exceeds expectations and is outperforming underwriting or it is very likely that the underlying loan can be refinanced easily in the period's prevailing capital market conditions
2. **Low Risk:** meeting or exceeding underwritten expectations
3. **Moderate Risk:** in-line with underwritten expectations or the sponsor may be in the early stages of executing the business plan and the loan structure appropriately mitigates additional risks
4. **High Risk:** potential risk of default, a loss may occur in the event of default
5. **Default Risk:** imminent risk of default, a loss is likely in the event of default

The Company evaluates each loan rated High Risk or above as to whether it is impaired on a quarterly basis. Impaired loans are individually evaluated based on the Company's quarterly assessment of each loan and assignment of a risk rating. Impairment occurs when the Company determines that the facts and circumstances of the loan deem it probable that the Company will not be able to collect all amounts due in accordance with the contractual terms of the loan. If a loan is considered to be impaired, an allowance is recorded to reduce the carrying value of the loan through a charge to the provision for loan losses. Impairment of these loans, all of which are deemed collateral dependent, is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, actions of other lenders, and other factors deemed necessary by the Manager. Actual losses, if any, could ultimately differ from estimated losses. As of December 31, 2022, the Company identified its sole office loan collateralized by an office building in Chicago, as impaired and established an allowance of \$4.3 million for the year ended December 31, 2022. See Note 3 for further detail.

In addition, the Company evaluates the entire portfolio to determine whether the portfolio has any impairment that requires a valuation allowance on the remainder of the loan portfolio. As of December 31, 2022, the Company has not recognized any additional impairments on its loans held-for-investment, other than the loan noted above. We also assessed the remainder of the loan portfolio, considering the absence of delinquencies and current market conditions, and, as such has not recorded any allowance for loan losses.

Current Expected Credit Losses

In June 2016, the Financial Accounting Standards Board, or FASB, issued ASU 2013-16 "Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments (Topic 326)," or ASU 2016-13. ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 will replace the incurred loss model under existing guidance with a current expected credit loss, or CECL, model for instruments measure at amortized cost, and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as they do under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loan. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022 and is to be adopted through a cumulative-effect adjustment to retained earnings as of January 1, 2023.

The CECL reserve required under ASU 2016-13 is a valuation account that is deducted from the related loans' and debt securities' amortized cost basis on our consolidated balance sheets, and which will reduce our total stockholders' equity. The initial CECL reserve recorded on January 1, 2023 will be reflected as a direct charge to retained earnings; however future changes to CECL reserve will be recognized through net income on our consolidated statements of operations. While ASU 2016-13 does not require any particular method for determining the CECL allowance, it does specify the allowance should be based on relevant information about past events, including historical loss experience, current portfolio and market conditions, and reasonable and supportable forecasts for the duration of each respective loan. In addition, other than a few narrow exceptions, ASU 2016-13 requires that all financial instruments subject to the CECL model have some amount of reserve to reflect the GAAP principal underlying the CECL model that all loans, debt securities, and similar assets have some inherent risk of loss, regardless of credit quality, subordinate capital, or other mitigating factors.

In the absence of any Company history of valuation reserves or realized loan losses since our inception in 2013, other than one office loan, the Company elected to utilize a widely-used analytical model incorporating a loss-given-default methodology and loan performance data for over 100,000 commercial real estate loans dating back to 1998. The Company expects to utilize this data set, or variants of it, unless the Company develops its own history of realized losses. The Company selected for use in its CECL estimate a weighted macroeconomic forecast that includes baseline, optimistic and pessimistic scenarios during the reasonable forecast period. The Company determined the key variables driving its CECL loss estimate are debt service coverage ratio and LTV ratio. Other notable variables include property type, property location and loan vintage.

Upon adoption of ASU 2016-13 on January 1, 2023, the Company expects that, based on current expectations of future economic conditions, its general allowance for credit losses on loans held for investment, including future loan funding commitments, will be between \$3.0 million and \$4.025633 million, or 0.30% and 0.40% of the Company's total loan commitment balance of \$1.1 billion as of December 31, 2022. The Company currently has \$4.3 million in specific reserves recorded in its consolidated financial statements.

See Note 2 to our consolidated financial statements for the complete listing of our significant accounting policies.

Capital Allocation

The following tables set forth our allocated capital by investment type at **December 31, 2022**, **December 31, 2023** and **December 31, 2021**, **December 31, 2022**:

This information **constitutes** **represents** non-GAAP financial measures within the meaning of Item 10(e) of Regulation S-K, as promulgated by the SEC. We believe that this non-GAAP information enhances the ability of investors to better understand the capital necessary to support each income-earning asset category, and thus our ability to generate operating earnings. While we believe that the non-GAAP information included in this report provides supplemental information to assist investors in analyzing our portfolio, these measures are not in accordance with GAAP, and they should not be considered a substitute for, or superior to, our financial information calculated in accordance with GAAP.

	December 31, 2022			
	Commercial Mortgage Loans	MSRs	Unrestricted Cash ⁽¹⁾	Total ⁽²⁾
Market Value	1,071,889,518	795,656	43,858,515	1,116,543,689
Collateralized Loan Obligations	(829,310,498)	—	—	(829,310,498)
Other ⁽³⁾	3,533,345	—	(4,301,847)	(768,502)
Restricted Cash	3,507,850	—	—	3,507,850
Capital Allocated	249,620,215	795,656	39,556,668	289,972,539
% Capital	86.1 %	0.3 %	13.6 %	100.0 %

December 31, 2023

	Commercial Mortgage Loans	MSRs	Unrestricted Cash ⁽¹⁾	Total ⁽²⁾
Market Value	\$ 1,383,881,197	\$ 691,973	\$ 51,247,063	\$ 1,435,820,233
Collateralized Loan Obligations	(1,146,210,752)	—	—	(1,146,210,752)
Other ⁽³⁾	4,592,267	—	(6,459,271)	(1,867,004)
Restricted Cash	270,129	—	—	270,129
Capital Allocated	<u>\$ 242,532,841</u>	<u>\$ 691,973</u>	<u>\$ 44,787,792</u>	<u>\$ 288,012,606</u>
% Capital	<u>84.2 %</u>	<u>0.2 %</u>	<u>15.6 %</u>	<u>100.0 %</u>

December 31, 2021						December 31, 2022			
	Commercial Mortgage Loans	MSRs	Unrestricted Cash ⁽¹⁾	Total ⁽²⁾		Commercial Mortgage Loans	MSRs	Unrestricted Cash ⁽¹⁾	Total ⁽²⁾
Market Value	Market Value	\$ 1,001,825,294	\$ 551,997	\$ 14,749,046	\$ 1,017,126,337				
Collateralized Loan Obligations	Collateralized Loan Obligations	(826,782,543)	—	—	(826,782,543)				
Other ⁽³⁾	Other ⁽³⁾	25,769,860	—	(3,422,658)	22,347,202				
Restricted Cash	Restricted Cash	3,530,006	—	—	3,530,006				
Capital Allocated	Capital Allocated	<u>\$ 204,342,617</u>	<u>\$ 551,997</u>	<u>\$ 11,326,388</u>	<u>\$ 216,221,002</u>				
% Capital	% Capital	<u>94.5 %</u>	<u>0.3 %</u>	<u>5.2 %</u>	<u>100.0 %</u>	% Capital	<u>86.1 %</u>	<u>0.3 %</u>	<u>13.6 %</u>

1. Includes cash and cash equivalents.

2. Includes the carrying value of our Secured Term Loan.

3. Includes principal and interest receivable, prepaid and other assets, interest payable, dividends payable and accrued expenses and other liabilities.

Results of Operations

As of December 31, 2022, we consolidated the assets and liabilities of one CRE CLO, LFT CRE 202-FL1, Ltd. Additionally, although the COVID-19 pandemic did not significantly impact our operating results for the year ended December 31, 2022, should the pandemic and resulting economic deterioration persist, we expect it may affect our business, financial condition, results of operations and cash flows going forward, including but not limited to, interest income credit losses and commercial mortgage loan reinvestment, in ways that may vary widely depending on the duration and magnitude of the COVID-19 pandemic and ensuing economic turmoil, as well as numerous other factors, many of which are outside of our control.

Further in May 2021, we issued 2,400,000 shares of 7.875% Series A Cumulative Redeemable Preferred Stock resulting in net proceeds (after underwriting discount and commission but before operating expenses) of \$58.1 million. On August 23, 2021, the Incremental Secured Term Loan of \$7.5 million provided for in the Third Amendment to the Credit and Guaranty Agreement was funded. Additionally, in February 2022, we issued 27,277,269 shares of common stock resulting in net proceeds of \$81.1 million. We believe that Lument IM and its affiliates continue to identify attractive CRE lending opportunities, which we expect will allow us to deploy our capital base into assets that are consistent with our investment strategy. The deployment of these proceeds into our target assets took time and as such, and resulted in a temporary decline in net interest income. Additionally, as a result of the Series A Preferred Stock issuances, Stockholders' Equity as calculated per our management agreement will increase, resulting in increased management fees, changes to the core earnings hurdle over which incentive fees are due and payable to our Manager and increase the reimbursable expense cap.

The table below presents certain information from our Consolidated Statement of Operations for the years ended **December 31, 2022**, **December 31, 2023** and **December 31, 2021**, **December 31, 2022**:

	Year Ended		Increase (Decrease)	
	December 31,		Dollars	Percentage
	2023	2022		
Revenues:				
Interest income:				
Commercial mortgage loans held-for-investment	\$ 106,821,510	\$ 56,610,324	\$ 50,211,186	89 %
Cash and cash equivalents	2,372,488	74,676	2,297,812	3077 %
Interest expense:				
Collateralized loan obligations	(71,041,861)	(29,055,324)	(41,986,537)	145 %
Secured term loan	(3,759,141)	(3,754,872)	(4,269)	nm%
Net interest income	34,392,996	23,874,804	10,518,192	44 %
Expenses:				
Management fee	4,335,904	4,197,819	138,085	3 %
General and administrative expenses	3,620,589	3,467,653	152,936	4 %
Operating expenses reimbursable to Manager	1,897,699	2,116,636	(218,937)	(10)%

Other operating expenses	2,158,488	309,797	1,848,691	597 %
Compensation expense	241,194	240,980	214	nm%
Total expenses	12,253,874	10,332,885	1,920,989	19 %
Other income (loss):				
Provision for credit losses	(2,524,216)	(4,258,668)	1,734,452	(41)%
Change in unrealized gain (loss) on mortgage servicing rights	(103,684)	243,659	(347,343)	(143)%
Servicing income, net	208,997	347,838	(138,841)	(40)%
Total other (loss)	(2,418,903)	(3,667,171)	1,248,268	(34)%
Net income before provision for income taxes	19,720,219	9,874,748	9,845,471	100 %
Benefit from income taxes	(5,723)	(11,088)	5,365	(48)%
Net income	19,714,496	9,863,660	9,850,836	100 %
Dividends to preferred stockholders	(4,740,000)	(4,740,000)	—	nm%
Net income attributable to common stockholders	\$ 14,974,496	\$ 5,123,660	9,850,836	192 %
Earnings per share:				
Net income attributable to common stockholders (basic and diluted)	\$ 14,974,496	\$ 5,123,660		
Weighted average number of shares of common stock outstanding	52,231,296	48,342,347		
Basic and diluted income per share	\$ 0.29	\$ 0.11		
Dividends declared per share of common stock	\$ 0.26	\$ 0.24		

	Year Ended December 31,	
	2022	2021
Revenues:		
Interest income:		
Commercial mortgage loans held-for-investment	56,610,324	36,162,050
Cash and cash equivalents	74,676	28,779
Interest expense:		
Collateralized loan obligations	(29,055,324)	(12,178,545)
Secured term loan	(3,754,872)	(3,333,536)
Net interest income	23,874,804	20,678,748
Other income:		
Provision for loan losses	(4,258,668)	—
Realized loss on mortgage servicing rights	—	(10,910)
Change in unrealized gain (loss) on mortgage servicing rights	243,659	(356,772)
Loss on extinguishment of debt	—	(1,663,926)
Servicing income, net	347,838	398,939
Total other (loss)	(3,667,171)	(1,632,669)
Expenses:		
Management fee	4,197,819	3,041,600
General and administrative expenses	3,467,653	2,879,655
Operating expenses reimbursable to Manager	2,116,636	2,038,130
Other operating expenses	309,797	280,970
Compensation expense	240,980	200,608
Total expenses	10,332,885	8,440,963
Net income before provision for income taxes	9,874,748	10,605,116
Benefit from income taxes	(11,088)	(77,894)
Net income	9,863,660	10,527,222
Dividends to preferred stockholders	(4,740,000)	(3,112,500)
Net income attributable to common stockholders	\$ 5,123,660	\$ 7,414,722
Earnings per share:		
Net income attributable to common stockholders (basic and diluted)	\$ 5,123,660	\$ 7,414,722
Weighted average number of shares of common stock outstanding	48,342,347	24,945,824
Basic and diluted income per share	\$ 0.11	\$ 0.30
Dividends declared per share of common stock	\$ 0.24	\$ 0.36

nm - not meaningful

Net Income Summary

For the year ended **December 31, 2022** December 31, 2023, our net income attributable to common stockholders was **\$5,123,660** \$14,974,496 or **\$0.11** \$0.29 basic and diluted net income per average share, compared with net income of **\$7,414,722** \$5,123,660 or **\$0.30** \$0.11 basic and diluted net loss per share, for the year ended **December 31, 2021** December 31, 2022. The principal drivers of this net income variance were an increase in **total expenses** net interest income from **\$8,440,963** \$23,874,804 for the year ended **December 31, 2021** December 31, 2022 to **\$10,332,885** \$34,392,996 for the year ended **December 31, 2022**, an increase December 31, 2023

and a decrease in total other loss from \$1,632,669 for the year ended December 31, 2021 to \$3,667,171 for the year ended December 31, 2022, and an increase in preferred dividends from \$3,112,500 to \$2,418,903 for the year ended December 31, 2021 to \$4,740,000 for the year ended December 31, 2022 December 31, 2023, which more than offset an increase in net interest income total expenses from \$20,678,748 \$10,332,885 for the year ended December 31, 2021 December 31, 2022 to \$23,874,804 \$12,253,874 for the year ended December 31, 2022 December 31, 2023.

Net Interest Income

For the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, our net interest income was \$23,874,804 \$34,392,996 and \$20,678,748, \$23,874,804, respectively. The increase was primarily due to (i) a \$306.1 million \$151.5 million increase in weighted-average principal balance of our CLO loan portfolio; (ii) a 160bps 328bps increase in weighted-average floating rate of our loan portfolio and portfolio; (iii) a 2bps decrease 13bps increase in weighted-average spread on the loan portfolio; (iv) an increase in exit/extension fees of \$0.6 million for our CLO liabilities, loan portfolio for the year-ended December 31, 2023, compared to the corresponding period in 2022; (v) accretion of purchase discount of \$1.0 million and (vi) an increase in interest earned on cash of \$2.3 million for the year-ended December 31, 2023, compared to the corresponding period in 2022. This was partially offset by (i) a \$184.0 million \$150.6 million increase in weighted-average principal balance of our CLO liabilities; secured borrowings; (ii) a decrease 363bps increase in exit/extension/prepayment fees of \$2.5 million weighted-average floating rate for our loan portfolio; (iii) a decrease of 82bps in weighted-average LIBOR/SOFR floors on our CLO loan portfolio secured borrowings for the year-ended December 31, 2022 December 31, 2023, compared to the corresponding period in 2021; (iv) 2022; (iii) a 14bps decrease 53bps increase in weighted-average spread on the loan portfolio for our secured borrowing liabilities and (iv) amortization of debt issuance costs of \$0.5 million for the year ended December 31, 2022 December 31, 2023 compared to the corresponding period in 2021; (v) a 161bps increase in weighted-average LIBOR for our CLO liabilities and (vi) an increase of \$0.5 million in amortized debt issuance costs, 2022.

As disclosed above, we experienced a decrease an increase of \$2.5 million \$0.6 million in exit/extension/prepayment exit and extension fees for the year ended December 31, 2022 December 31, 2023. The primary driver of this change was attributed to exit fees. For the year ended December 31, 2023, we experienced loan payoffs on 12 loans with net principal balances of \$152.6 million which generated exit fees of \$1.9 million included in interest income and 7 loans with net principal balances of \$112.7 million which waived exit fees of \$1.0 million resulting in a reduction to expense reimbursement of \$0.5 million included in operating expenses reimbursable to Manager. For the year ended December 31, 2022, we experienced loan payoffs on 12 loans with net principal balances of \$133.1 million which generated exit fees of \$1.3 million included in interest income and 9 loans with net principal balances of \$128.9 million which waived exit fees of \$1.2 million resulting in a reduction to expense reimbursement of \$0.6 million included in operating expenses reimbursable to Manager.

Expenses

We incurred management and incentive fees of \$4,335,904 for the year ended December 31, 2023 representing amounts payable to our Manager under our management agreement. We also incurred operating expenses of \$7,917,970, of which \$1,897,699 was payable to our Manager and \$6,020,271 was payable to third parties.

For the year ended December 31, 2021 December 31, 2022, we experienced loan payoffs on 25 loans with net principal balances of \$430.2 million which generated exit incurred management and incentive fees of \$4.0

million included in interest income and 5 loans with net principal balances of \$51.1 million which waived exit fees of \$0.6 million resulting in a reduction \$4,197,819 representing amounts payable to expense reimbursement of \$0.3 million included in our Manager under our management agreement. We also incurred operating expenses of \$6,135,066, of which \$2,116,636 was payable to our Manager and \$4,018,430 was payable to third parties.

The year-over-year increase in expenses primarily reflects the impact of expensed deal costs of \$1.7 million related to the abandonment of a previously contemplated public CRE CLO as well as an increase in administration, audit, bank, data, investor relations, legal, management, professional and secured borrowing fees which more than offset a decrease in accounting, insurance, listing and reimbursable to Manager, fees.

Other Income (Loss)

For the year ended December 31, 2023, we incurred a loss of \$2,418,903. This loss was primarily driven by provision for credit losses of \$2,524,216 primarily related to an increase in loan portfolio as a result of the loans acquired in the LMF 2023-1 Financing as well as changes in macroeconomic forecast and the impact of net unrealized losses on mortgage servicing rights of \$103,684 as a result of reduction in principal balance in the period which more than offset mortgage servicing income of \$208,997.

For the year ended December 31, 2022, we incurred a loss of \$3,667,171. This loss was primarily driven by allowance provision for loan credit losses of \$4,258,668 which more than offset the impact of net unrealized gains on mortgage servicing rights of \$243,659 as a result of increased interest rates in the period and net mortgage servicing income of \$347,838.

For the year ended December 31, 2021, we incurred a loss of \$1,632,669. This loss was primarily driven by loss on extinguishment of debt of \$1,663,926 resulting from the unwind of Hunt CRE 2018-FL2 and the impact of net unrealized losses on mortgage servicing rights of \$356,772 caused by decreased unpaid principal balances, which more than offset net mortgage servicing income of \$398,939.

The year-over-year increase decrease in other loss was primarily due to the loss on extinguishment of debt from the unwind of Hunt CRE 2018-FL2, the allowance for loan loss taken in 2022 and the change in unrealized gain on mortgage servicing rights as a result of increased interest rates in the period reducing the CPR of the servicing portfolio.

Expenses

We incurred management and incentive fees of \$4,197,819 provision for the year ended December 31, 2022 representing amounts payable to our Manager under our management agreement. We also incurred operating expenses of \$6,135,066, of which \$2,116,636 was payable to our Manager and \$4,018,430 was payable to third parties.

For the year ended December 31, 2021, we incurred management and incentive fees of \$3,041,600 representing amounts payable to our Manager under our management agreement. We also incurred operating expenses of \$5,399,363, of which \$2,038,130 was payable to our Manager and \$3,361,233 was payable to third parties.

The year-over-year increase in expenses primarily reflects an increase in management, accounting, administration, audit, CLO, compensation, legal, listing and professional fees and expense reimbursement, credit losses.

Income Tax Expense

For the year ended December 31, 2022 December 31, 2023 the Company recognized a provision for income taxes in the amount of \$11,088 \$5,723 and for the year ended December 31, 2021 December 31, 2022, the Company recognized a provision for income taxes in the amount of \$77,894 \$11,088. The year-over-year decrease in tax expense primarily reflects the change in gross deferred revenue at FOAC due to the change in unrealized loss on mortgage servicing rights.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to pay dividends, fund investments, comply with margin requirements, if any, and repay borrowings and other general business needs. Our primary sources of liquidity have been met with net proceeds of common or preferred stock issuance, net proceeds from debt offerings and net cash provided by operating activities. We have added to our liquidity position in February 2022, by completing a transferable common stock rights offering issuing and selling 27,277,269 shares of common stock for net proceeds of approximately \$81.1 million and in May 2021 by issuing 2,400,000 shares of 7.875% Series A Cumulative Redeemable Preferred Stock resulting in net proceeds (after underwriting discount and commission but before operating expense) of \$58.1 million. We finance our commercial mortgage loans primarily with non-recourse match term collateralized loan obligations, secured borrowings, which are not subject to margin calls or additional collateralization requirements. On June 14, 2021, we closed LFT CRE the 2021-FL1 CLO issuing eight tranches of CLO notes totaling \$903.8 million. Of the total CLO notes issued \$833.8 million were investment grade notes issued to third-party investors and \$70 million \$70.0 million were below investment-grade notes retained by us. On July 12, 2023, we closed LMF 2023-1 placing \$270.4 million of an investment-grade rated senior secured floating-rate loan with a private lender, issued and sold approximately \$47.3 million of investment-grade rated notes to an affiliate of our Manager and retained the subordinate interests in the issuing vehicle of approximately \$68.6 million. On August 23, 2021, we drew an additional \$7.5 million of our Secured Term Loan pursuant to the Third Amendment. As of December 31, 2022 December 31, 2023, our balance sheet included \$47.8 million of a secured term loan and \$833.8 million \$1.2 billion in collateralized loan financing, gross of discounts and debt issuance costs. Our secured term loan matures in January February 2026, and our collateralized loan financing is term-matched and matures in 2039 or later and our collateralized financing is match-termed and matures in 2032 or later. However, to the extent that we seek to invest in additional commercial mortgage loans, we will in part be dependent on our ability to issue additional collateralized loan obligations to secure alternative financing facilities or to raise additional common or preferred equity. The anticipated continual rise in interest rates and unpredictable geopolitical landscape may cause a further dislocation in the capital markets resulting in a continual reduction of available liquidity and an increase in borrowing costs. A lack of liquidity for a prolonged period of time could limit our ability to grow our this business.

If we were required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we previously recorded our assets, particularly in a financial market that has been significantly disrupted and less liquid as a result of the ongoing COVID-19 pandemic, current inflationary environment. Assets that are illiquid are more difficult to finance, and to the extent that we use leverage to finance assets that become illiquid, we may lose that leverage or have it reduced if such leverage is, at least in part, dependent on the market value of our assets. Assets tend to become less liquid during times of financial stress, which is often the time that liquidity is most needed. As a result, our ability to sell assets or vary our portfolio in response to changes in economic and other conditions may be limited by liquidity constraints, which could adversely affect our results of operations and financial condition. We seek to limit our exposure to illiquidity risk to the extent possible, by ensuring that the collateralized loan obligations secured borrowings that we use to finance our commercial mortgage loans are not subject to margin calls or other limitations that are dependent on the market value of the related loan collateral.

We intend to continue to maintain a level of liquidity in relation to our assets that enables us to meet reasonably anticipated investment requirements and unforeseen business needs but that also allows us to be substantially invested in our target assets. We may misjudge the appropriate amount of our liquidity by maintaining excessive liquidity, which would lower our investment returns, or by maintaining insufficient liquidity, which would force us to liquidate assets into unfavorable market conditions and harm our operating results. As of **December 31, 2022** **December 31, 2023**, we had unrestricted cash and cash equivalents of **\$43.9 million** **\$51.2 million**, compared to **\$14.7 million** **\$43.9 million** as of **December 31, 2021** **December 31, 2022**.

As of **December 31, 2022** **December 31, 2023**, we had \$47.8 million in outstanding principal under our Senior Secured Term Loan, with a borrowing rate of 7.25%. As of **December 31, 2022** **December 31, 2023**, the ratio of our recourse debt to **our** equity was 0.2:1.

As of **December 31, 2022** **December 31, 2023**, we consolidated the assets and liabilities of **LFT the 2021-FL1 Ltd. CLO and LMF 2023-1 collateralized financings**. The assets of the **trust 2021-FL1 CLO and LMF 2023-1** are restricted and can only be used to fulfill their respective obligations, and accordingly the obligations of the trust, which we classify as collateralized loan obligations, do not have any recourse to us as the consolidator of the trust. As of **December 31, 2022** **December 31, 2023**, the carrying value of these non-recourse liabilities aggregated to **\$829.3 million** **\$1,146.2 million**. As of **December 31, 2022** **December 31, 2023**, our total **debt-to-equity** debt to equity ratio was **3.6**; **5.0**:1 on a GAAP basis.

As of December 31, 2023, LCMT had \$6.7 million of unfunded commitments related to loans held in LFT 2021-FL1, Ltd.

Cash Flows

The following table sets forth changes in cash, cash equivalents and restricted cash for the years ended **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**:

		For the years ended December 31,	
		2022	2021
		For the years ended December 31,	
		2023	2022
Cash	Cash		
Flows	Flows		
From	From		
Operating	Operating		
Activities	Activities	16,289,054	13,846,947
Cash	Cash		
Flows	Flows		
From	From		
Investing	Investing		
Activities	Activities	(51,831,854)	(477,291,621)
Cash	Cash		
Flows	Flows		
From	From		
Financing	Financing		
Activities	Activities	64,630,113	412,348,370
Net	Net		
Increase	Increase		
(Decrease)	(Decrease)		
in Cash,	in Cash,		
Cash	Cash		
Equivalents	Equivalents		
and	and		
Restricted	Restricted		
Cash	Cash	\$ 29,087,313	\$(51,096,304)

During the year ended December 31, 2023, cash, cash equivalents and restricted cash increased by \$4.2 million and for the year ended December 31, 2022, cash, cash equivalents and restricted cash increased by \$29.1 million and for the year ended December 31, 2021, cash, cash equivalents and restricted cash decreased by \$51.1 million.

Operating Activities

For the years ended **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**, net cash provided by operating activities totaled **\$16.3 million** **\$24.7 million** and **\$13.8 million** **\$16.3 million**, respectively. For the year ended December 31, 2023, our cash flows from operating activities were primarily driven by interest received from the junior retained notes and preferred shares of the 2021-FL1 CLO and LMF 2023-1 Financing of \$34.0 million interest received from our senior secured loans held outside the VIEs we consolidate of \$1.5 million, interest received on cash accounts of \$2.4 million and cash received from mortgage servicing rights of \$0.2 million exceeding cash interest expense paid on our Secured Term Loan of \$3.5 million, management and incentive fees of \$4.3 million, expense reimbursements of \$1.9 million and other operating expenditures of \$3.5 million. For the year ended December 31, 2022, our cash flows from operating activities were primarily driven by \$26.1 million of interest received from the junior retained notes and preferred shares of **LFT 2021-FL1 Ltd., a VIE we consolidated, CLO**, \$3.3 million of interest received from our senior secured loans held outside the VIE we consolidate and \$0.3 million of cash received from mortgage servicing rights exceeding cash interest expense paid on our Secured Term Loan of \$3.5 million, management fees of \$4.2 million, expense reimbursements reimbursement of \$2.3 million and other operating expenditures of \$3.5 million. For the year ended December 31, 2021, our cash flows from operating activities were primarily driven by \$23.8 million of interest received from the junior retained notes and preferred shares of Hunt CRE 2017-FL1, Ltd., Hunt CRE 2018-FL2, Ltd. and LFT 2021-FL1, Ltd., the CRE CLOs we consolidate, \$0.6 million of interest received from our senior secured loans held outside the CRE CLOs we consolidate and \$0.4 million of cash received from mortgage servicing rights exceeding cash interest expense paid on our Secured Term Loan of \$3.1 million, management fees of \$2.7 million, expense reimbursement of \$1.7 million and other operating expenditures of \$3.4 million.

Investing Activities

For the year ended December 31, 2023, net cash used in investing activities totaled \$316.7 million. This was a result of cash used for the purchase and funding of commercial mortgage loans held for investment exceeding the principal repayment of commercial mortgage loans held for investment during the period. For the year ended December 31, 2022, net cash used in investing activities totaled \$51.8 million. This was a result of the cash used for the purchase and funding of commercial mortgage loans held for investment exceeding the principal repayment of commercial mortgage loans held for investment during the period. For the year ended December 31, 2021, net cash provided by investing activities totaled \$477.3 million. This was a result of the cash received from principal repayments of commercial mortgage loans held-for-investment exceeding the purchase and funding of commercial mortgage loans held for investment for the year ended December 31, 2021 December 31, 2022.

Financing Activities

For the year ended December 31, 2023, net cash provided by financing activities totaled \$296.1 million and primarily related to proceeds from issuance of investment-grade senior secured floating rate loan of \$270.4 million and issuance of \$47.3 million in investment-grade rated notes, which more than offset payments of common stock dividends of \$13.1 million, payments of preferred stock dividends of \$4.7 million and payment of debt issuance costs of \$3.8 million. For the year ended December 31, 2022, net cash provided by financing activities totaled \$64.6 million and primarily related to proceeds from issuance of common stock of \$81.1 million, which more than offset payments of common and preferred dividends of \$16.4 million payment of debt issuance costs of \$0.1 million. For the year ended December 31, 2021, net cash used in financing activities totaled \$412.3 million and primarily related to proceeds from issuance of our Series A Preferred Stock of \$57.3 million, proceeds from issuance of collateralized loan obligations of \$833.8 million and proceeds from our Secured Term Loan of \$7.5 million \$81.1 million, which more than offset by payments of common and preferred stock dividends of \$12.1 million \$11.6 million, repayment payment of collateralized loan obligations preferred stock dividends of \$465.3 million \$4.7 million and payment of debt issuance costs of \$8.7 million \$0.1 million.

Forward-Looking Statements Regarding Liquidity

Based upon our current portfolio, leverage rate and available borrowing arrangements, we believe that the net proceeds of our prior equity sales, combined with cash flow from operations and available borrowing capacity will be sufficient to enable us to meet anticipated short-term (one year or less) liquidity requirements to fund our investment activities, pay fees under our management agreement, fund our distributions to stockholders and for other general corporate expenses.

Our ability to meet our long-term (greater than one year) liquidity and capital resource requirements will be subject to, amongst other things, obtaining additional debt financing and equity capital. We may increase our capital resources by obtaining long-term credit facilities, additional collateralized loan obligations or making additional public or private offerings of equity or debt securities, possibly including classes of preferred stock, common stock and senior or subordinated notes.

To maintain our qualification as a REIT, we generally must distribute annually at least 90% of our "REIT taxable income" (determined without regard to the deduction for dividends paid and excluding net capital gain). These distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations.

Off-Balance Sheet Arrangements

As of December 31, 2022 December 31, 2023, we did not maintain any relationships with unconsolidated financial partnerships, or special purpose or variable interest entities established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, as of December 31, 2022 December 31, 2023, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

In connection with the provision of seller eligibility and backstop guarantee services provided to MAXEX, we previously accounted for the related non-contingent liability at its fair value on our consolidated balance sheet as a liability. As of December 31, 2022 December 31, 2023, pursuant to an Assumption Agreement dated December 31, 2018, among MAXEX Clearing LLC and FOAC, MAXEX Clearing LLC assumed all of FOAC's obligations under its backstop guarantees and agreed to indemnify and hold FOAC harmless against any losses, liabilities, costs, expenses and obligations under the backstop guarantees. See Note 11 for further information.

Distributions

We intend to continue to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its "REIT taxable income" (determined without regard to the deduction for dividends paid and excluding net capital gain) and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its "REIT taxable income." We have historically made regular monthly distributions, but with effect from the third quarter of 2018 we now make regular quarterly distributions, to our stockholders in an amount equal to all or substantially all of our taxable income. Although FOAC no longer aggregates and securitizes residential mortgages, it continues to generate taxable income from MSRs and other mortgage-related activities. This taxable income will be subject to regular corporate income taxes. We generally anticipate the retention of profits generated and taxed at FOAC. Before we make any distribution on our common stock, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and any debt service obligations on debt payable. If cash available for distribution to our stockholders is less than our taxable income, we could be required to sell assets or borrow funds to make cash distributions, or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities.

If substantially all of our taxable income has not been paid by the close of any calendar year, we may declare a special dividend prior to the end of such calendar year, to achieve this result. On December 15, 2022 December 12, 2023, we announced that our board of directors had declared a cash dividend rate for the fourth quarter of 2022 of \$0.06 per share of common stock. Additionally, on March 16, 2023, we announced that our board of directors had declared a cash dividend for the first quarter of 2023 of \$0.06 \$0.07 per share of common stock.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Not applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Reports of Independent Registered Public Accounting Firm, the Company's consolidated financial statements and notes to the Company's consolidated financial statements appear in a separate section of this Form 10-K (beginning on Page F-2 following Part IV). The index to the Company's consolidated financial statements appears on Page F-1.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e)) under the Securities Exchange Act of 1934, as amended, or Exchange Act, that are designed to ensure that information we are required to disclose 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 SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to paragraph (b) of Exchange Act Rules 13a-15 or 15d-15 as of December 31, 2022 December 31, 2023. Based upon our evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2022 December 31, 2023.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Exchange Act Rules 13a-15(f) and 15d-15(f) as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles (GAAP) and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Under the supervision of our Audit Committee and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness, as of **December 31, 2022** **December 31, 2023**, of our internal control over financial reporting. In making this assessment, management used the criteria set forth in the "Internal Control-Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission

(COSO (COSO Framework)). Based on its evaluation under the COSO Framework, our management has concluded that our internal control over financial reporting was effective as of **December 31, 2022** **December 31, 2023**.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 or 15d-15 that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required to be furnished by this Item 10 will be set forth in the Company's definitive proxy statement for its **2023** **2024** Annual Meeting of Stockholders (the "**2023** **2024** Proxy Statement"), which the Company expects to file within 120 days of the end of its fiscal year **December 31, 2022** **December 31, 2023**. For the limited purpose of providing the information necessary to comply with this Item 10, the **2023** **2024** Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required to be furnished by this Item 11 will be set forth in the **2023** **2024** Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 11, the **2023** **2024** Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required to be furnished by this Item 12 will be set forth in the **2023** **2024** Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 12, the **2023** **2024** Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required to be furnished by this Item 13 will be set forth in the **2023** **2024** Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 13, the **2023** **2024** Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required to be furnished by this Item 14 will be set forth in the **2023** **2024** Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 14, the **2023** **2024** Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statements and Schedules

(a) Financial Statements.

	Page
Financial Statements	F-1
Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-4
Consolidated Statements of Operations	F-5
Consolidated Statements of Stockholders' Equity	F-6
Consolidated Statements of Cash Flows	F-7
Notes to Consolidated Financial Statements	F-8

(b) Exhibits.

The Exhibits listed in the Exhibit Index, which appear immediately following the signature pages, are incorporated herein by reference and are filed as part of this Annual Report on Form 10-K.

(c) Schedules.

Schedule IV - Mortgage Loan on Real Estate

Schedules other than the one listed above are omitted because they are not applicable or deemed not material.

EXHIBIT INDEX

Exhibit

No.	Document
3.1	Articles of Amendment and Restatement of Five Oaks Investment Corp. dated March 26, 2013 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 (File No. 001-35845), which was filed with the SEC on May 3, 2013).
3.2	Articles of Amendment of Five Oaks Investment Corp. dated May 17, 2018, changing the name of the Registrant from Five Oaks Investment Corp. to Hunt Companies Finance Trust, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845), which was filed with the SEC on May 25, 2018).
3.3	Articles of Amendment of Hunt Companies Finance Trust, Inc. dated December 17, 2020, changing the name of the Registrant from Hunt Companies Finance Trust, Inc. to Lument Finance Trust, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845), which was filed with the SEC on December 21, 2020).
3.4	Articles Supplementary of Lument Finance Trust, Inc. dated May 3, 2021, designating the Registrant's 7.875% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845), which was filed with the SEC on May 4, 2021).
3.5	Lument Finance Trust, Inc. Bylaws as of June 16, 2021 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845), which was filed with the SEC on June 17, 2021).
4.1	Specimen Common Stock Certificate of Five Oaks Investment Corp. (incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 1 to Five Oaks Investment Corp. Registration Statement on Form S-11 (File No. 333-185570), which was filed with the Securities and Exchange Commission on January 22, 2013 ("Pre-Effective Amendment No. 1").
4.2	Certificate of Notice dated February 18, 2022 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845), which was filed with the SEC on February 25, 2022).
4.3	Description of Securities.*
10.1	Termination Agreement, dated as of January 3, 2020, by and between Hunt Companies Finance Trust, Inc. and Hunt Investment Management, LLC (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K (File No. 001-35845), which was filed with the SEC on January 6, 2020).
10.2	Management Agreement, dated as of January 3, 2020, by and between Hunt Companies Finance Trust, Inc. and OREC Investment Management, LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845), which was filed with the SEC on January 6, 2020).
10.3†	Five Oaks Investment Corp. Manager Equity Plan (incorporated by reference to Exhibit 10.5 to Pre-Effective Amendment No. 1).
10.4 10.2	Trademark License Agreement, dated as of December 17, 2020, between ORIX Real Estate Capital Holdings, LLC, doing business as "Lument," and Hunt Companies Finance Trust, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845), which was filed with the SEC on December 21, 2020).
10.5 10.3	Form of Indemnification Agreement.
10.6 10.4	Amended and Restated Registration Rights Agreement, dated as of December 18, 2012, by and among Five Oaks Investment Corp., XL Investments Ltd, Oak Circle Capital Partners, LLC, Messrs. Carroll, Chong, Comisso, Flynn and Oston and the other persons who become parties thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-11 (File No. 333-185570), which was filed with the SEC on December 20, 2012).
10.7 10.5	Shareholder Agreement, dated as of January 18, 2018, by and between Five Oaks Investment Corp. and Hunt Companies Equity Holdings, LLC (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K (File No. 001-35845), which was filed with the SEC on January 18, 2018).
10.8 10.6	Registration Rights Agreement, dated as of January 18, 2018, by and between Five Oaks Investment Corp. and Hunt Companies Equity Holdings, LLC (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File No. 001-35845), which was filed with the SEC on January 18, 2018).
10.9 10.7	Securities Purchase Agreement, dated as of January 3, 2020, by and between Hunt Companies Finance Trust, Inc. and OREC Investment Holdings, LLC (incorporated by reference to Exhibit 10.2 to Hunt Companies Finance Trust, Inc. Current Report on Form 8-K (File No. 001-35845), which was filed with the Securities and Exchange Commission on January 3, 2020).

[Registration](#)
[Rights](#)
[Agreement,](#)
[dated as of](#)
[January 3,](#)
[2020, by and](#)
[between](#)
[Hunt](#)
[Companies](#)
[Finance](#)
[Trust, Inc.](#)
[and OREC](#)
[Investment](#)
[Holdings,](#)
[LLC](#)
[\(incorporated](#)
[by reference](#)
[to Exhibit](#)
[10.3 to Hunt](#)
[Companies](#)
[Finance](#)
[Trust, Inc.,](#)
[Current](#)
[Report on](#)
[Form 8-K](#)
[\(File No. 001-](#)
[35845\),](#)
[which was](#)
[filed with the](#)
[Securities](#)
[and](#)
[Exchange](#)
[Commission](#)
[on January 3,](#)
[10.1 10.8 2020\).](#)

	Credit and Guaranty Agreement, dated January 15, 2019, by and among Hunt Companies Finance Trust, Inc., as Borrower, Five Oaks Acquisition Corp. and Hunt CMT Equity, LLC, as guarantors, the lenders party thereto from time to time, Cortland Capital Market Services LLC, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 to Hunt Companies Finance Trust, Inc. Current Report on Form 8-K (File No. 001-35845), which was filed with the Securities and Exchange Commission on January 18, 2019).
10.11	10.9
	First Amendment to Credit and Guaranty Agreement, dated as of February 13, 2019, among Hunt Companies Finance Trust, Inc., Five Oaks Acquisition Corp., Hunt CMT Equity, LLC, the lenders identified on the signature page thereto and Cortland Capital Market Services LLC, as Administrative Agent and as Collateral Agent (incorporated by reference to Exhibit 10.33 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 001-35845), which was filed with the SEC on March 19, 2019).
10.12	10.10
	Second Amendment to Credit and Guaranty Agreement, dated as of July 9, 2020, among Hunt Companies Finance Trust, Inc., Five Oaks Acquisition Corp., Hunt CMT Equity, LLC, the lenders identified on the signature pages thereto and Cortland Capital Market Services LLC, as Administrative Agent and as Collateral Agent (incorporated by reference to Exhibit 10.1 to Hunt Companies Finance Trust, Inc. Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 (File No. 001-35845) which was filed with the Securities and Exchange Commission on August 7, 2020).
10.13	10.11
	Third Amendment to Credit and Guaranty Agreement, dated as of April 21, 2021, among Lument Finance Trust, Inc., Five Oaks Acquisition Corp., Hunt CMT Equity, LLC, the lenders identified on the signature pages thereto and Cortland Capital Market Services LLC, as Administrative Agent and as Collateral Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845) which was filed with the SEC on April 21, 2021).
10.14	10.12
	Fourth Amendment to Credit and Guaranty Agreement, dated February 22, 2022, by and among Lument Finance Trust, Inc., Five Oaks Acquisition Corp., Hunt CMT Equity, LLC, Cortland Capital Market Services LLC, as Administrative Agent and Collateral Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845) which was filed with the SEC on February 25, 2022).
10.15	10.13
	Indenture, dated as of June 14, 2021, by and among LFT CRE 2021-FL1, Ltd., LFT CRE 2021-FL1, LLC, Lument Commercial Mortgage Trust, as advancing agent, Wilmington Trust, National Association, as trustee, and Wells Fargo Bank, National Association, as note administrator and custodian (incorporate by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 (File No. 001-35845), which was filed with the SEC on August 9, 2021).
10.16	10.14
	Collateral Management Agreement, dated as of June 14, 2021, by and between LFT CRE 2021-FL1, Ltd. and OREC Investment Management, LLC (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 (File No. 001-35845), which was filed with the SEC on August 9, 2021).
10.17	10.15
	Servicing Agreement, dated as of June 14, 2021, by and among LFT CRE 2021-FL1, Ltd., OREC Investment Management, LLC, Lument Commercial Mortgage Trust, Wells Fargo Bank, National Association, Wilmington Trust, National Association and ORIX Real Estate Capital (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 (File No. 001-35845), which was filed with the SEC on August 9, 2021).
10.18	10.16
	Credit Agreement, dated as of July 12, 2023, among LMF 2023-1, LLC, as borrower, Massachusetts Mutual Life Insurance Company, as lead lender, Computershare Trust Company, National Association, as loan agent, Wilmington Trust, National Association, as trustee, and various financial institutions and other persons from time to time, as lenders (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845) which was filed with the SEC on July 12, 2023).
10.17	
	Indenture and Security Agreement, dated as of July 12, 2023, among LMF 2023-1, LLC, as issuer, Lument Commercial Mortgage Trust, as advancing agent, Wilmington Trust, National Association, as trustee, and Computershare Trust Company, National Association, as note administrator and as custodian (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-35845) which was filed with the SEC on July 12, 2023).
10.18	
	Collateral Management Agreement, dated as of July 12, 2023, between LMF 2023-1, LLC and Lument Investment Management, LLC (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File No. 001-35845) which was filed with the SEC on July 12, 2023).
10.19	
	Servicing Agreement, dated as of July 12, 2023, among LMF 2023-1, LLC, Lument Investment Management, LLC, as collateral manager, Lument Real Estate Capital, LLC, as servicer and as special servicer, Lument Commercial Mortgage Trust, as advancing agent, Wilmington Trust, National Association, as trustee, and Computershare Trust Company, National Association, as note administrator (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K (File No. 001-35845) which was filed with the SEC on July 12, 2023).
10.2	
	Lument Finance Trust, Inc. Independent Directors Stock-for-Fees Program, (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-35845) which was filed with the SEC on April 24, 2023).
10.21†	
21.1	List of Subsidiaries of Lument Finance Trust, Inc.*
23.1	Consent of KPMG, LLP *

31.1	Certification Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	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.**
32.2	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.**
97.1	Incentive Compensation Clawback Policy
99.1	Amended and Restated Third Amendment to Credit and Guaranty, dated April 21, 2021 August 23, 2021, by and among Lument Finance Trust, Inc., the lenders identified on the signature pages thereto and Cortland Capital Market Services, LLC, as Administrative Agent and as Collateral Agent (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 (File No. 001-35845), which was filed with the SEC on August 9, 2021), Agent.*
101.INS	Inline XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document
* Filed herewith.	
** Furnished herewith.	
†Management contract or compensatory plan or arrangement.	

Item 16. Form 10-K Summary

None.

SIGNATURES

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

LUMENT FINANCE TRUST, INC.

March 23, 2023 15, 2024

/s/ James P. Flynn

James P. Flynn

Chief Executive Officer and Chairman of the Board (Principal Executive Officer)

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

Signature	Title	Date
/s/ James P. Flynn	Chief Executive Officer, Chairman of the Board	March 23, 2023 15, 2024
James P. Flynn	(Principal Executive Officer)	
/s/ James A. Briggs	Chief Financial Officer (Principal Financial Officer and	March 23, 2023 15, 2024
James A. Briggs	Principal Accounting Officer)	
/s/ James C. Hunt	Director	March 23, 2023 15, 2024
James C. Hunt		
/s/ Marie D. Reynolds	Director	March 23, 2023 15, 2024
Marie D. Reynolds		
/s/ Neil A. Cummins	Director	March 23, 2023 15, 2024
Neil A. Cummins		
/s/ William Houlihan	Director	March 23, 2023 15, 2024
William Houlihan		
/s/ Walter C. Keenan	Director	March 23, 2023 15, 2024
Walter C. Keenan		

Contents

	Page
Financial Statements	
Reports of Independent Registered Public Accounting Firm (KPMG LLP, New York, NY, PCAOB ID: 185)	F-2
Consolidated Balance Sheets as of December 31, 2022 and December 31, 2021	F-4
Consolidated Statements of Operations for the years ended December 31, 2022 and December 31, 2021	F-5
Consolidated Statement of Changes in Equity for the years ended December 31, 2022 and December 31, 2021	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2022 and December 31, 2021	F-7
Notes to Consolidated Financial Statements	F-8

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Lument Finance Trust, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Lument Finance Trust, Inc. and subsidiaries (the Company) as of [December 31, 2022](#) [December 31, 2023](#) and [December 31, 2021](#) [December 31, 2022](#), the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, and the related notes and financial statement schedule IV (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of [December 31, 2022](#) [December 31, 2023](#) and [December 31, 2021](#) [December 31, 2022](#), and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2023 due to the adoption of ASC Topic 326, Financial Instruments - Credit Losses.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

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

Assessment of the allowance for loan losses Credit Losses Evaluated on commercial mortgage loans held-for-investment individually evaluated for impairment a Collective Basis

As discussed in Notes 2 and 3 to the consolidated financial statements, the Company adopted Accounting Standards Update 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and its related amendments, as of January 1, 2023. The Company's allowance for loan credit losses evaluated on commercial mortgage loans held-for-investment individually evaluated a collective basis (the collective ACL) was \$3.5 million out of a total allowance for impairment (individually evaluated ALL) totaled \$4.3 million credit losses of \$7.8 million as of December 31, 2022 January 1, 2023. Based The Company's collective ACL was \$6.1 million out of a total allowance for credit losses of \$6.1 million as of December 31, 2023. The collective ACL methodology estimates expected credit losses primarily using methods that incorporate a probability of default and loss-given-default utilizing a third-party analytical model (PD and LGD model). Determining an allowance for credit loss estimate requires significant judgment and a variety of subjective assumptions, including (i) determination of relevant historical loan loss data sets, (ii) the current credit quality of loans and operating performance of loan collateral and the Company's expectations of performance, and (iii) expectation of macroeconomic forecasts over the relevant time period. The Company estimates the allowance for credit losses for its portfolio on a collective basis for loans that share similar risk characteristics. The calculation is applied at the loan level. The Company focused their historical loss information on the facts and circumstances most relevant subset of the loan, available commercial real estate (CRE) data. The Company expects to use this proxy data set, or variants of it, unless the Company develops its own sufficient history of realized losses. The Company determines the loan is impaired when it is probable that the Company will not be able to collect all amounts due in accordance with the contractual terms of the loan. Impaired loans are individually evaluated its estimate based on the Company's quarterly assessment weighting of each loan multiple macroeconomic forecast scenarios driven by macroeconomic variables during the reasonable and assignment of a risk rating supportable forecast period. For the period beyond which are based the Company is able to make reasonable and supportable forecasts, the Company reverts, on a number of factors including debt service coverage, loan-to-value, property type, geographic and local market dynamics, physical condition, leasing and tenant profile, adherence to business plan and exit plan, maturity default risk and project sponsorship. The individually evaluated ALL is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, straight-line basis over four quarters, to the book value of the respective impaired loan. The Company utilized an income capitalization approach in determining the estimated fair value of the underlying collateral for use when evaluating that a loan is impaired, including assumptions, such as capitalization rates, creditworthiness of major tenants, occupancy rates, availability of financing, and exit plan, historical loss information derived from CRE data set.

We identified the assessment of the individually evaluated ALL January 1, 2023 collective ACL and the December 31, 2023 collective ACL as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment of the January 1, 2023 collective ACL and December 31, 2023 collective ACL due to significant recognition and measurement uncertainty. Specifically, the assessment encompassed the recognition evaluation of impairment of commercial mortgage loans, which are sensitive the collective ACL methodology, including the PD and LGD model used to estimate the risk rating model applied expected credit losses and the significant assumptions. Such significant assumptions such as debt-service coverage ratio, loan-to-value, property type, geographic included (1) selection and local market dynamics, weighting of macroeconomic forecast scenarios; (2) reasonable and supportable forecast period; (3) reversion period; and (4) period of historical loss information and the composition of the related proxy data set. The assessment also encompassed the included an evaluation of the measurement conceptual soundness of the individually evaluated ALL, which was sensitive to the significant assumptions of capitalization rates, creditworthiness of major tenants, occupancy rates, availability of financing, PD and exit plan. These assumptions are based on current market data and had a significant effect on the recognition and estimation of the individually evaluated ALL LGD model.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's recognition and measurement of the individually evaluated ALL estimate, including controls over the:

- Risk rating process;
- Evaluation and recognition that a loan is impaired, including significant assumptions;
- Evaluation of significant assumptions used in the measurement of the fair value of the collateral.

We evaluated the Company's process to develop the individually evaluated ALL estimate January 1, 2023 collective ACL and December 31, 2023 collective ACL estimates by performing the following:

- Tested testing certain sources of data factors, and assumptions that the Company used, and considered the relevance and reliability of such data factors, and assumptions
- Tested the identification of individually impaired loans through the Company's risk rating process for a selection of loans
- Evaluated the significant assumptions used in the risk rating model by comparing to independent sources on similar properties and
- Evaluated that the significant assumptions used in the fair value of collateral were representative of current market data by comparing to recent market activity on similar property transactions.

We assumptions. In addition we involved our valuation credit risk professionals with specialized skills and knowledge, who assisted in testing the fair value of the collateral, including the evaluation of the significant assumptions and related underlying documentation, for a selection of loans by comparing the assumptions to evidence obtained from external sources and evaluating the assumptions in light of historical and market information.

We also assessed the sufficiency of the audit evidence obtained related to individually evaluated ALL estimate by evaluating the in:

- Cumulative results of evaluating the audit procedures collective ACL methodology for compliance with U.S. generally accepted accounting principles
 - Qualitative aspects assessing the conceptual soundness of the Company's accounting PD and LGD model by inspecting model documentation to determine whether the models are suitable for their intended use
 - evaluating judgments made by the Company relative to the use of the PD and LGD model by comparing them to relevant Company-specific metrics and trends and the applicable industry practices
 - Potential bias in evaluating the accounting estimate selection and weighting of the macroeconomic forecast scenarios used by comparing them to the Company's business environment and relevant industry practices
 - evaluating the length of the period from which historical loss information was used, the reasonable and supportable forecast period, and the reversion period by comparing to specific portfolio risk characteristics and trends
- assessing the composition of the proxy data set by comparing to Company and specific portfolio risk characteristics

/s/ KPMG LLP

We have served as the Company's auditor since 2019.

New York, New York
March 23, 2023

15, 2024

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

		December 31, 2022 ⁽¹⁾	December 31, 2021 ⁽¹⁾		
				December 31, 2023 ⁽¹⁾	December 31, 2022 ⁽¹⁾
ASSETS	ASSETS			ASSETS	
Cash and cash equivalents	Cash and cash equivalents	\$ 43,858,515	\$ 14,749,046		
Restricted cash	Restricted cash	3,507,850	3,530,006		
Commercial mortgage loans held-for-investment, at amortized cost	Commercial mortgage loans held-for-investment, at amortized cost	1,076,148,186	1,001,825,294		
Allowance for loan losses		(4,258,668)	—		
Commercial mortgage loans held-for-investment, net of allowance for loan losses		1,071,889,518	1,001,825,294		
Allowance for credit losses					
Commercial mortgage loans held-for-investment, net of allowance for credit losses					
Mortgage servicing rights, at fair value	Mortgage servicing rights, at fair value	795,656	551,997		
Accrued interest receivable	Accrued interest receivable	5,797,991	3,977,752		
Investment related receivable		—	22,400,000		
Other assets					
Other assets					
Other assets	Other assets	2,116,007	1,889,258		
Total assets	Total assets	\$ 1,127,965,537	\$ 1,048,923,353		
LIABILITIES AND EQUITY					
LIABILITIES AND EQUITY					
LIABILITIES AND EQUITY	LIABILITIES AND EQUITY				
LIABILITIES:	LIABILITIES:			LIABILITIES:	

Collateralized loan obligations, net	Collateralized loan obligations, net	829,310,498	826,782,543
Secured term loan	Secured term loan	46,971,042	46,845,502
Accrued interest payable	Accrued interest payable	2,360,809	704,055
Dividends payable	Dividends payable	4,131,369	3,242,809
Fees and expenses payable to Manager	Fees and expenses payable to Manager	1,606,333	1,825,142
Other liabilities	Other liabilities	583,989	147,802
Total liabilities	Total liabilities	884,964,040	879,547,853
COMMITMENTS AND CONTINGENCIES (NOTES 10 & 11)	COMMITMENTS AND CONTINGENCIES (NOTES 10 & 11)		
COMMITMENTS AND CONTINGENCIES (NOTES 10 & 11)			
COMMITMENTS AND CONTINGENCIES (NOTES 10 & 11)			
EQUITY:	EQUITY:		
Preferred Stock: par value \$0.01 per share; 50,000,000 shares authorized; 7.875% Series A Cumulative Redeemable, \$60,000,000 aggregate liquidation preference, 2,400,000 shares issued and outstanding at December 31, 2022 and December 31, 2021, respectively		57,254,935	57,254,935
Common Stock: par value \$0.01 per share; 450,000,000 shares authorized, 52,231,152 and 24,947,883 shares issued and outstanding, at December 31, 2022 and December 31, 2021, respectively		522,252	249,434
EQUITY:			
EQUITY:			
Preferred Stock: par value \$0.01 per share; 50,000,000 shares authorized; 7.875% Series A Cumulative Redeemable, \$60,000,000 aggregate liquidation preference, 2,400,000 shares issued and outstanding at December 31, 2023 and December 31, 2022, respectively			
Common Stock: par value \$0.01 per share; 450,000,000 shares authorized, 52,248,631 and 52,231,152 shares issued and outstanding, at December 31, 2023 and December 31, 2022, respectively			
Additional paid-in capital	Additional paid-in capital	314,598,384	233,833,749
Cumulative distributions to stockholders	Cumulative distributions to stockholders	(160,724,426)	(143,449,310)

Accumulated earnings	Accumulated earnings	31,250,852	21,387,192
Total stockholders' equity	Total stockholders' equity	242,901,997	169,276,000
Noncontrolling interests	Noncontrolling interests	\$ 99,500	\$ 99,500
Total equity	Total equity	\$ 243,001,497	\$ 169,375,500
Total liabilities and equity	Total liabilities and equity	\$ 1,127,965,537	\$ 1,048,923,353
Total liabilities and equity			
Total liabilities and equity			

(1) Our consolidated balance sheets include assets and liabilities of consolidated variable interest entities ("VIEs") as the Company was the primary beneficiary of these VIEs. As of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, assets of the consolidated VIEs totaled \$1,005,507,371 \$1,384,136,334 and \$1,003,896,995, \$1,005,507,371, respectively and the liabilities of consolidated VIEs totaled \$831,575,144 \$1,150,207,290 and \$827,390,435, \$831,575,144, respectively. See Note 4 for further discussion.

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

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

		Year Ended December 31, 2022	Year Ended December 31, 2021		
Year Ended December 31, 2023				Year Ended December 31, 2023	Year Ended December 31, 2022
Revenues:	Revenues:			Revenues:	
Interest income:	Interest income:			Interest income:	
Commercial mortgage loans held-for-investment	Commercial mortgage loans held-for-investment	\$56,610,324	\$36,162,050		
Cash and cash equivalents	Cash and cash equivalents	74,676	28,779		
Interest expense:	Interest expense:			Interest expense:	
Collateralized loan obligations	Collateralized loan obligations	(29,055,324)	(12,178,545)		
Secured term loan	Secured term loan	(3,754,872)	(3,333,536)		
Net interest income	Net interest income	23,874,804	20,678,748		
Other income:					
Provision for loan losses		(4,258,668)	—		
Realized loss on mortgage servicing rights		—	(10,910)		
Change in unrealized gain (loss) on mortgage servicing rights		243,659	(356,772)		
Loss on extinguishment of debt		—	(1,663,926)		
Servicing income, net		347,838	398,939		
Total other (loss)		(3,667,171)	(1,632,669)		
Expenses:	Expenses:				
Management and incentive fees					
Management and incentive fees					
Management and incentive fees	Management and incentive fees	4,197,819	3,041,600		

General and administrative expenses	General and administrative expenses	3,467,653	2,879,655
Operating expenses reimbursable to Manager	Operating expenses reimbursable to Manager	2,116,636	2,038,130
Other operating expenses	Other operating expenses	309,797	280,970
Compensation expense	Compensation expense	240,980	200,608
Total expenses	Total expenses	10,332,885	8,440,963

Other income (loss):	Other income (loss):
-----------------------------	-----------------------------

Provision for credit losses	
Change in unrealized gain (loss) on mortgage servicing rights	
Change in unrealized gain (loss) on mortgage servicing rights	
Change in unrealized gain (loss) on mortgage servicing rights	
Servicing income, net	
Servicing income, net	
Servicing income, net	
Total other (loss)	

Net income before provision for income taxes	Net income before provision for income taxes	9,874,748	10,605,116
(Provision for) income taxes	(Provision for) income taxes	(11,088)	(77,894)
Net income	Net income	9,863,660	10,527,222
Dividends to preferred stockholders	Dividends to preferred stockholders	(4,740,000)	(3,112,500)
Net income attributable to common stockholders	Net income attributable to common stockholders	\$ 5,123,660	\$ 7,414,722

Earnings per share:	Earnings per share:	Earnings per share:
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Net income attributable to common stockholders (basic and diluted)	Net income attributable to common stockholders (basic and diluted)	\$ 5,123,660	\$ 7,414,722
Weighted average number of shares of common stock outstanding	Weighted average number of shares of common stock outstanding	48,342,347	24,945,824
Basic and diluted income per share	Basic and diluted income per share	\$ 0.11	\$ 0.30

Dividends declared per weighted average share of common stock	Dividends declared per weighted average share of common stock	\$ 0.24	\$ 0.36
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The accompanying notes are an integral part of these consolidated financial statements.

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

	Total										Preferred Stock	Common Stock	Additional Paid in Capital	Cumulative Distributions to Stockholders	Accumulated Earnings	Total Stockholders' Equity	Noncontrolling interests	Total Equity
	Preferred Stock		Common Stock		Additional Paid in Capital	Cumulative Distributions to Stockholders	Accumulated Earnings	Total Stockholders' Equity	Noncontrolling interests	Total Equity								
	Shares	Value	Shares	Par Value														
Balance at January 1, 2021	—	—	24,943,383	249,389	233,850,271	(131,355,978)	10,859,970	113,603,652	99,500	\$113,703,152								
Issuance of common stock	—	—	4,500	45	11,655	—	—	11,700	—	11,700								
Cost of issuing common stock	—	—	—	—	(32,085)	—	—	(32,085)	—	(32,085)								
Issuance of preferred stock, net	2,400,000	57,254,935	—	—	—	—	—	57,254,935	—	57,254,935								
Restricted stock compensation expense	—	—	—	—	3,908	—	—	3,908	—	3,908								
Net income	—	—	—	—	—	—	10,527,222	10,527,222	—	10,527,222								
Common dividends declared	—	—	—	—	—	(8,980,832)	—	(8,980,832)	—	(8,980,832)								
Preferred dividends declared	—	—	—	—	—	(3,112,500)	—	(3,112,500)	—	(3,112,500)								
Balance at December 31, 2021	2,400,000	\$57,254,935	24,947,883	\$249,434	\$233,833,749	\$(143,449,310)	\$21,387,192	\$169,276,000	\$99,500	\$169,375,500								
Balance at January 1, 2022																		
Balance at January 1, 2022																		
Balance at January 1, 2022	Balance at January 1, 2022	2,400,000	\$57,254,935	24,947,883	\$249,434	\$233,833,749	\$(143,449,310)	\$21,387,192	\$169,276,000	\$99,500	\$169,375,500							
Issuance of common stock	Issuance of common stock	—	—	27,283,269	272,818	83,214,435	—	—	83,487,253	—	83,487,253							
Cost of issuing common stock	Cost of issuing common stock	—	—	—	—	(2,446,970)	—	—	(2,446,970)	—	(2,446,970)							
Restricted stock compensation expense	Restricted stock compensation expense	—	—	—	—	(2,830)	—	—	(2,830)	—	(2,830)							
Net income	Net income	—	—	—	—	—	9,863,660	9,863,660	—	9,863,660								
Common dividends declared	Common dividends declared	—	—	—	—	—	(12,535,116)	—	(12,535,116)	—	(12,535,116)							
Preferred dividends declared	Preferred dividends declared	—	—	—	—	—	(4,740,000)	—	(4,740,000)	—	(4,740,000)							
Balance at December 31, 2022	Balance at December 31, 2022	2,400,000	\$57,254,935	52,231,152	\$522,252	\$314,598,384	\$(160,724,426)	\$31,250,852	\$242,901,997	\$99,500	\$243,001,497							

Balance at
January 1,
2023
Cumulative-
effect
adjustment
upon
adoption of
ASU 2016-13
(Note 2)
Issuance of
common
stock
Cost of
issuing
common
stock
Restricted
stock
compensation
expense
Net income
Common
dividends
declared
Preferred
dividends
declared
Balance at
December
31, 2023

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

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

		Year Ended December 31, 2022	Year Ended December 31, 2021
	Year Ended December 31, 2023		
		Year Ended December 31, 2023	Year Ended December 31, 2022
Cash flows from operating activities:	Cash flows from operating activities:	Cash flows from operating activities:	
Net income	Net income	\$ 9,863,660	\$ 10,527,222
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of commercial mortgage loans held-for-investment discounts	Accretion of commercial mortgage loans held-for-investment discounts	(125,098)	(46,088)

Accretion of commercial mortgage loans held-for-investment discounts			
Accretion of commercial mortgage loans held-for-investment discounts			
Amortization of commercial mortgage loans held-for-investment premiums	Amortization of commercial mortgage loans held-for-investment premiums	61,144	457,749
Accretion of collateralized loan obligations discounts, net		—	207,767
Accretion of deferred loan fees			
Accretion of deferred loan fees			
Accretion of deferred loan fees	Accretion of deferred loan fees	(27,084)	—
Amortization of deferred offering costs	Amortization of deferred offering costs	(114,571)	(32,085)
Amortization of deferred financing costs	Amortization of deferred financing costs	2,772,870	1,953,465
Provision for loan losses		4,258,668	—
Realized loss on mortgage servicing rights		—	10,910
Loss on extinguishment of debt		—	1,663,926
Unrealized (gain) loss on mortgage servicing rights		(243,659)	356,772
Provision for credit losses			
Unrealized loss/(gain) loss on mortgage servicing rights			
Unrealized loss/(gain) loss on mortgage servicing rights			
Unrealized loss/(gain) loss on mortgage servicing rights			
Restricted stock compensation expense	Restricted stock compensation expense	15,980	15,608
Net change in:	Net change in:	Net change in:	
Accrued interest receivable	Accrued interest receivable	(1,820,239)	(1,962,135)
Other assets	Other assets	(226,749)	(55,464)
Accrued interest payable	Accrued interest payable	1,656,754	271,119
Fees and expenses payable to Manager	Fees and expenses payable to Manager	(218,809)	668,802

Other accounts payable and accrued expenses	Other accounts payable and accrued expenses	436,187	(190,621)	
Net cash provided by operating activities	Net cash provided by operating activities	16,289,054	13,846,947	
Cash flows from investing activities:	Cash flows from investing activities:			Cash flows from investing activities:
Purchase and origination of commercial mortgage loans held-for-investment	Purchase and origination of commercial mortgage loans held-for-investment	(345,921,827)	(983,694,326)	
Principal payments from commercial mortgage loans held-for-investment	Principal payments from commercial mortgage loans held-for-investment	293,326,723	506,402,705	
Deferred loan fees	Deferred loan fees	763,250	—	
Net cash (used in) investing activities	Net cash (used in) investing activities	(51,831,854)	(477,291,621)	
Cash flows from financing activities:	Cash flows from financing activities:			Cash flows from financing activities:
Proceeds from issuance of common stock	Proceeds from issuance of common stock	81,136,045	—	
Net proceeds from issuance of preferred stock		—	57,254,935	
Dividends paid on common stock	Dividends paid on common stock	(11,646,557)	(9,978,162)	
Dividends paid on preferred stock	Dividends paid on preferred stock	(4,740,000)	(2,115,000)	
Proceeds from collateralized obligations	Proceeds from collateralized obligations	—	833,750,000	
Proceeds from secured term loan		—	7,500,000	
Payment of collateralized loan obligations		—	(465,316,126)	
Payment of deferred financing costs	Payment of deferred financing costs	(119,375)	(8,747,277)	
Net cash provided by (used in) financing activities		64,630,113	412,348,370	
Payment of deferred financing costs				
Payment of deferred financing costs				
Net cash provided by financing activities				

Net increase (decrease) in cash, cash equivalents and restricted cash	Net increase (decrease) in cash, cash equivalents and restricted cash	29,087,313	(51,096,304)
Cash, cash equivalents and restricted cash, beginning of period	Cash, cash equivalents and restricted cash, beginning of period	18,279,052	69,375,356
Cash, cash equivalents and restricted cash, end of period	Cash, cash equivalents and restricted cash, end of period	\$ 47,366,365	\$ 18,279,052
Supplemental disclosure of cash flow information	Supplemental disclosure of cash flow information		
Supplemental disclosure of cash flow information			
Supplemental disclosure of cash flow information			
Cash paid for interest	Cash paid for interest	\$ 28,380,571	\$ 13,079,740
Non-cash investing and financing activities information	Non-cash investing and financing activities information		
Non-cash investing and financing activities information			
Non-cash investing and financing activities information			
Dividends declared but not paid at end of period	Dividends declared but not paid at end of period	\$ 4,315,119	\$ 3,426,559

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

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2022 2023

NOTE 1 - ORGANIZATION AND BUSINESS OPERATIONS

Lument Finance Trust, Inc. (together with its consolidated subsidiaries, the "Company"), is a Maryland corporation that focuses primarily on investing in, originating, financing and managing a portfolio of commercial real estate ("CRE") debt investments. The Company is externally managed by Lument Investment Management (the "Manager" or "Lument IM"). The Company's common stock is listed on the NYSE under the symbol "LFT."

The Company was incorporated on March 28, 2012 and commenced operations on May 16, 2012. The Company began trading as a publicly traded company on March 22, 2013.

The Company has elected to be taxed as a real estate investment trust ("REIT") and to comply with Sections 856 through 859 of the Internal Revenue Code of 1986, as amended, (the "Code"). Accordingly, the Company generally will not be subject to U.S. federal income tax to the extent of its distributions to stockholders and as long as certain asset, income and share ownership tests are met.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared in accordance with U.S. GAAP and are expressed in United States dollars.

The consolidated financial statements of the Company include the accounts of its subsidiaries.

Principles of Consolidation

The accompanying consolidated financial statements of the Company include the accounts of the Company and all subsidiaries which it controls (i) through voting or similar rights or (ii) by means other than voting rights if the Company is the primary beneficiary of a variable interest entity ("VIE"). Entities which the Company does not control and entities which are VIEs in which the Company is not the primary beneficiary are accounted for under the equity method or other appropriate GAAP. All significant intercompany transactions have been eliminated on consolidation.

Use of Estimates

The financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires the Company to make a number of significant estimates. These include estimates of fair value of certain assets and liabilities, amount and timing of credit losses, prepayment rates, and other estimates that affect the reported amounts of certain assets and liabilities as of the date of the financial statements and the reported amounts of certain revenues and expenses during the reported period. It is likely that changes in these estimates (e.g. valuation changes due to supply and demand, credit performance, prepayments, interest rates, or other reasons) will occur in the near term. The Company's estimates are inherently subjective in nature and actual results could differ from its estimates and the differences may be material.

VIEs

An entity is considered a VIE when any of the following applies: (1) the equity investors (if any) lack one or more essential characteristics of a controlling financial interest; (2) the equity investment at risk is not sufficient to finance that entity's activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. The Company consolidates VIEs in which it is considered to be the primary beneficiary. The primary beneficiary is defined as the entity having both the following characteristics: (1) the power to direct activities that, when taken together, most significantly impact the VIE performance; and (2) the obligation to absorb losses and right to receive returns from the VIE that would be significant to the VIE.

The Company evaluates quarterly its junior retained notes and preferred shares of LFT CRE 2021-FL1, Ltd. and LMF 2023-1, LLC for potential consolidation and prior to their unwinding in the second quarter of 2021, Hunt CRE 2017-FL1, Ltd. and Hunt CRE 2018-FL2, Ltd. At December 31, 2022 December 31, 2023, the Company determined it was the primary beneficiary of LFT CRE 2021-FL1, Ltd. and LMF 2023-1, LLC based on its power to direct the activities that most significantly impact the economic performance of LFT 2021-FL1, Ltd. and LMF 2023-1, LLC and its obligation to absorb losses derived from ownership of its junior retained notes and preferred shares, and prior to the second quarter of 2021 determined it was the primary beneficiary of Hunt CRE 2017-FL1, Ltd. and Hunt CRE 2018-FL2, Ltd. shares. Accordingly, the Company consolidated the assets, liabilities, income and expenses of the underlying issuing entities.

Collateralized Loan Obligations and Secured Financings

CLOs and secured financings represent third-party liabilities of LFT CRE 2021-FL1, Ltd. and LFT CRE 2021-FL1, LLC (collectively, the "2021-FL1 CLO") and LMF 2023-1, LLC ("LMF 2023-1 Financing"). The 2021-FL1 CLO and LMF 2023-1 Financing are VIEs and Management has determined that the Company is the primary beneficiary of the 2021-FL1 CLO and LMF 2023-1 Financing. Accordingly the Company consolidates the assets, liabilities (other than the below investment grade-rated notes and preferred shares of the 2021-FL1 CLO and LMF 2023-1 Financing retained by the Company that are eliminated on consolidation), income and expense of the 2021-FL1 CLO and LMF 2023-1 Financing. The third-party obligations of the 2021-FL1 CLO and LMF 2023-1 Financing do not have any recourse to the Company as the consolidator of the CLO and secured financing issuing entities. The third-party obligations of the 2021-FL1 CLO and LMF 2023-1 Financing are carried at their outstanding unpaid principal balances, net of any deferred financing costs. Any premiums, discounts or deferred financing costs associated with these third-party obligations are amortized to interest expense using the effective interest method over the expected average life of the related obligations, or on a straight line basis when it approximates the effective interest method. The Company's maximum exposure to loss from collateralized loan obligations ("CLO") was \$234,850,000 and \$166,250,000 at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively.

Use in the second quarter of Estimates

The financial statements have been prepared on 2023, \$1,684,618 in costs related to a previously contemplated public CRE CLO were expensed as "Other operating expenses" in the accrual basis statement of accounting in accordance with GAAP. The preparation operations as a result of financial statements in conformity with GAAP requires abandoning the Company to make a number of significant estimates. These include estimates of fair value of certain assets and liabilities, amount and timing of credit losses, prepayment rates, and other estimates that affect the reported amounts of certain assets and liabilities as of the date of the financial statements and the reported amounts of certain revenues and expenses during the reported period. It is likely that changes in these estimates (e.g. valuation changes contemplated transaction due to supply and demand, credit performance, prepayments, interest rates, or other reasons) will occur in the near term. The Company's estimates are inherently subjective in nature and actual results could differ from its estimates and the differences may be material. then current capital market environment.

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents at time of purchase include cash held in bank accounts on an overnight basis and other short term deposit accounts with banks having maturities of 90 days or less at time of acquisition. The Company maintains its cash and cash equivalents in highly rated financial institutions, and at times these balances exceed insurable amounts.

Restricted cash includes cash held within LFT CRE 2021-FL1 Ltd. CLO and LMF 2023-1 Financing as of December 31, 2022 December 31, 2023 and the 2021-FL1 CLO as of December 31, 2021 December 31, 2022, respectively.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the statement of cash flows:

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

		December 31, 2022	December 31, 2021		
December 31, 2023				December 31, 2023	December 31, 2022
Cash and cash equivalents	Cash and cash equivalents	\$43,858,515	\$14,749,046		
Restricted cash CRE 2021-FL1, Ltd.		\$ 3,507,850	\$ 3,530,006		
Restricted cash 2021-FL1 CLO					

As of **December 31, 2022** December 31, 2023, the Company held **two loans** one loan, collateralized by a multifamily property, with an unpaid principal balance of \$8.9 million on non-accrual status **where** with interest **income** is collections accounted for under the cost recovery method. Additionally, as of December 31, 2023, the Company held one loan, collateralized by a multifamily property, with unpaid principal balance of \$36.8 million on non-accrual status with interest collections accounted for on the cash basis method. See Notes 3 and 16 for further discussion.

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") and amendments, which replaces the incurred loss methodology with an expected loss model known as the Current Expected Credit Loss ("CECL") model. CECL amends the previous credit loss model to reflect a **cash basis**, reporting entity's current estimate of all expected credit losses, not only based on historical experience and current economic conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, and off-balance credit exposures such as unfunded loan commitments. The allowance for credit losses required under ASC 2016-13 is included in "Allowance for credit losses" on our consolidated balance sheets. The allowance for credit losses attributed to unfunded loan commitments is included in "Other liabilities" in the consolidated balance sheets. The change to the allowance for credit loss recorded on January 1, 2023 is reflected as a direct charge to retained earnings on our consolidated statements of changes in equity; however subsequent changes to the allowance for credit losses are recognized through net income on our consolidated statements of operations. In connection with the adoption of ASU 2016-13, we recorded a \$3.6 million decrease to accumulated earnings as of January 1, 2023.

The Company's implementation process included a selection of a credit loss analytical model, completion and documentation of policies and procedures, changes to internal reporting processes and related internal controls and additional disclosures. A control framework for governance, data, forecast and model controls was developed to support the allowance for credit losses process. Determining an allowance for credit loss estimate requires significant judgment and a variety of subjective assumptions, including (i) determination of relevant historical loan loss data sets, (ii) the current credit quality of loans and operating performance of loan collateral and the Company's expectations of performance and (iii) expectation of macroeconomic forecasts over the relevant time period.

The Company estimates the allowance for credit losses for its portfolio on a collective basis, including unfunded loan commitments, for loans that share similar risk characteristics. The calculation is applied at the loan level. The allowance for credit losses estimation methodology used by LFT includes a probability of default and loss given default method utilizing a widely-used third-party analytical model with historical loan losses for over 100,000 commercial real estate loans dating back to 1998. Within this data set, we focused our historical loss information on the most relevant subset of available CRE data, which we determined based on loan metrics that are most comparable to our loan portfolio including asset type, spread to interest rate, unpaid principal balance and origination loan-to-value, or LTV. The Company expects to use this proxy data set, or variants of it, unless the Company develops its own sufficient history of realized losses. The Company determined the key variables driving its allowance for credit losses estimate are debt service coverage ratio and LTV ratio. Other notable variables include property type, property location and loan vintage. The Company determines its allowance for credit loss estimate based on the weighting of multiple macroeconomic forecast scenarios driven by macroeconomic variables such as gross domestic product ("GDP"), unemployment rate, federal funds target rate and core personal consumption expenditure ("CPR") among others, during the reasonable and supportable forecast period. The reasonable and supportable forecast period is currently one year, however, the Company regularly evaluates the reasonable and supportable forecast period to determine if a change is needed based on our assessment of the most likely scenario of assumptions and plausible outcomes for the U.S. economy. For the period beyond which the Company is able to make reasonable and supportable forecasts, the Company reverts, on a straight-line basis over four quarters, to the historical loss information derived from CRE data set.

Any loans considered to be a Default Risk or otherwise deemed to be collateral dependent will be individually evaluated for a specific allowance for credit losses. A loan is considered collateral dependent when the Company determines that the facts and circumstances of the loan deem the debtor to be experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. If a loan is considered to be collateral dependent, a specific allowance for credit losses is recorded to reduce the carrying value of the loan through a charge to the provision for (reversal of) credit losses. The specific allowance for credit losses is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the amortized cost of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, actions of other lenders, and other factors deemed necessary by the Manager. Actual losses, if any, could ultimately differ from estimated losses.

Prior to the adoption of ASU 2016-13, the Company established an allowance for credit loss under the incurred loss model which required analysis of Default Risk loans and those determined to be collateral dependent in a manner consistent with the specific allowance described above. In addition, the Company evaluated the entire loan portfolio to determine whether the portfolio had any impairment that required a valuation allowance on the remainder of the portfolio.

The following table illustrates the day-one financial statement impact of the adoption of ASU 2016-13 on January 1, 2023:

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, **2022** 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Pre-adoption	Transition adjustment	Post-adoption
Assets			
Commercial mortgage loans, held-for-investment	\$ 1,076,148,186	\$ —	\$ 1,076,148,186
Less: Allowance for credit losses	(4,258,668)	(3,549,501)	(7,808,169)
Commercial mortgage loans, held-for-investment, net of allowance for credit losses	\$ 1,071,889,518	\$ (3,549,501)	\$ 1,068,340,017
Liabilities			
Other liabilities ⁽¹⁾	\$ 583,989	\$ 41,939	\$ 625,928
Equity			
Accumulated earnings	\$ 31,250,852	\$ (3,591,440)	\$ 27,659,412

(1) Includes reserve for unfunded loan commitments

Quarterly, the Company assesses the risk factors of each loan classified as held-for-investment and assigns a risk rating based on a variety of factors, including, without limitation, debt-service coverage ratio ("DSCR"), loan-to-value ratio ("LTV"), property type, geographic and local market dynamics, physical condition, leasing and tenant profile, adherence to business plan and exit plan, maturity default risk and project sponsorship. The Company's loans are rated on a 5-point scale, from least risk to greatest risk, respectively, which ratings are described as follows:

- Very Low Risk:** exceeds expectations and is outperforming underwriting or it is very likely that the underlying loan can be refinanced easily in the period's prevailing capital market conditions
- Low Risk:** meeting or exceeding underwritten expectations
- Moderate Risk:** consistent with underwritten expectations or the sponsor may be in the early stages of executing the business plan and the loan structure appropriately mitigates additional risks
- High Risk:** potential risk of default, a loss may occur in the event of default
- Default Risk:** imminent risk of default, a loss is likely in the event of default

The Company evaluates each loan rated High Risk or above as to whether it is impaired on a quarterly basis. Impaired loans are individually evaluated based on the Company's quarterly assessment of each loan and assignment of a risk rating. Impairment occurs when the Company determines that the facts and circumstances of the loan deem it probable that the Company will not be able to collect all amounts due in accordance with the contractual terms of the loan. If a loan is considered to be impaired, an allowance is recorded to reduce the carrying value of the loan through a charge to the provision for loan losses. Impairment of these loans, all of which are deemed collateral dependent, is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, actions of other lenders, and other factors deemed necessary by the Manager. Actual losses, if any, could ultimately differ from estimated losses. As of December 31, 2022, the Company identified its sole office loan, collateralized by an office building in Chicago, as impaired and established an allowance for loan loss of \$4.3 million for the twelve months ended December 31, 2022. Additionally, the Company identified one loan, collateralized by a multifamily property, as impaired due to monetary default, however, no reserve is required after analysis of the underlying collateral value. See Note 3 for further detail.

In addition, the Company evaluates the entire portfolio to determine whether the portfolio has any impairment that requires a valuation allowance on the remainder of the loan portfolio. As of December 31, 2022, the Company has not recognized any provision for loan losses on its loans held-for-investment, other than the loan noted above. We also assessed the remainder of the portfolio, considering the absence of delinquencies and current market conditions, and, as such has not recorded any allowance for loan losses.

Mortgage Servicing Rights, at Fair Value

Mortgage servicing rights ("MSRs") are associated with residential mortgage loans that the Company historically purchased and subsequently sold or securitized. MSRs are held and managed at Five Oaks Acquisition Corp. ("FOAC"), the Company's taxable REIT subsidiary ("TRS"). As the owner of MSRs, the Company is entitled to receive a portion of the interest payments from the associated residential mortgage loan, and is obligated to service, directly or through a sub-servicer, the associated loan. MSRs are reported at fair value. Residential mortgage loans for which the Company owns the MSRs are directly serviced by two sub-servicers retained by the Company. The Company does not directly service any residential mortgage loans.

MSR income is recognized at the contractually agreed upon rate, net of the costs of sub-servicers retained by the Company. If a sub-servicer with which the Company contracts were to default, an evaluation of MSR assets for impairment would be undertaken at that time.

Collateralized Loan Obligations

Collateralized loan obligations represent third-party liabilities of LFT CRE 2021-FL1, Ltd. as of December 31, 2022 and Hunt CRE 2017-FL1, Ltd. and Hunt CRE 2018-FL2, Ltd. prior to their unwind date of June 14, 2021 (the "CLOs"). The CLOs are VIEs that the Company has determined it is the primary beneficiary of and accordingly are consolidated in the Company's financial statements, excluding liabilities of the CLOs acquired by the Company that are eliminated on consolidation. The third-party obligations of the CLOs do not have any recourse to the Company as the consolidator of the CLOs. CLOs are carried at their outstanding unpaid principal balances, net of any unamortized discounts or deferred financing costs. Any premiums, discounts or deferred financing costs associated with these liabilities are amortized to interest expense using the effective interest method over the expected average life of the related obligations, or on a straight line basis when it approximates the effective interest method.

Secured Term Loan

The Company and certain of its subsidiaries are party to a \$47.75 million credit and guaranty agreement with the lenders referred to therein and Cortland Capital Service LLC, as administrative agent and collateral agent for the lenders (the "Secured Term Loan"). The Secured Term Loan is carried at its unpaid principal balance, net of deferred financing costs. Deferred financing costs associated with this liability are amortized to interest expense on a straight line basis when it approximates the effective interest method. See Note 6 for additional information related to the Secured Term Loan.

Common Stock

At December 31, 2022 December 31, 2023, and December 31, 2021 December 31, 2022, the Company was authorized to issue up to 450,000,000 shares of common stock, par value \$0.01 per share. On February 22, 2022, the Company closed a transferable common stock rights offering and issued 27,277,269 shares of common stock. The Company had 52,231,152 and 24,947,883 52,248,631 shares of common stock issued and outstanding at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively.

Stock Repurchase Program

On December 15, 2015, the Company's Board of Directors (the "Board") authorized a stock repurchase program ("Repurchase Program") to repurchase up to \$10 million of the Company's outstanding common stock. Subject to applicable securities laws, repurchase of common stock under the Repurchase Program may be made at times and in amounts as the Company deems appropriate, using available cash resources. Shares of common stock repurchased by the Company under

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the Repurchase Program, if any, will be canceled and, until reissued by the Company, will be deemed to be authorized but unissued shares of common stock. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice.

Preferred Stock

At December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the Company was authorized to issue up to 50,000,000 shares of preferred stock, par value \$0.01 per share, with such designations, voting and other rights and preferences as may be determined from time to time by the Company's Board of Directors. Board. On May 5, 2021, the Company issued 2,400,000 shares of 7.875% Series A Cumulative Redeemable Preferred Stock (Series A Preferred Stock). The Company had 2,400,000 shares of

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

preferred stock issued and outstanding at December 31, 2022 December 31, 2023 and December 31, 2021, December 31, 2022, respectively. Our preferred stock is classified as permanent equity and carried at its liquidation preference less offering costs. See Note 12 for additional information related to our Series A Preferred Stock.

Income Taxes

The Company has elected to be taxed as a REIT under the Code for U.S. federal income tax purposes, commencing with the Company's short taxable period ended December 31, 2012. A REIT is generally taxable as a U.S. C-Corporation; however, so long as the Company qualifies as a REIT it is entitled to a special deduction for dividends paid to stockholders not otherwise available to corporations. Accordingly, the Company generally will not be subject to U.S. federal income tax to the extent its distributions to stockholders equals, or exceeds, its REIT taxable income for the year. In addition, the Company must continue to meet certain REIT qualification

requirements with respect to distributions, as well as certain asset, income and share ownership tests, in accordance with Sections 856 through 860 of the Code, as summarized below. In addition, the TRS is maintained to perform certain services and earn income for the Company that the Company is not permitted engage in as a REIT.

To maintain its qualification as a REIT, the Company must meet certain requirements, including but not limited to the following: (i) distribute at least 90% of its REIT taxable income to its stockholders; (ii) invest at least 75% of its assets in REIT qualifying assets, with additional restrictions with respect to asset concentration risk; and (iii) earn at least 95% of its gross income from qualifying sources of income, including at least 75% from qualifying real estate and real estate related sources. Regardless of the REIT election, the Company may also be subject to certain state, local and franchise taxes. Under certain circumstances, federal income and excise taxes may be due on its undistributed taxable income. If the Company were to fail to meet these requirements, it would be subject to U.S. federal income tax as a U.S. C-Corporation, which could have a material adverse impact on its results of operations and amounts available for distributions to its stockholders.

Certain activities of the Company are conducted through a TRS and therefore are taxed as a standalone U.S. C-Corporation. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The TRS is not subject to a distribution requirement with respect to its REIT owner. The TRS may retain earnings annually, resulting in an increase in the consolidated book equity of the Company and without a corresponding distribution requirement by the REIT. If the TRS generates net income, and declares dividends to the Company, such dividends will be included in its taxable income and necessitate a distribution to its stockholders in accordance with the REIT distribution requirements.

The Company assesses its tax positions for all open tax years and determines whether the Company has any material unrecognized liabilities in accordance with ASC 740, Income Taxes. The Company records these liabilities to the extent the Company deems them more likely than not to be incurred. The Company's accounting policy with respect to interest and penalties is to classify these amounts as other interest expense.

Earnings per Share

The Company calculates basic and diluted earnings per share by dividing net income attributable to common stockholders for the period by the weighted-average shares of the Company's common stock outstanding for that period. Diluted earnings per share takes into account considers the effect of dilutive instruments, such as warrants, stock options, and unvested restricted stock, but use the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding. See Note 17 13 for details of the computation of basic and diluted earnings per share.

Stock-Based Compensation

The Company is required to recognize compensation costs relating to stock-based payment transactions in the consolidated financial statements. The Company accounts for share-based compensation issued to its Manager and non-management directors using the fair-value based methodology prescribed by ASC 718, Share-Based Payment ("ASC 718"). Compensation cost related to restricted common stock issued to the Manager is initially measured at estimated fair value at the grant date, and is remeasured on subsequent dates to the extent the awards are unvested. Additionally, the compensation cost related to restricted common stock issued to the non-management Company's independent directors is measured at its estimated fair value at the grant date and amortized and expensed over the vesting period. See Note 13 9 for details of stock-based awards issuable under the Manager Equity Plan. Company's prior equity incentive plan, which expired on December 18, 2022 and is no longer being used to issue new equity awards.

Comprehensive Income (Loss) Attributable to Common Stockholders

For the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying consolidated financial statements.

Recently Issued and/or Adopted Accounting Standards

Credit Losses

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2016, the FASB issued On January 1, 2023 we adopted ASU 2016-13, which is a comprehensive amendment utilizes CECL for the recognition of credit losses on for our commercial mortgage loans held-for-investment at amortized cost, at the time the financial instruments. Currently, GAAP requires an "incurred loss" methodology asset is originated or acquired. The allowance for recognizing credit losses is adjusted each period for changes in expected credit losses. This methodology replaces the multiple impairment methods in GAAP that delays recognition until generally required that a loss be incurred before it is probable a loss has recognized. We adopted ASU 2016-13 using the modified retrospective method, therefore, the results for reporting periods prior to January 1, 2023 have been incurred. The standard's core principle is that an entity replaces the "incurred loss" impairment methodology unadjusted and reported in current GAAP accordance with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to support credit loss estimates. For public business entities that are SEC filers, the amendment in this update was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

In November 2019, the FASB issued ASU 2019-10 which amended the effective dates for implementation of ASU 2016-13. ASU 2019-10 deferred the effective date previously applicable GAAP. Upon adoption of ASU 2016-13 for SEC filers that are eligible on January 1, 2023, the Company recorded a cumulative-effect adjustment to be smaller reporting companies, public business entities that are not SEC filers and all other companies, including not-for-profit companies and employee benefit plans for fiscal years beginning after December 15, 2022 accumulated earnings of \$3.6 million, including interim periods within those fiscal years. The Company is designated as a smaller reporting company and has deferred implementation of ASU 2016-13 pursuant to ASU 2019-10.

In February 2020, the FASB issued ASU 2020-02, amending SEC paragraphs in the Codification to reflect the issuance of SEC Staff Accounting Bulletin ("SAB") No. 119 related \$0.07 per common share, subsequent changes to the new allowance for credit losses standard and revised effective date are recognized in net income on our consolidated statement of the new leases standard. SAB No. 119 provides interpretive guidance on methodologies and supporting documentation for measuring credit losses, with a focus on the documentation the staff would normally expect registrants engaged in lending transactions to prepare and maintain to support estimates of current expected credit losses for loan transactions. This new guidance is effective for fiscal years beginning after December 15, 2022 for smaller reporting companies such as the Company. operations..

The CECL reserve allowance for credit losses required under ASU 2016-13 is a valuation account that is deducted from the amortized cost basis of related commercial mortgage loans on our balance sheet, which will reduce our stockholders' equity. The initial reserve recorded on January 1, 2023 will be reflected as a direct charge against retained earnings; however, future net changes to the CECL reserve will be recognized in net income on our consolidated statement of operations. ASU 2016-13 does not require use of a particular method for determining the CECL reserve.

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

allowance for credit losses, but it does specify the allowance should be based on relevant information about past events, including historical loss experience, composition of current commercial mortgage loan portfolio, current conditions in real estate and capital markets, and reasonable and supportable forecasts for the expected contractual term adjusted for prepayments and extensions, where applicable, of each loan. Additionally, but for a few narrow exceptions, ASU 2016-13 requires that all financial instruments subject to CECL incur some amount of valuation reserve to reflect the underlying principle of the CECL model, that all loans, debt securities and similar financial assets bear some inherent risk of loss regardless of credit quality, amount of subordinate capital, or other risk mitigants. See Note 2 "Commercial Mortgage Loans Held-for-Investment" for further discussion on CECL implementation.

In the absence of any Company history of valuation reserves or realized loan losses since our inception in 2013, other than one office loan, the Company elected to utilize a widely-used analytical model incorporating a loss-given-default methodology and loan performance data for over 100,000 commercial real estate loans dating back to 1998. The Company expects to utilize this data set, or variants of it, unless the Company develops its own sufficient history of realized losses. The Company selected for use in its CECL estimate a weighted macroeconomic forecast that includes baseline, optimistic and pessimistic scenarios during the reasonable forecast period. The Company determined the key variables driving its CECL loss estimate are debt service coverage ratio and LTV ratio. Other notable variables include property type, property location, and loan vintage.

Upon adoption of ASU 2016-13 on January 1, 2023, the Company expects that, based on current expectations of future economic conditions, its general allowance for credit losses on loans held for investment, including future loan funding commitments, will be between \$3.0 million and \$4.0 million, or 0.30% and 0.40% of the Company's total loan commitment balance of \$1.1 billion as of December 31, 2022. The Company currently has \$4.3 million in specific reserves recorded in its consolidated financial statements.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The standard was issued to ease the accounting effects of reform to the London Interbank Offered Rate ("LIBOR") and other reference rates. The standard provides optional expedients and exceptions for applying GAAP to debt instruments, leases, derivatives and other contracts affected by reference rate reform. ASU 2020-04 generally considers contract modifications related to reference rate reform to be an event that does not require contract remeasurement at the modification date nor a reassessment of a previous accounting determination. The standard is effective for all entities as of March 12, 2020 through December 31, 2022 and may be elected over time as reference rate reform activities occur.

In December 2022, the FASB issued ASU 2022-06, deferring the sunset date of ASC 848, Reference Rate Reform, from December 31, 2022 to December 31, 2024. ASC 848 provides temporary relief relating to potential accounting impact relating to replacement of LIBOR or other reference rates expected to be discounted as a result of reference rate reform. We As of December 31, 2023, one-month term SOFR is utilized as the floating benchmark rate on all our floating rate loans and related financings.

Segment Reporting

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." ASU 2023-07 intends to improve reportable segment disclosure requirements, enhance interim disclosure requirements and provides for new segment disclosure requirements for entities with a single reportable segment. This standard is effective for fiscal years beginning after December 15, 2023. ASU 2023-07 is to be adopted retrospectively to all prior periods presented. The Company is currently evaluating the impact of the update on the Company's consolidated financial statements.

Income Taxes

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." ASU 2023-09 improves the transparency of income tax disclosures related to rate reconciliation and income taxes. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. For entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not adopted any yet been issued or made available for issuance. The amendments should be applied prospectively, however retrospective application is permitted. The Company is currently evaluating the impact of the optional expedients or exceptions through December 31, 2022, but will continue to evaluate update on the possible adoption of any such expedients or exceptions. Company's consolidated financial statements.

NOTE 3 - COMMERCIAL MORTGAGE LOANS LOAN HELD-FOR-INVESTMENT

The following tables summarize certain characteristics of the Company's investments in commercial mortgage loans as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

Loan Type	Unpaid Principal Balance	Carrying Value	Loan Count	Floating Rate Loan %	Weighted Average	
					Coupon ⁽¹⁾	Term (Years) ⁽²⁾
December 31, 2022						
<u>Loans held-for-investment</u>						
Senior secured loans ⁽³⁾	\$ 1,076,865,099	\$ 1,076,148,186	71	100.0 %	7.6 %	3.5
Allowance for loan losses	N/A	\$ (4,258,668)				
	<u>\$ 1,076,865,099</u>	<u>\$ 1,071,889,518</u>	<u>71</u>	<u>100.0 %</u>	<u>7.6 %</u>	<u>3.5</u>

Loan Type	Unpaid Principal Balance	Carrying Value ⁽¹⁾	Loan Count	Floating Rate Loan %	Weighted Average	
					Coupon ⁽²⁾	Term (Years) ⁽³⁾
December 31, 2023						
Loans held-for-investment						
Senior secured loans ⁽⁴⁾	\$ 1,397,385,160	\$ 1,389,940,203	88	100.0 %	8.9 %	2.9
Allowance for credit losses	N/A	\$ (6,059,006)				
	\$ 1,397,385,160	\$ 1,383,881,197	88	100.0 %	8.9 %	2.9

					Weighted Average	
Loan Type	Unpaid Principal Balance	Carrying Value	Loan Count	Floating Rate Loan %	Coupon ⁽¹⁾	Term (Years) ⁽²⁾
December 31, 2022						

Loans held-for-investment						
Senior secured loans ⁽⁴⁾	\$	1,076,865,099	\$	1,076,148,186	71	100.0 %
		N/A		(4,258,668)		7.6 %
	\$	1,076,865,099	\$	1,071,889,518	71	100.0 %
						7.6 %
						3.5

(1) Carrying Value includes \$7,000,863 in unaccreted purchase discounts as of December 31, 2023, there were no unaccreted purchase discounts as of December 31, 2022

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2022 2023

NOTE 3 – COMMERCIAL MORTGAGE LOANS HELD-FOR-INVESTMENT (Continued)

					Weighted Average	
Loan Type	Unpaid Principal Balance	Carrying Value	Loan Count	Floating Rate Loan %	Coupon ⁽¹⁾	Term (Years) ⁽²⁾
December 31, 2021						
<u>Loans held-for-investment</u>						
Senior secured loans ⁽³⁾	\$ 1,001,869,994	\$ 1,001,825,294	66	100.0 %	3.9 %	3.7
	\$ 1,001,869,994	\$ 1,001,825,294	66 71	100.0 %	3.9 %	3.7

(1) (2) Weighted average coupon assumes applicable one-month LIBOR of 4.18% and 0.10% as of December 31, 2022 and December 31, 2021, respectively and 30-day Term SOFR Secured Overnight Financing Rate ("SOFR") of 5.33% and 4.19% as of December 31, 2023 and December 31, 2022, respectively, inclusive of weighted average interest rate floors of 0.27% 0.38% and 0.49% 0.27%, respectively. As of December 31, 2023, 100.0% of the investments by total exposure earned a floating rate indexed to 30-day Term SOFR. As of December 31, 2022, 77.4% of the investments by total investment exposure earned a floating rate indexed to one-month LIBOR and 22.6% of the investments by total investment exposure earned a floating rate indexed to 30-day Term SOFR. As of December 31, 2021, 100% of the investments by total investment exposure earned a floating rate indexed to one-month LIBOR.

(2) (3) Weighted average remaining term assumes all extension options are exercised by the borrower; provided, however, that our loans may be repaid prior to such date.

(3) (4) As of December 31, 2023, \$1,375,277,312 of the outstanding senior secured loans were held in VIEs and \$8,603,886 of the outstanding senior secured loans were held outside of VIEs. As of December 31, 2022, \$996,511,403 of the outstanding senior secured loans were held in VIEs and \$75,378,115 of the outstanding senior secured loans were held outside of VIEs. As of December 31, 2021, \$974,025,294 of the outstanding senior secured loans were held in VIEs and \$27,800,000 of the outstanding senior secured loans were held outside of VIEs.

Activity: For the years ended December 31, 2022 2023 and December 31, 2021 December 31, 2022, the loan portfolio activity was as follows:

		Commercial Mortgage Loans Held-for-Investment	
Balance at December 31, 2020	December 31, 2021	\$	547,345,334 1,001,825,294
Purchases and advances			983,694,326 345,158,577
Principal payments			(528,802,705) (270,926,723)
Accretion of purchase discount			46,088 125,098
Amortization of purchase premium		\$	(457,749)
Balance at December 31, 2021		\$	1,001,825,294
Purchases and advances			345,158,577
Principal repayments			(270,926,723)
Accretion of purchase discount			125,098
Amortization of purchase premium			(61,144)
Accretion of deferred loan fees			27,084
Provision for loan credit losses		\$	(4,258,668)
Balance at December 31, 2022		\$	1,071,889,518
Purchases and advances			594,201,680
Principal repayments			(277,481,511)
Accretion of purchase discount			1,070,701
Amortization of purchase premium			(19,253)
Accretion of deferred loan fees			292,073
Cumulative-effect adjustment upon adoption of ASU 2013-16			(3,549,501)
Provision for credit losses			(2,522,510)
Balance at December 31, 2023		\$	1,383,881,197

Loan Risk Ratings: As further described in Note 2, the Company evaluates the commercial mortgage loan portfolio on a quarterly basis and assigns a risk rating based on a variety of factors. The following table presents the principal balance and net book value of the loan portfolio based on the Company's internal risk ratings as of **December 31, 2022** December 31, 2023 and **December 31, 2021** December 31, 2022:

										December 31, 2022					
Amortized Cost by Year of Origination															
December 31, 2023										December 31, 2023					
										Amortized Cost by Year of Origination					
Risk Rating	Risk Rating	Number of Loans	Outstanding Principal	2022	2021	2019	2018	2017	Risk Rating	Number of Loans	Outstanding Principal	2023	2022	2021	2019
1	1	—	\$ —	—	—	—	—	—							
2	2	11	153,933,750	85,198,084	67,999,500	—	—	—							
3	3	55	852,474,681	101,654,140	672,421,907	42,077,193	16,672,623	19,668,071							
4	4	3	47,448,000	15,000,000	32,448,000	—	—	—							
5	5	2	23,008,668	—	12,750,000	—	6,000,000	—							
		71	\$1,076,865,099	201,852,224	785,619,407	42,077,193	22,672,623	19,668,071							
88															

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, **2022** 2023

NOTE 3 – COMMERCIAL MORTGAGE LOANS HELD-FOR-INVESTMENT (Continued)

										December 31, 2021						
Amortized Cost by Year of Origination																
December 31, 2022									December 31, 2022							
									Amortized Cost by Year of Origination							
Risk Rating	Risk Rating	Number of Loans	Outstanding Principal	2021	2020	2019	2018	2017	Risk Rating	Number of Loans	Outstanding Principal	2022	2021	2019	2018	2017
1	1	—	\$ —	—	—	—	—	—								
2	2	40	634,438,386	596,052,235	4,920,000	33,466,151	—	—								
3	3	23	342,350,405	201,402,134	6,870,561	70,566,216	43,777,862	19,688,932								
4	4	3	25,081,203	—	8,037,399	5,295,605	11,748,199	—								
5	5	—	—	—	—	—	—	—								
		66	1,001,869,994	797,454,369	19,827,960	109,327,972	55,526,061	19,688,932								
71																

As of December 31, 2023, the average risk rating of the commercial mortgage loan portfolio was 3.5 (Moderate Risk), weighted by investment carrying value, with 75.7% of commercial loans held-for-investment rated 3 (Moderate Risk) or better by the Company's Manager.

As of December 31, 2022, the average risk rating of the commercial mortgage loan portfolio was 3.0 (Moderate Risk), weighted by investment carrying value, with 93.8% of commercial loans held-for-investment rated 3 (Moderate Risk) or better by the Company's Manager.

As of December 31, 2021, the average risk rating of the commercial mortgage loan portfolio was 2.3 (Low Risk), weighted by investment carrying value, with 97.5% of commercial loans held-for-investment rated 3 (Moderate Risk) or better by the Company's Manager.

The average risk rating of the portfolio has increased during the year ended **December 31, 2022** December 31, 2023. The change in underlying risk rating consisted of loans that paid off with a risk rating of "2" of **\$144.6** \$41.2 million, a risk rating of "3" of **\$103.5** \$192.6 million and a risk rating of **"4" "5"** of **\$9.5** \$14.1 million, offset by purchases of commercial mortgage loans with a risk rating of "2" of **\$85.9** \$7.0 million, a risk rating of "3" of **\$231.7** \$475.5 million and a risk rating of "4" of **\$15 million** \$85.9 million during the year ended **December 31, 2022** December 31, 2023. Additionally, **\$437.0** \$82.1 million of loans with a risk rating of "2" transitioned to a risk rating of "3", \$32.4 million of loans with a risk rating of "2" transitioned to a risk rating of "4", **\$47.7** \$169.9 million of loans with a risk rating of "3" transitioned to a risk rating of **"2" "4"**, **\$12.8** \$36.8 million of loans transitioned from a risk rating of "3" to a risk rating of "5", **\$5.3** and **\$9.1** million of loans transitioned from a risk rating of "4" to a risk rating of "3", and a loan with an unpaid principal balance of \$10.3 million transitioned from a risk rating of "4" to a risk rating of "5".

Concentration of Credit Risk: The following tables present the geographic and property types of collateral underlying the Company's commercial mortgage loans as a percentage of the loans' carrying value as of December 31, 2022, December 31, 2023 and December 31, 2021, December 31, 2022:

Loans Held-for-Investment

		December 31, 2022		December 31, 2021			
		December 31, 2023		December 31, 2023		December 31, 2022	
Geography	Geography						
South							
South							
South	South	46.6 %	46.2 %	43.5	%	46.6	%
Southwest	Southwest	26.7	27.5				
Mid-Atlantic	Mid-Atlantic	12.4	7.9				
Midwest	Midwest	8.0	4.5				
West	West	6.3	13.9				
Total	Total	100.0 %	100.0 %	Total	100.0 %	100.0	%

		December 31, 2022		December 31, 2021			
		December 31, 2023		December 31, 2023		December 31, 2022	
Collateral	Collateral						
Property	Property						
Type	Type						
Multifamily							
Multifamily							
Multifamily	Multifamily	89.6 %	92.0 %	94.0	%	89.6	%
Healthcare	Healthcare	6.4	—				
Self-	Self-						
Storage	Storage	1.8	5.2				
Retail	Retail	1.6	1.7				
Office	Office	0.6	1.1				
Total	Total	100.0 %	100.0 %	Total	100.0 %	100.0	%

Allowance for Loan Credit Losses:

The following table presents the changes for the years ended December 31, 2022, December 31, 2023 and December 31, 2021, December 31, 2022 in the provision for credit losses on loans held-for-investment.

	Year ended	
	December 31, 2022	December 31, 2021
Allowance for loan losses at beginning of period	\$ —	\$ —
Provision for loan losses	4,258,668	—
Allowance for loan losses at end of period	4,258,668	\$ —

	Year ended	
	December 31, 2023	December 31, 2022
Allowance for credit losses at beginning of period	\$ 4,258,668	\$ —
Cumulative-effect adjustment upon adoption of ASU 2016-13	3,549,501	—
Provision for credit losses	2,522,510	4,258,668
Charge offs	(4,271,673)	—
Allowance for credit losses at end of period	\$ 6,059,006	\$ 4,258,668

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

NOTE 3 – COMMERCIAL MORTGAGE LOANS HELD-FOR-INVESTMENT (Continued)

The following table presents the changes for the years ended December 31, 2023 and December 31, 2022 in the provision for credit losses on the unfunded commitments of the Company's loans held-for-investment:

	Year ended	
	December 31, 2023	December 31, 2022
Allowance for credit losses at beginning of period	\$ —	\$ —
Cumulative-effect adjustment upon adoption of ASU 2016-13	41,939	—
Provision for credit losses	1,708	—
Allowance for credit losses at end of period	\$ 43,647	\$ —

The following tables presents the allowance for credit losses for loans held for investment:

	December 31, 2023		
	General Reserve	Specific Reserve	Total Reserve
Allowance for credit losses:			
Loans held for investment	\$ 6,059,006	\$ —	\$ 6,059,006
Unfunded loan commitments	43,647	—	43,647
Total allowance for credit losses	\$ 6,102,653	\$ —	\$ 6,102,653
Total unpaid principal balance	\$ 1,397,385,160	\$ —	\$ 1,397,385,160

	December 31, 2022		
	General Reserve	Specific Reserve	Total Reserve
Allowance for credit losses:			
Loans held for investment	\$ —	\$ 4,258,668	\$ 4,258,668
Unfunded loan commitments	—	—	—
Total allowance for credit losses	\$ —	\$ 4,258,668	\$ 4,258,668
Total unpaid principal balance	\$ —	\$ 10,258,668	\$ 10,258,668

The Company's \$3.6 million change to the allowance for credit losses, due to the adoption of CECL methodology in the first quarter of 2023 (as described in Note 2) over performing loans on which the Company had not carried an allowance for credit losses is reflected as a direct charge to retained earnings on our Consolidated Statements of Changes in Equity. During the year ended December 31, 2023, the Company recorded an increase of \$2.5 million in the allowance for credit losses, bringing the total allowance for credit loss to \$6.1 million as of December 31, 2023. For the year ended December 31, 2023, the Company's estimate of expected credit losses increased primarily due to changes in inflationary macroeconomic assumptions employed in determining the Company's model-based general reserve, softening in CRE prices and an increase in loans held for investment, primarily due to the closing of LMF 2023-1 Financing.

We did not have any impaired loans, non-accrual loans, or loans in maturity default other than the loans discussed below as of December 31, 2022 December 31, 2023 or December 31, 2021 December 31, 2022.

During in February 2023, in connection with the period ended December 31, 2022, management identified one loan, collateralized by an sale of the office building with collateralizing an unpaid principal value of \$10.3 million as impaired reflecting a decline in collateral value attributable to (i) recent and near term vacancies at the property; (ii) new information available during the year ended December 31, 2022 regarding the addition of office space supply that will increase the submarket vacancy rate in the local market and (iii) declining market conditions. As of August 8, 2022, this loan has been placed in maturity default. We entered into a forbearance agreement with by the borrower extending the maturity date to December 2022 to allow the borrower more time to market and sell the property, however the borrower was unable to execute a sale in this timeframe. Subsequent to the December 2022 maturity, an unaffiliated third-party, the Company accepted a discounted payoff of approximately \$6.0 million (See Note 16). Based on this review, a reserve the impaired loan, which had an unpaid principal balance of \$10.3 million. A specific allowance for credit loss of \$4.3 million was recorded for this impaired loan in the year ended December 31, 2022. Additionally, this loan Upon the discounted payoff, a \$4.3 million charge off against the allowance for credit losses was placed on non-accrual as result of recorded, with de minimis impact to income in the impaired loan classification, however, the borrower remained current on debt service payments through December 31, 2022 year ended December 31, 2023.

During the period ended December 31, 2022, and throughout 2023, management identified one loan, collateralized by a multifamily property in Columbus, Ohio, with an initial unpaid principal value of \$12.8 million as impaired due to monetary default resulting in a risk rating of "5." In the first quarter of 2023, this loan, which is currently in receivership, was placed on non-accrual status with interest collections accounted for under the cost recovery method. As of December 31, 2023, the carrying value of this loan was \$8.9 million, which reflects a \$5.0 million payment received on November 25, 2023 under an insurance claim, of which \$3.1 million was applied to carrying value reduction and a \$1.9 million payable established primarily related to a tenant settlement. As of December 31, 2023, no specific reserves were required after analysis of the underlying collateral value. Subsequent to December 31, 2023, we received additional insurance proceeds in the amount of \$13.5 million which reduced the carrying value of this loan on our consolidated balance sheets to \$0. See Note 16 for further discussion.

During the period ended December 31, 2023, management identified one loan, collateralized by a multifamily property in Virginia Beach, VA, with an unpaid principal balance of \$36.8 million as impaired due to monetary default resulting in a risk rating of "5"; however no reserve is specific asset reserves were required after analysis of underlying collateral value. This loan was placed is on non-accrual status as a result as a result of the monetary default and impaired loan classification. Subsequent to December 31, 2023, the Company and the borrower entered into a loan modification and the loan was loan returned to accrual status. See Note 16 for further discussion.

During the period ended December 31, 2023, a previously risk rated "5" loan collateralized by a multifamily property in Orlando, FL with an unpaid principal balance of \$19.6 million, was brought current with respect to interest payments and restored to accrual status.

NOTE 4 – USE OF SPECIAL PURPOSE ENTITIES AND VARIABLE INTEREST ENTITIES

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2023

NOTE 4 – USE OF SPECIAL PURPOSE ENTITIES AND VARIABLE INTEREST ENTITIES (Continued)

We account for CLO transactions and secured financings on our consolidated balance sheet as financing facilities. Our The issuing entities for our CLOs and secured financings are VIEs for which we are the primary beneficiary and are consolidated in our financial statements. The investment grade tranches are treated as secured financings, and are non-recourse to us. See Note 2 ("Summary of Significant Accounting Policies - Principles Consolidation - VIE") for further discussion.

On June 14, 2021, the Company completed a CRE the 2021-FL1 CLO, (LFT CRE 2021-FL1, Ltd.), issuing eight tranches of CLO notes through two newly-formed wholly-owned subsidiaries totaling \$903.8 million. Of the total CLO notes issued \$833.8 million were investment grade notes issued to third party investors and \$70 million were below investment-grade notes retained by us. In addition, a \$96.25 million equity interest in the portfolio was retained by us. The financing has had an initial two-and-a-half year reinvestment period, which expired in December 2023, that allows allowed principal proceeds of the loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as loans are repaid. Initially, the proceeds of the issuance of the securities also included \$330.3 million for the purpose of acquiring additional loan obligations for a period up to 180 days from the CLO closing date, resulting in the issuer owning loan obligations with a face value of \$1.0 billion, representing leverage of 83%.

On June 14, 2021 July 12, 2023, the Company unwound Hunt CRE 2017-FL1, Ltd. entered into and Hunt CRE 2018-FL2, Ltd. redeeming \$388.2 closed a matched-term non-recourse collateralized commercial real estate financing (the "LMF 2023-1 Financing"), secured by \$386.4 million of outstanding first lien floating-rate multifamily mortgage assets and is not subject to margin calls or additional collateralization requirements. In connection with the LMF 2023-1 Financing, approximately \$270.4 million of an investment-grade rated senior secured floating rate loan was provided by a private lender and approximately \$47.3 million of investment-grade rated notes which (collectively, the "Senior Debt") were issued and sold to an affiliate of LFT's external manager, Lument IM. A consolidated subsidiary of LFT retained the subordinate interests in the issuing vehicle of approximately \$68.6 million. The Senior Debt has an initial weighted average spread of approximately 314 basis points over 30-day Term SOFR, excluding fees and transaction costs. The Senior Debt matures on the payment date in July 2032, unless it is sooner repaid primarily from the refinancing or redeemed in accordance with its terms. The financing has an initial two-year reinvestment period that allows principal proceeds of the remaining assets primarily within LFT 2021-FL1, Ltd., loan obligations to be reinvested in qualifying replacement loan obligations, subject to the satisfaction of certain conditions set forth in the indenture. Thereafter, the outstanding debt balance will be reduced as well as cash held within Hunt CRE 2018-FL2, Ltd. and expensed \$1.7 million of deferred financing costs into loss on extinguishment of debt on the consolidated statements of operations. As of this date, the Company no longer consolidates the asset and liabilities of Hunt CRE 2017-FL1, Ltd. and Hunt CRE 2018-FL2, Ltd. loans are repaid.

The 2021-FL1 CLO we consolidate is and LMF 2023-1 Financing are subject to collateralization and coverage tests that are customary for this type these types of securitization, securitizations. As of December 31, 2022 December 31, 2023, and December 31, 2021 December 31, 2022 all such collateralization and coverage tests in the CLOs we consolidate 2021-FL1 CLO and LMF 2023-1 Financing were met. If the duration of the COVID-19 pandemic continues to prolong, its impact on our borrowers and their tenants could result in a sustained deterioration in a material amount of assets and may impact these tests.

The carrying values of the Company's total assets and liabilities related to LFT CRE the 2021-FL1 Ltd. at CLO and LMF 2023-1 Financing as of December 31, 2023 and December 31, 2022 and Hunt CRE 2017-FL1, Ltd. and Hunt CRE 2018-FL2, Ltd. at December 31, 2021 included the following VIE assets and liabilities:

		December 31,	December 31,		
		2022	2021		
ASSETS	ASSETS			ASSETS	December 31, 2023
					December 31, 2022
Cash, cash equivalents and restricted cash	Cash, cash equivalents and restricted cash	\$ 3,507,850	\$ 3,530,006		
Accrued interest receivable	Accrued interest receivable	5,488,118	3,941,695		
Investment related receivable	Investment related receivable	—	22,400,000		
Loans held for investment	Loans held for investment	996,511,403	974,025,294		
Total Assets	Total Assets	\$ 1,005,507,371	\$ 1,003,896,995		
LIABILITIES	LIABILITIES				
Accrued interest payable	Accrued interest payable				
Accrued interest payable	Accrued interest payable				
Accrued interest payable	Accrued interest payable	\$ 2,264,646	\$ 607,892		
Collateralized loan obligations ⁽¹⁾	Collateralized loan obligations ⁽¹⁾	829,310,498	826,782,543		
Total Liabilities	Total Liabilities	\$ 831,575,144	\$ 827,390,435		
Equity	Equity	173,932,227	176,506,560		
Total liabilities and equity	Total liabilities and equity	\$ 1,005,507,371	\$ 1,003,896,995		

(1) The stated maturity of the collateral loan obligations per the terms of the underlying collateralized loan obligation agreement is June 14, 2039 for LFT CRE the 2021-FL1 Ltd. CLO and the stated maturity of the secured financing per the terms of the underlying indenture is July 20, 2032.

The following tables present certain loan and borrowing characteristics of LFT CRE 2021-FL1 Ltd. CLO and LMF 2023-1 Financing, as of December 31, 2022 December 31, 2023 and Hunt CRE 2017-FL1, Ltd. and Hunt CRE 2018-FL2, Ltd.as of December 31, 2021 December 31, 2022:

As of December 31, 2023				
Collateralized Loan Obligations	Count	Principal Value	Carrying Value ⁽¹⁾	Wtd. Avg. Coupon ⁽²⁾
Collateral (loan investments)	87	1,388,495,984	1,375,277,312	8.91 %
Financings provided	2	1,151,450,000	1,146,210,752	7.35 %

As of December 31, 2022				
Collateralized Loan Obligations	Count	Principal Value	Carrying Value ⁽¹⁾	Wtd. Avg. Coupon ⁽²⁾
Collateral (loan investments)	64	996,492,150	996,511,403	7.60 %
Financings provided	1	833,750,000	829,310,498	5.75 %

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022 2023

NOTE 4 – USE OF SPECIAL PURPOSE ENTITIES AND VARIABLE INTEREST ENTITIES (Continued)

As of December 31, 2022				
Collateralized Loan Obligations	Count	Principal Value	Carrying Value ⁽¹⁾	Wtd. Avg. Coupon ⁽²⁾
Collateral (loan investments)	64	996,492,150	996,511,403	7.60 %
Financings provided	1	833,750,000	829,310,498	5.75 %

As of December 31, 2021				
Collateralized Loan Obligations	Count	Principal Value	Carrying Value ⁽¹⁾	Wtd. Avg. Coupon ⁽²⁾
Collateral (loan investments)	64	974,069,994	974,025,294	3.91 %
Financings provided	1	833,750,000	826,782,543	1.54 %

- (1) The carrying value of the collateral is net of unaccreted purchase discounts of \$7,159,664 as of December 31, 2023, there were no unaccreted purchase discounts as of December 31, 2022. The carrying value for LFT CRE 2021-FL1 Ltd. CLO is net of debt issuance costs of \$1,911,547 and \$4,439,502 for December 31, 2023, and \$6,967,457 of December 31, 2022, respectively, and December 31, 2021, respectively, the carrying value for LMF 2023-1 Financing is net of debt issuance costs of \$3,327,701.
- (2) Weighted average coupon assumes applicable one-month LIBOR of 4.18% and 0.10% as of December 31, 2022 and 30-day Term SOFR of 4.19% 5.33% and 0.00% 4.19% as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively, inclusive of weighted average interest rate floors of 0.25% 0.38% and 0.49% 0.25%, respectively. As of December 31, 2023, 100.0% of the investments by total exposure earned a floating rate indexed to 30-day Term SOFR. As of December 31, 2022, 80.4% of the investments by total investment exposure earned a floating rate indexed to one-month LIBOR and 19.6% of the investments by total investment exposure earned a floating rate indexed to 30-day Term term SOFR. As of December 31, 2021, 100% of the investments by total investment exposure earned a floating rate indexed to one-month LIBOR. Weighted average coupon for the financing financings assumes applicable 30-day term SOFR of 5.36% as of December 31, 2023 and one-month LIBOR of 4.32% and 0.11% as of December 31, 2022 and December 31, 2021, respectively and spreads of 1.99% and 1.43% for December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022.

The statement of operations related to LFT the 2021-FL1 Ltd., Hunt CRE 2017-FL1, Ltd. CLO and Hunt CRE 2018-FL2, Ltd. LMF 2023-1 Financing, at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 include the following income and expense items:

Statements of Operations	Statements of Operations	December 31, 2022	December 31, 2021	Statements of Operations	December 31, 2023	December 31, 2022
Interest income	Interest income	\$53,264,413	\$35,506,459			
Interest expense	Interest expense	29,055,324	12,178,545			
Net interest income	Net interest income	\$24,209,089	\$23,327,914			
Less:	Less:					
Loss on extinguishment of debt		\$ —	\$ 1,663,926			
Provision for credit losses						
Provision for credit losses						
Provision for credit losses						

General and administrative fees	General and administrative fees	614,149	308,718
Net income	Net income	\$23,594,940	\$21,355,270

NOTE 5 - RESTRICTED CASH

LFT CRE 2021-FL1 Ltd. is CLO was actively managed with an initial reinvestment period of 30 months which expired in December 2023. LMF 2023-1 Financing is actively managed with initial reinvestment period of 24 months that expires in December 2023, July 2025. As loans payoff or mature, as applicable, during this reinvestment period, cash received is restricted and intended to be reinvested within LFT CRE 2021-FL1, Ltd. LMF 2023-1 Financing in accordance with the terms and conditions of its respective governing agreement.

NOTE 6 – SECURED TERM LOAN

On January 15, 2019, the Company, together with its FOAC and Hunt Lument CMT Equity subsidiaries (together with the Company, the "Credit Parties"), entered into the Secured Term Loan, as amended on February 13, 2019 and July 9, 2020, April 21, 2021 and February 22, 2022 with the lenders party thereto and Cortland Capital Market Services, LLC, as administrative agent (in such capacity, the "Agent"), providing for a term facility ("Credit Agreement") to be drawn in an aggregate principal amount of \$40.25 million with a maturity of 6 years.

On February 14, 2019, the Company drew on the Secured Term Loan in the aggregate principal amount of \$40.25 million generating net proceeds of \$39.2 million. The outstanding balance of the Secured Term Loan in the table below is presented gross of deferred financing costs (\$778,958 at December 31, 2022 and \$904,498 at December 31, 2021). As of December 31, 2022 and December 31, 2021, the outstanding balance and total commitment under the Credit Agreement consisted of the following:

	December 31, 2022		December 31, 2021	
	Outstanding Balance	Total Commitment	Outstanding Balance	Total Commitment
Secured Term Loan	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000
Total	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000

The borrowings under the Secured Term Loan are joint and several obligations of the Credit Parties. In addition, the Credit Parties' obligations under the Secured Term Loan are secured by substantially all the assets of the Credit Parties through pledge and security documentation. Amounts advanced under the

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022

NOTE 6 – SECURED TERM LOAN (Continued)

Secured Term Loan are subject to compliance with a borrowing base comprised of assets of the Credit Parties and certain of their subsidiaries, and include senior and subordinated CRE mortgage loans, preferred equity in CRE assets (directly or indirectly), CRE construction mortgage loans and certain types of equity interests (the "Eligible Assets"). Borrowings under the Secured Term Loan bear interest at a fixed rate of 7.25% for the six-year period following the initial draw-down, which is subject to step up by 0.25% for the first four months after the sixth anniversary of the borrowing of the Senior Secured Term Loan, then by 0.375% for the following four months, then by 0.50% for the last four months until maturity.

In response to the continued COVID-19 pandemic, on July 9, 2020, the Company entered into the Second Amendment to the Credit and Guaranty Agreement. This amendment provides the Company with additional flexibility to effectively manage any potential borrower distress related to COVID-19 that were not originally contemplated in loan documentation.

On April 21, 2021, the Company, together with its Credit Parties, entered into an amendment (the "Third Amendment") to the Credit and Guaranty Agreement. The amendment, among other things, (i) provides the Company with an incremental secured term loan in the aggregate principal amount of \$7.5 million; (ii) extends the maturity date of the Secured Term Loan from February 14, 2025 to February 14, 2026; (iii) amends certain asset concentration limits and (iv) amends certain financial covenants. On May 5, 2021 the Third Amendment became effective. On August 23, 2021, the Company drew down the \$7.5 million incremental secured term loan.

On February 14, 2019, the Company drew on the Secured Term Loan in the aggregate principal amount of \$40.25 million generating net proceeds of \$39.2 million. The outstanding balance of the Secured Term Loan in the table below is presented gross of deferred financing costs (\$529,774 at December 31, 2023 and \$778,958 at December 31, 2022). As of December 31, 2023 and December 31, 2022, the outstanding balance and total commitment under the Credit Agreement consisted of the following:

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2023

NOTE 6 – SECURED TERM LOAN (Continued)

	December 31, 2023		December 31, 2022	
	Outstanding Balance	Total Commitment	Outstanding Balance	Total Commitment
Secured Term Loan	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000
Total	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000	\$ 47,750,000

On February 22, 2022, the Company, together with its Credit Parties, entered into an amendment (the "Fourth Amendment") to the Credit and Guaranty Agreement. This amendment waived the step-down provisions of the maximum total net leverage financial covenant in connection with the February 2022 rights offering, however the step-down provision remains in place for future capital raises.

The Credit Agreement contains affirmative and negative covenants binding the Company and its subsidiaries that are customary for credit facilities of this type, including, but not limited to: minimum asset coverage ratio; minimum unencumbered assets ratio; maximum total net leverage ratio, minimum tangible net worth; and an interest charge coverage ratio. As of December 31, 2022 December 31, 2023 and December 31, 2021 December 31,

2022, we were in compliance with these covenants. If the duration of the COVID-19 pandemic continues to prolong, its impact on our borrowers and their tenants could result in a sustained deterioration in a material amount of assets and may impact these covenants.

The Credit Agreement contains events of default that are customary for facilities of this type, including, but not limited to, nonpayment of principal, interest, fees and other amounts when due, violation of covenants, cross default with material indebtedness, and change of control.

NOTE 7 - MSRs

As of December 31, 2022 December 31, 2023, the Company retained the servicing rights associated with an aggregate principal balance of \$74,798,949 \$67,283,657 of residential mortgage loans that the Company had previously transferred to residential mortgage loan securitization trusts. The Company's MSRs are held and managed at the Company's TRS, and the Company employs two licensed sub-servicers to perform the related servicing activities.

The following table presents the Company's MSR activity as of the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

		December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Balance at beginning of year	Balance at beginning of year	\$ 551,997	\$ 919,678		
Changes in fair value due to:	Changes in fair value due to:			Changes in fair value due to:	
Realized loss	Realized loss	—	(10,910)		
Changes in valuation inputs or assumptions used in valuation model	Changes in valuation inputs or assumptions used in valuation model	344,617	109,663		
Other changes to fair value ⁽¹⁾	Other changes to fair value ⁽¹⁾	(100,958)	(466,434)		
Balance at end of year	Balance at end of year	\$ 795,656	\$ 551,997		
Loans associated with MSRs ⁽²⁾	Loans associated with MSRs ⁽²⁾	\$ 74,798,949	\$ 91,727,121		
MSR values as percent of loans ⁽³⁾	MSR values as percent of loans ⁽³⁾	1.06 %	0.60 %	MSR values as percent of loans ⁽³⁾	1.03 %
					1.06 %

- (1) Amounts represent changes due to realization of expected cash flows and prepayment of principal of the underlying loan portfolio.
- (2) Amounts represent the unpaid principal balance of loans associated with MSRs outstanding at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively.
- (3) Amounts represent the carrying value of MSRs at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively divided by the outstanding balance of the loans associated with these MSRs.

The following table presents the servicing income recorded on the Company's consolidated statements of operations for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2023	Year Ended December 31, 2022
Servicing income, net	\$ 347,838	\$ 398,939		

Income	Income		
from	from		
MSRs,	MSRs,		
net	net	\$ 347,838	\$ 398,939

NOTE 8 - FAIR VALUE

The following tables summarize the valuation of the Company's assets and liabilities carried at fair value on a recurring basis within the fair value hierarchy levels as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2022 2023

NOTE 8 – FAIR VALUE (Continued)

		December 31, 2023			
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Unobservable inputs Level 3	Balance as of December 31, 2023
Assets:					
	Mortgage servicing rights	\$ —	\$ —	\$ 691,973	\$ 691,973
	Total	\$ —	\$ —	\$ 691,973	\$ 691,973

		December 31, 2022			
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Unobservable inputs Level 3	Balance as of December 31, 2022
Assets:					
	Mortgage servicing rights	\$ —	\$ —	\$ 795,656	\$ 795,656
	Total	\$ —	\$ —	\$ 795,656	\$ 795,656

		December 31, 2021			
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Unobservable inputs Level 3	Balance as of December 31, 2021
Assets:					
	Mortgage servicing rights	\$ —	\$ —	\$ 551,997	\$ 551,997
	Total	\$ —	\$ —	\$ 551,997	\$ 551,997

As of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the Company had \$795,656 \$691,973 and \$551,997, \$795,656, respectively, in Level 3 assets. The Company's Level 3 assets are comprised of MSRs. For more detail about Level 3 assets, also see Notes 2 and 8.

The following table provides quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's MSRs classified as Level 3 fair value assets at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

		As of December 31, 2022			
As of December 31, 2023		As of December 31, 2023			
Valuation Technique	Valuation Technique	Unobservable Input	Range	Weighted Average	
	Constant				
Discounted cash flow	Discounted prepayment cash flow	8.0 - 9.4% rate	8.1 %	Discounted cash flow	
	Discount rate	12.0 %	12.0 %	Constant prepayment rate	8.2 %
				Discount rate	12.0 %

		As of December 31, 2021			
As of December 31, 2022		As of December 31, 2022			

Valuation	Valuation	Unobservable	Weighted				
Technique	Technique	Input	Range	Average	Valuation Technique	Unobservable Input	Range
		Constant					
Discounted	Discounted prepayment						
cash flow	cash flow	rate	10.8 - 29.7%	19.1 %	Discounted cash flow	Constant prepayment rate	8.0 - 9.4%
		Discount rate	12.0 %	12.0 %		Discount rate	12.0 %

As discussed in Note 2, GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value. The following table details the carrying amount, face amount and fair value of the financial instruments described in Note 2:

		December 31, 2022								
		Level in Fair Value Hierarchy		Carrying Value	Face Amount					Fair Value
		December 31, 2023				December 31, 2023				
		Level in Fair Value Hierarchy		Carrying Value	Face Amount	Fair Value				
Assets:	Assets:									
Cash and cash equivalents										
Cash and cash equivalents										
Cash and cash equivalents	Cash and cash equivalents	1	\$ 43,858,515	\$ 43,858,515	\$ 43,858,515					
Restricted cash	Restricted cash	1	3,507,850	3,507,850	3,507,850					
Commercial mortgage loans held-for-investment	Commercial mortgage loans held-for-investment	3	1,071,889,518	1,076,865,099	1,064,407,588					
Total	Total		\$ 1,119,255,883	\$ 1,124,231,464	\$ 1,111,773,953					
Liabilities:	Liabilities:									
Liabilities:										
Collateralized loan obligations										
Collateralized loan obligations										
Collateralized loan obligations	Collateralized loan obligations	2	\$ 829,310,498	\$ 833,750,000	\$ 803,308,375					
Secured term loan	Secured term loan	3	46,971,042	47,750,000	44,563,236					
Total	Total		\$ 876,281,540	\$ 881,500,000	\$ 847,871,611					

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2022 2023

NOTE 8 – FAIR VALUE (Continued)

		December 31, 2021							
		Level in Fair Value Hierarchy							
		Carrying Value				Face Amount			
		Fair Value							
		December 31, 2022				December 31, 2022			

		Level in Fair Value Hierarchy				Level in Fair Value Hierarchy				Carrying Value	Face Amount	Fair Value
Assets:	Assets:											
Cash and cash equivalents												
Cash and cash equivalents												
Cash and cash equivalents	Cash and cash equivalents	1	\$ 14,749,046	\$ 14,749,046	\$ 14,749,046							
Restricted cash	Restricted cash	1	3,530,006	3,530,006	3,530,006							
Commercial mortgage loans held-for-investment	Commercial mortgage loans held-for-investment	3	1,001,825,294	1,001,869,994	1,001,473,884							
Total	Total		\$1,020,104,346	\$1,020,149,046	\$1,019,752,936							
Liabilities:	Liabilities:											
Liabilities:												
Collateralized loan obligations												
Collateralized loan obligations												
Collateralized loan obligations	Collateralized loan obligations	2	\$ 826,782,543	\$ 833,750,000	\$ 834,425,625							
Secured term loan	Secured term loan	3	\$ 46,845,502	\$ 47,750,000	\$ 50,986,154							
Total	Total		\$ 873,628,045	\$ 881,500,000	\$ 885,411,779							

Estimates of cash and cash equivalents and restricted cash are measured using quoted prices, or Level 1 inputs. Estimates of the fair value of collateralized loan obligations and secured financings are measured using observable, quoted market prices, in active markets, or Level 2 inputs. All other fair value significant estimates are measured using unobservable inputs, or Level 3 inputs. See Note 2 for further discussion regarding fair value measurement of certain of our assets and liabilities.

NOTE 9 - RELATED PARTY TRANSACTIONS

Management and Incentive Fee

The Company is externally managed and advised by the Manager. Pursuant to the terms of the management agreement, the Company pays the manager a management fee equal to 1.5% of Stockholders' Equity per annum, calculated and payable quarterly (0.375% per quarter) in arrears. For purposes of calculating the management fee, the Company's stockholders' equity includes the sum of the net proceeds from all issuances of the Company's equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus the Company's retained earnings at the end of the most recently completed calendar quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less any amount that the Company paid for repurchases of the Company's common stock since inception, and excluding any unrealized gains, losses or other items that did not affect realized net income (regardless of whether such items were included in other comprehensive income or loss, or in net income). This amount **was will be** adjusted to exclude one-time events pursuant to changes in GAAP and certain non-cash items after discussions between the **manager Manager** and the Company's independent directors and approval by a majority of the Company's independent directors. To the extent asset impairment reduces the Company's retained earnings at the end of any completed calendar quarter, it will reduce the management fee for such quarter. The Company's stockholders' equity for the purposes of calculating the management fee could be greater than the amount of stockholders' equity shown on the consolidated financial statements. Additionally, starting in the first full calendar quarter following January 3, 2020 the Company was also required to pay the Manager a quarterly incentive fee equal to 20% of the excess of Core Earnings (as defined in the management agreement) over the product of (i) Stockholders' Equity as of the end of such fiscal quarter, and (ii) 8% per annum. The initial term of our management agreement expired on January 3, 2023, **but there continue to be with** automatic, one-year renewals thereafter.

For the year ended **December 31, 2022** **December 31, 2023**, the Company incurred management fees of **\$4,197,819 (2021: \$2,909,368) \$4,335,904 (2022: \$4,197,819)**, recorded **within as** "Management and incentive fees" in the consolidated statement of operations, of which **\$1,089,000 (2021: \$796,000) \$1,080,000 (2022: \$1,089,000)** was accrued but had not been paid, included in "Fees and expenses payable to Manager" in the consolidated balance sheets.

For the **year years** ended **December 31, 2021**, the Company incurred incentive fees of \$132,232, recorded within "Management **December 31, 2023** and incentive fees" in the consolidated statement of operations, of which **\$132,232** was accrued but had not yet been paid, included in "Fees and expenses payable to Manager" in the consolidated balance sheets. For the year ended **December 31, 2022**, the Company did not incur any incentive fees.

Expense Reimbursement

Pursuant to the management agreement, the Company is required to reimburse the Manager for operating expenses related to the Company incurred by the Manager, including accounting, auditing and tax services, technology and office facilities, operations, compliance, legal and filing fees, and miscellaneous general and administrative costs, including the cost of non-investment management personnel of the Manager who spend all or a portion of their time managing the Company's affairs. The Manager has agreed to certain limitations on manager expense reimbursement from the Company.

On March 18, 2019, the Company entered into a support agreement with the prior manager, pursuant to which, the prior manager agreed to reduce the reimbursement cap by 25% per annum (subject to such reduction not exceeding \$568,000 per annum) until such time as the aggregate support provided thereunder equaled approximately \$1.96 million. As of December 31, 2022, the Company has provided the full support of \$1.96 million under

the agreement.

For the year ended December 31, 2022 December 31, 2023, the Company incurred reimbursable expenses of \$2,116,636 (2021: \$2,038,130) \$1,897,699 (2022: \$2,116,636) recorded within as "operating expenses reimbursable to Manager" in the consolidated statement of operations, of which \$517,333 (2021: \$724,333) \$507,875 (2022: \$517,333) was accrued but had not yet been paid, included in "fees and expenses payable to Manager" in the consolidated balance sheets. Per the management agreement, any exit fees waived by the Company

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2022

NOTE 9 – RELATED PARTY TRANSACTIONS (Continued)

as a result of permanent financing by the Manager or any of its affiliates shall result in a reduction to reimbursed expenses by an amount equal to 50% of the amount of any such waived exit fee. fee, capped at a waived exit fee of 1%. For the year ended December 31, 2023, the Company waived \$959,930 in gross exit fees, reducing reimbursed expenses due to the Manager by \$479,965 and for the year ended December 31, 2022, the Company waived \$1,241,657 in gross exit fees, reducing reimbursed expenses due to the Manager by \$620,829 and for the year ended December 31, 2021, the Company waived \$605,906 in gross exit fees, reducing reimbursed expenses due to the Manager by \$302,953. \$620,829.

Manager Equity Plan

The Company had in place a Manager Equity Plan, which expired December 18, 2022, under which the Company had the ability to provide equity compensation to the Manager and the Company's independent directors, consultants, or officers. The Manager, in its sole discretion, could allocate any awards

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 9 – RELATED PARTY TRANSACTIONS (Continued)

it received under the Manager Equity Plan to its directors, officer employees or consultants. The Company was able to issue under the Manager Equity Plan up to 3.0% of the total number of issued and outstanding shares of common stock (on a fully diluted basis) at the time of each award. Stock based compensation arrangements may include incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock awards and other awards based on the Company's common stock.

The following table summarizes the activity related to restricted common stock for the years ended December 31, 2022 December 31, 2023 and 2021: 2022:

		Year Ended December 31,				Year Ended December 31,			
		2022		2021		2023		2022	
		Weighted Average Grant Date Fair Market Value	Shares	Weighted Average Grant Date Fair Market Value	Shares	Weighted Average Grant Date Fair Market Value	Shares	Weighted Average Grant Date Fair Market Value	Shares
Outstanding	Outstanding								
Unvested	Unvested								
Shares at	Shares at								
Beginning	Beginning								
of Period	of Period	4,500	\$ 4.18	4,500	\$ 2.60				
Granted	Granted	6,000	2.27	4,500	4.18				
Vested	Vested	(4,500)	4.18	(4,500)	2.60				
Outstanding	Outstanding								
Unvested	Unvested								
Shares at	Shares at								
End of	End of								
Period	Period	6,000	\$ 2.27	4,500	\$ 4.18				

For the year ended December 31, 2022 December 31, 2023, the Company recognized compensation expense related to restricted common stock of \$15,980 (2021: \$15,608) \$6,194 (2022: \$15,980). The Company has no unrecognized compensation expense of \$6,194 as of December 31, 2022 (2021: \$8,555) December 31, 2023 (2022: \$6,194) for unvested shares of restricted common stock. As of December 31, 2022, the weighted average period for which the unrecognized compensation expense will be recognized is 5.5 months.

Lument Structured Finance

During the year ended December 31, 2022 December 31, 2023, we (a) LFT CRE 2021-FL1, Ltd. purchased sixteen eight loans with an aggregate unpaid principal balance of \$187.5 \$121.5 million at par from Lument Structured Finance ("LSF"), an affiliate of our Manager and Manager; (b) Lument Commercial Mortgage Trust ("LCMT") purchased seven thirty-one loans with an aggregate unpaid principal balance of \$82.0 \$459.2 million at a discount of \$7.9 million from LSF; (c) purchased three funded advances with an aggregate unpaid principal balance of \$5.7 million at par from LSF and (d) purchased eighteen funded advances with an aggregate unpaid principal balance of \$26.0 million at par a discount of \$0.3 million from LSF.

During the year ended December 31, 2021 December 31, 2022, (a) Hunt CRE 2018-FL2, Ltd. we purchased nine twenty-three loans with an aggregate unpaid principal balance of \$102.7 million \$269.5 million at par from LSF; (b) LCMT purchased two loans with an aggregate unpaid principal balance of \$21.2 million and twenty funded loan participations with an aggregate unpaid principal balance of \$42.3 million at par from LSF and (c) LFT CRE 2021-FL1, Ltd. purchased forty-four loans with an aggregate unpaid principal balance of \$700.1 million at par from LSF.

OREC 2018-CRE1, Ltd.

During the year ended December 31, 2021, LFT CRE 2021-FL1, Ltd. purchased nine loans with an aggregate unpaid principal balance of \$112.5 million at a premium of \$0.35 million from OREC 2018-CRE1, Ltd., an affiliate of our Manager.

Lument Real Estate Holdings, LLC

During the year ended December 31, 2021, LFT CRE 2021-FL1, Ltd. purchased eight loans with an aggregate unpaid principal balance of \$4.6 million at a premium of \$0.02 million from Lument Real Estate Holdings, LLC, an affiliate of our Manager.

Lument Real Estate Capital, LLC

Lument Real Estate Capital, LLC ("LREC"), an affiliate of our Manager, was appointed the servicer and special servicer with respect to mortgage assets for LFT CRE the 2021-FL1 Ltd. CLO in June 2021 and LMF 2023-1 Financing in July 2023 and continues to serve in this role.

Lument IM

Lument IM was appointed as the collateral manager with respect to LFT CRE the 2021-FL1 Ltd. CLO in June 2021 and LMF 2023-1 Financing in July 2023, and continues to serve in this role. Lument IM has agreed to waive all its entitlements to collateral management fees for so long as Lument IM or an affiliate is the collateral manager and also the manager of Lument Finance Trust, Inc.

In connection with the LMF 2023-1 Financing, Lument IM absorbed approximately \$1.1 million in debt issuance costs for which it did not seek reimbursement from the Company.

Lument Investment Holdings

On February 22, 2022, Lument Investment Holdings purchased 13,071,895 shares of common stock from the transferable common stock rights offering at a price of \$3.06 per share.

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022

NOTE 9 – RELATED PARTY TRANSACTIONS (Continued)

Hunt Companies, Inc.

One of the Company's directors is also Chief Executive Officer and President of Hunt Companies, Inc. ("Hunt") and is a member of the Hunt Board of Directors, with which affiliates of the Manager have a commercial business relationship. The Manager's affiliates may from time to time sell commercial mortgage loans to Hunt or various of its subsidiaries and affiliates.

On February 22, 2022, an affiliate of Hunt Companies, Inc., purchased 3,524,851 shares of common stock from the transferable common stock rights offering at a price of \$3.06 per share.

NOTE 10 - GUARANTEES

The Company, through FOAC, is party to customary and standard loan repurchase obligations in respect of residential mortgage loans that it has sold into securitizations or to third parties, to the extent it is determined that there has been a breach of standard seller representations and warranties in respect of such loans. To date, the Company has not been required to repurchase any loan due to a claim of breached seller reps and warranties.

In July 2016, the Company announced that it would no longer aggregate and securitize residential mortgage loans; however, the Company sought to capitalize on its infrastructure and knowledge to become the provider of seller eligibility review and backstop services to MAXEX. MAXEX's wholly owned clearinghouse subsidiary, MAXEX Clearing LLC, formerly known as Central Clearing and Settlement LLC ("MAXEX Clearing LLC") functions as the central counterparty with which buyers and sellers transact, and acts as the buyer's counterparty for each transaction. Pursuant to a Master Agreement dated June 15, 2016, as amended August 29, 2016, January 30, 2017 and June 27, 2018, among MAXEX, MAXEX Clearing LLC and FOAC (the "Master Agreement")

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2023

NOTE 10 – GUARANTEES (Continued)

FOAC provided seller eligibility review services under which it reviewed, approved and monitored sellers that sold loans via MAXEX Clearing LLC. Once approved, and having signed the standardized loan sale contract, the seller sold loan(s) to MAXEX Clearing LLC, and MAXEX Clearing LLC simultaneously sold loan(s) to the buyer on substantially the same terms including representations and warranties. The Master Agreement was terminated on November 28, 2018 (the "MAXEX Termination Date"). To the extent that a seller approved by FOAC prior to the MAXEX Termination Date failed to honor its obligations to repurchase a loan based on an arbitration finding that it breached its representations and warranties, FOAC was obligated to backstop the seller's repurchase obligation. The term of the backstop guarantee is the earlier of the contractual maturity of the underlying mortgage, or its earlier repayment in full; however, the incidence of claims for breaches of representations and warranties over time is considered unlikely to occur more than five years from the sale of a mortgage. FOAC's obligation to provide further seller eligibility review and backstop guarantee services terminated on the MAXEX Termination Date. Pursuant to an Assumption Agreement dated December 31, 2018, among MAXEX Clearing LLC and FOAC, MAXEX Clearing LLC assumed all of FOAC's obligations under its backstop guarantees and agreed to indemnify and hold FOAC harmless against any losses, liabilities, costs, expenses and obligations under the backstop guarantee. FOAC paid MAXEX Clearing LLC, as the replacement backstop provider, a fee of \$426,770 (the "Alternative Backstop Fee"). MAXEX Clearing LLC represented to FOAC in the Assumption Agreement that it (i) is rated at least "A" (or equivalent) by at least one nationally recognized statistical rating agency or (ii) has (a) adjusted tangible net worth of at least \$20,000,000 and (b) minimum available liquidity equal to the greater of (x) \$5,000,000 and (y) 0.1% multiplied by the scheduled unpaid principal balance of each outstanding loan covered by the backstop guarantees. MAXEX's chief financial officer is required to certify ongoing compliance by MAXEX Clearing LLC with the aforementioned criteria on a quarterly basis and if MAXEX Clearing LLC fails to satisfy such criteria, MAXEX Clearing LLC is required to deposit into an escrow account for FOAC's benefit an amount equal to the greater of (A) the unamortized Alternative Backstop Fee for each outstanding loan covered by the backstop guarantee and (B) the product of 0.01% multiplied by the scheduled unpaid principal balance of each outstanding loan covered by the backstop guarantees.

The maximum potential amount of future payments that the Company could be required to make under the outstanding backstop guarantees, which represents the outstanding balance of all underlying mortgage loans sold by approved sellers to MAXEX Clearing LLC, was estimated to be \$171.7 million \$121.0 million and \$348.0 million \$171.7 million as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively, although the Company believes this amount is not indicative of the Company's actual potential losses. Amounts payable in excess of the outstanding principal balance of the related mortgage, for example any premium paid by the loan buyer or costs associated with collecting mortgage payments, are not currently estimable. Amounts that may become payable under the backstop guarantee are normally recoverable from the related seller, as well as from any payments received on (or from the sale of property securing) the mortgage loan repurchased and, as noted above, MAXEX Clearing LLC has assumed all of FOAC's obligations in respect of its backstop guarantees. Pursuant to the Master Agreement, FOAC is required to maintain minimum available liquidity equal to the greater of (i) \$5.0 million or (ii) 0.10% of the aggregate unpaid principal balance of loans backstopped by FOAC, either directly or through a credit support agreement acceptable by MAXEX. As of December 31, 2022 December 31, 2023, the Company was not aware of any circumstances expected to lead to the triggering of a backstop guarantee obligation.

In addition, the Company enters into certain contracts that contain a variety of indemnification obligations, principally with the Manager, brokers and counterparties to repurchase agreements. The maximum potential future payment amount the Company could be required to pay under these indemnification obligations is unlimited. The Company has not incurred any costs to defend lawsuits or settle claims related to the indemnification obligations. As a result, the estimated fair value of these agreements is minimal. Accordingly, the Company recorded no liabilities for these agreements as of December 31, 2022 December 31, 2023.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Litigation

From time to time, LFT may be involved in various claims and legal actions arising in the ordinary course of business. LFT establishes an accrued liability for legal proceedings only when those matters present loss contingencies that are both probable and reasonably estimable.

As of December 31, 2022 December 31, 2023, LFT was not involved in any material legal proceedings regarding claims or legal actions against LFT.

Unfunded Commitments

As of December 31, 2022 December 31, 2023, LCMT had \$6.7 million of unfunded commitments related to loans held in LFT the 2021-FL1 Ltd. CLO. These commitments are not reflected on the Company's consolidated balance sheets.

As of December 31, 2023, LSF, an affiliate of the Manager, had \$54.3 million of unfunded commitments related to loans held in 2021-FL1 CLO. These commitments are not reflected in the Company's consolidated balance sheets.

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes As of December 31, 2023, LSF, an affiliate of the Manager, had \$22.9 million of unfunded commitments related to Consolidated Financial Statements December 31, 2022

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued) loans held in LMF 2023-1 Financing. These commitments are not reflected in the Company's consolidated balance sheets.

As of December 31, 2022, LCMT had \$6.7 million of unfunded commitments related to loans held in the 2021-FL1 CLO. These commitments are not reflected on the Company's consolidated balance sheets.

As of December 31, 2022, LSF, an affiliate of the Manager, had \$71.3 million of in unfunded commitments related to loans held in LFT the 2021-FL1 Ltd. CLO. These commitments are not reflected in the Company's consolidated balance sheets.

As of December 31, 2022, LSF, an affiliate of the Manager, had \$11.0 million of unfunded commitments related to loans held in LCMT. These commitments are not reflected in the Company's consolidated balance sheets.

As of December 31, 2021, LSF, an affiliate of the Manager, had \$78.4 million in unfunded commitments related to loans held in LFT 2021-FL1, Ltd. These commitments are not reflected in the Company's consolidated balance sheets.

As of December 31, 2021, LSF, an affiliate of the Manager, had \$4.7 million of unfunded commitments related to loans held in LCMT. These commitments are not reflected on the Company's consolidated balance sheets.

Future loan fundings comprise funding for capital improvements, leasing costs, interest and carry costs, and fundings will vary depending on the progress of the business plan and cash flows at the mortgage assets. Therefore, the exact timing and amounts of such future loan fundings are uncertain and will depend on the current and future performance of the underlying mortgage assets.

COVID-19

NOTE 12 - EQUITY

The COVID-19 pandemic has brought uncertainty and disruption

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to the global economy, including longer-term macroeconomic effects on supply chains, inflation and labor shortages. The ultimate impact of the COVID-19 pandemic, including the continued impact and uncertainty from COVID-19 variants, supply chain disruptions and labor shortages, rising inflation and increases in interest rates on the global economy could materially disrupt our business operations and impact our financial condition. Consolidated Financial Statements

December 31, 2023

NOTE 12 – EQUITY (Continued)

Common Stock

The Company has 450,000,000 authorized shares of common stock, par value \$0.01 per share, with 52,231,152 52,248,631 and 24,947,883 52,231,152 shares issued and outstanding as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively.

On February 22, 2022, the Company closed a transferable common stock rights offering. The Company issued and sold 27,277,679 shares of common stock at a price of \$3.06 per share resulting in gross proceeds of approximately \$83.5 million.

Stock Repurchase Program

On December 15, 2015, the Company's board of directors Board authorized a stock repurchase program (or the "Repurchase Program"), to repurchase up to \$10 million of the Company's outstanding common stock. Shares of the Company's common stock may be purchased in the open market, including through block purchases, or through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b18(b)(1) of the Securities Exchange Act of 1934, as amended. The timing, manner, price and amount of any repurchases will be determined at the Company's discretion and the program may be suspended, terminated or modified at any time for any reason. Among other factors, the Company intends to only consider repurchasing shares of the Company's common stock when the purchase price is less than the Company's estimate of the Company's current net asset value per common share. Shares of common stock repurchased by the Company under the Repurchase Program, if any, will be canceled and, until reissued by the Company, will be deemed to be authorized but unissued shares of the Company's common stock. No share repurchases have been made since January 19, 2016. Through December 31, 2022 December 31, 2023, the Company had repurchased 126,856 shares of common stock at a weighted average share price of \$5.09. No share repurchases have been made since January 19, 2016. As of December 31, 2022 December 31, 2023, \$9.4 million of common stock remained authorized for future share repurchase under the Repurchase Program.

Preferred Stock

At December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the Company was authorized to issue up to 50,000,000 shares of preferred stock, par value \$0.01 per share, with 2,400,000 shares of Series A Preferred Stock issued and outstanding as of December 31, 2022 December 31, 2023, and December 31, 2021 December 31, 2022. Voting and other rights and preferences will be determined by the Company's Board of Directors upon issuance.

On May 5, 2021, LFT issued 2,400,000 shares of Series A Preferred Stock, and received net proceeds, after underwriting discounts and commissions but before offering expenses payable by the Company, of \$58.1 million. The Series A Preferred Stock is redeemable, at LFT's option, at a liquidation preference price of \$25.00 per share plus accrued dividends commencing on May 5, 2026. Dividends on Series A Preferred Stock are

payable quarterly in arrears beginning on July 15, 2021.

Distributions to stockholders

For the 2022 2023 taxable year to date, the Company has declared dividends to common stockholders totaling \$12,535,116, \$13,581,323, or \$0.07 \$0.26 per share. The following table presents cash dividends declared by the Company on its common stock for the year ended December 31, 2022 December 31, 2023:

Declaration Date	Record Date	Payment Date	Dividend Amount	Cash Dividend Per Weighted Average	
				Share	
March 15, 2022	March 31, 2022	April 15, 2022	\$ 3,133,509	\$	0.006
June 15, 2022	June 30, 2022	July 15, 2022	\$ 3,133,869	\$	0.006
September 15, 2022	September 30, 2022	October 17, 2022	\$ 3,133,869	\$	0.006
December 15, 2022	December 31, 2022	January 17, 2023	\$ 3,133,869	\$	0.006

Declaration Date	Record Date	Payment Date	Dividend Amount	Cash Dividend Per Weighted Average	
				Share	
March 16, 2023	March 31, 2023	April 17, 2023	\$ 3,133,869	\$	0.060
June 14, 2023	June 30, 2023	July 17, 2023	\$ 3,133,869	\$	0.060
September 14, 2023	September 29, 2023	October 16, 2023	\$ 3,656,181	\$	0.070
December 12, 2023	December 29, 2023	January 16, 2024	\$ 3,657,404	\$	0.070

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2022

NOTE 12 – EQUITY(Continued)

The following table presents cash dividends declared by the Company on its Series A Preferred stock for the year ended December 31, 2022 December 31, 2023:

Declaration Date	Record Date	Payment Date	Dividend Amount	Cash Dividend Per Weighted Average	
				Share	
March 15, 2022	April 1, 2022	April 15, 2022	\$ 1,181,250	\$	0.49219
June 15, 2022	July 1, 2022	July 15, 2022	\$ 1,181,250	\$	0.49219
September 15, 2022	October 3, 2022	October 17, 2022	\$ 1,181,250	\$	0.49219
December 15, 2022	January 1, 2023	January 17, 2023	\$ 1,181,250	\$	0.49219

Declaration Date	Record Date	Payment Date	Dividend Amount	Cash Dividend Per Weighted Average	
				Share	
March 16, 2023	April 3, 2023	April 17, 2023	\$ 1,181,250	\$	0.49219
June 14, 2023	July 3, 2023	July 17, 2023	\$ 1,181,250	\$	0.49219
September 14, 2023	October 2, 2023	October 16, 2023	\$ 1,181,250	\$	0.49219
December 12, 2023	January 2, 2024	January 16, 2024	\$ 1,181,250	\$	0.49219

Non-controlling interests

On November 29, 2018, Lument Commercial Mortgage Trust, Inc. ("LCMT"), formerly known as Hunt Commercial Mortgage Trust ("HCMT"), LCMT, which is an indirect wholly-owned subsidiary of the Company that has elected to be taxed as a REIT for U.S. Federal income tax purposes, issued 125 shares of Series A Preferred Shares ("LCMT Preferred Shares"). Net proceeds to LCMT were \$99,500 representing \$125,000 in equity raised, less \$25,500 in expenses and is reflected as "Non-controlling interests" in the Company's consolidated balance sheets. Dividends on the LCMT Preferred Shares are cumulative annually, in an amount equal to 12% of the initial purchase price plus any accrued unpaid dividends. The LCMT Preferred Shares are redeemable at any time by LCMT. The redemption price through December 31, 2020 was 1.1x the initial purchase price plus all accrued and unpaid dividends, and the initial purchase price plus all accrued and unpaid dividends thereafter. The holders of the LCMT Preferred Shares have limited voting rights, which do not entitle the holders to participate or otherwise direct the management of LCMT or the Company. The LCMT Preferred Shares are not convertible into or exchangeable for any other property or securities LCMT or the Company. Dividends on the LCMT Preferred Shares, which amounted to \$15,000 for the year years ended December 31, 2022 December 31, 2023 and \$15,000 for the year ended December 31, 2021 December 31, 2022, are reflected in "Dividends to preferred stockholders" in the Company's consolidated statements of operations. As

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2023

NOTE 12 – EQUITY (Continued)

Independent Directors Stock-for-Fees Program

Upon the recommendation of December 31, 2022 the Compensation Committee of the Board, on April 20, 2023, LCMT had \$11,292 the Board has adopted the Independent Directors Stock-for-Fees Program (the "Stock-for-Fees Program"). The purpose of the Stock-for-Fees Program is to promote the long-term success of the Company and further align the interests of the Company's independent directors with the interests of its stockholders by providing the independent directors with an opportunity to elect to receive their Director Fees (as defined below) in accrued dividends the form of shares of common stock.

Pursuant to the Stock-for-Fees Program, an independent director may elect to exchange all or a portion of such director's unpaid Director Fees for the right to receive payment of such unpaid fees in the form of shares of common stock. Such election will apply to all Director Fees that would otherwise have been paid (but for such election) in the fiscal quarter that commences after the date the independent director's election form is filed with and received by the Company and will continue for each fiscal quarter through and until the fiscal quarter that commences after such time as the director files a new election form that is received by the Company modifying or terminating such prior election or, if earlier, the date such Director terminates service on the LCMT Preferred Shares which are reflected Board. Unless otherwise approved by the Board, an election by an independent directors will be made only in "dividends an open trading window pursuant to preferred stockholders" the Company's insider trading policy. Unless otherwise approved by the Board, an independent director may not make more than one election in any six-month period of time. Any Director Fees that an independent director elects to receive in the Company's consolidated statements form of operations shares of common stock are referred to as "Exchanged Fees."

Upon any Exchange Date (as defined below) that occurs after an independent director files an election form that is received by the Company, the independent director will be entitled to receive a number of shares of common stock determined by dividing (i) the amount of the Exchanged Fees that would otherwise have been paid to the independent director in cash on such Exchange Date but for such election, by (ii) the Fair Market Value (as defined below) of a share of common stock as of such Exchange Date, and rounding down to the nearest whole share. Any fractional amount less than the Fair Market Value of a share of common stock as of such Exchange Date will be paid in cash. Any shares of common stock acquired by an independent director pursuant to the Stock-for-Fees Program will be fully vested at all times.

The maximum aggregate number of shares of common stock issuable pursuant to the Stock-for-Fees Program is 2,611,555. The maximum aggregate number of shares issuable to an independent director pursuant to the Stock-for-Fees Program shall not exceed 522,311 shares of common stock. The Company has issued 17,479 shares with a weighted-average price of \$2.2825 pursuant to the Stock-for-Fees Program as of December 31, 2023.

For purposes of this Stock-for-Fees Program, the following definitions apply:

"Director Fees" means the annual retainer and meeting fees, to the extent otherwise payable in cash, payable to an independent director for services as a member of the Board.

"Exchange Date" means any date on which \$3,791 were accrued and unpaid dividends the Company pays Director Fees to independent directors.

"Fair Market Value" means, with respect to an Exchange Date, the average of the closing prices of a share of the Company's common stock as reported on the LCMT Preferred Shares which are reflected in "Dividends payable" in composite tape for securities listed on the Company's consolidated balance sheet. NYSE for the period of ten trading days ending on the trading day immediately preceding the Exchange Date.

NOTE 13 EARNINGS PER SHARE

In accordance with ASC 260, outstanding instruments that contain rights to non-forfeitable dividends are considered participating securities. The Company is required to apply the two-class method or the treasury stock method of computing basic and diluted earnings per share when there are participating securities outstanding. The Company has determined that outstanding unvested restricted shares issued under the Manager Equity Plan are participating securities, and they are therefore included in the computation of basic and diluted earnings per share. The following tables provide additional disclosure regarding the computation for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022:

	Year Ended December 31, 2022				Year Ended December 31, 2021		Year Ended December 31, 2023				Year Ended December 31, 2022			
	2022				31, 2021									
Net income	Net income		\$ 9,863,660		\$10,527,222									
Less dividends expense:	Less dividends expense:													
Common stock	Common stock		\$12,535,116		\$8,980,832									
Common stock														
Common stock														
Preferred stock														
Preferred stock														
Preferred stock	Preferred stock		4,740,000		3,112,500									
			17,275,116		—		12,093,332							
Undistributed earnings (deficit)	Undistributed earnings (deficit)		\$(7,411,456)		\$(1,566,110)									
			Unvested Share-Based Payment Awards		Common Stock		Unvested Share-Based Payment Awards		Common Stock					
	Unvested Share-Based Payment Awards						Unvested Share-Based Payment Awards		Common Stock		Unvested Share-Based Payment Awards		Common Stock	
Distributed earnings	Distributed earnings		\$ 0.26 \$ 0.26 \$ 0.36 \$ 0.36											

Undistributed earnings (deficit)	Undistributed earnings (deficit)	\$	—	\$	(0.15)	—	(0.06)
Total	Total	\$	0.26	\$	0.11	\$	0.36
							\$ 0.30

	For the years ended December 31,	
	2022	2021
Basic weighted average shares of common stock outstanding	48,337,029	24,941,324
Weighted average of non-vested restricted stock	5,318	4,500
Diluted weighted average shares of common stock outstanding	48,342,347	24,945,824

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 13 – EARNINGS PER SHARE (Continued)

	For the years ended December 31,	
	2023	2022
Basic weighted average shares of common stock outstanding	52,228,567	48,337,029
Weighted average of non-vested restricted stock	2,729	5,318
Diluted weighted average shares of common stock outstanding	52,231,296	48,342,347

NOTE 14 – SEGMENT REPORTING

The Company invests in a portfolio comprised of commercial mortgage loans and other mortgage-related investments and operates as a single reporting segment.

NOTE 15 - INCOME TAXES

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2022

The Company has elected to be treated as a REIT under federal income tax laws. As a REIT, the Company must generally distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws.

Certain activities of the Company that produce prohibited income are conducted through a TRS, FOAC, to protect REIT election and FOAC is therefore subject to tax as a U.S. C-Corporation. To maintain our REIT election, the Company must continue to meet certain ownership, asset and income requirements set forth in the Code. As further discussed below, the Company may be subject to non-income taxes on excess amounts of assets or income that cause a failure of any of the REIT testing requirements. As of [December 31, 2022](#), [December 31, 2023](#) and [2021](#), [2022](#), we were in compliance with all REIT requirements.

The following table presents our provision for income taxes:

		Year Ended December 31,	
		2022	2021
		Year Ended December 31,	
		2023	2022
Deferred tax expense	Deferred tax expense	\$ 11,088	\$77,894
Provision for income tax expense	Provision for income tax expense	\$ 11,088	\$77,894

The following is a reconciliation of our effective income tax rate as a percentage of pre-tax income to the U.S. federal statutory rate, for the years ended [December 31, 2022](#), [December 31, 2023](#) and [2021](#), [2022](#):

		Year Ended December 31,							
		2022	2021						
		Year Ended December 31,						Year Ended December 31,	
		2023				2023		2022	
U.S. federal statutory income tax	U.S. federal statutory income tax	21.0 %	21.0 %	U.S. federal statutory income tax		21.0 %		21.0	%
REIT income not subject to federal income tax	REIT income not subject to federal income tax	(20.1)%	(21.4)%	REIT income not subject to federal income tax		(21.0) %		(20.1)	%
State and local income taxes, net of federal tax benefit	State and local income taxes, net of federal tax benefit	(0.4)%	(0.2)%	State and local income taxes, net of federal tax benefit		0.0 %		(0.4)	%
Return to provision	Return to provision	(0.6)%	(0.1)%	Return to provision		0.0 %		(0.6)	%
Effective income tax rate	Effective income tax rate	(0.1)%	(0.7)%	Effective income tax rate		0.0 %		(0.1)	%

The differences between the Company's statutory rate and effective rate are largely determined by the amount of income subject to tax by the Company's TRS subsidiary. The Company expects that its future effective tax rate will be determined in a similar manner.

As of December 31, 2022, December 31, 2023 and 2021, 2022, the Company's net deferred tax assets were \$1.3 million and \$1.3 million, respectively, and are included in other assets in the Company's consolidated balance sheets. The Company believes it is more likely than not that the deferred tax assets will be realized in the future. Realization of the net deferred tax assets is dependent on our generation of sufficient taxable income in future years in appropriate tax jurisdictions to obtain benefit from the reversal of temporary difference. The amount of deferred tax assets considered realizable is subject to adjustment in future periods of future taxable income change.

The TRS has a deferred tax asset , comprised of the following:

		As of December 31, 2022	As of December 31, 2021	As of December 31, 2023	As of December 31, 2022
Accumulated net operating losses of TRS	Accumulated net operating losses of TRS	\$ 1,229,334	\$ 985,917		
Mortgage servicing rights	Mortgage servicing rights	\$ 19,456	\$ 261,440		
Capitalized transaction costs	Capitalized transaction costs	\$ 81,382	\$ 93,903		
Net non-current deferred tax asset	Net non-current deferred tax asset	\$1,330,172	\$1,341,260		

At December 31, 2022 December 31, 2023, and 2021 2022, the TRS had net operating loss carryforwards for federal income tax purposes of \$4.0 million \$4.5 million and \$3.2 million \$4.0 million, which are available to offset future taxable income and begin expiring in 2034.

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 15 INCOME TAXES (Continued)

As of December 31, 2022 December 31, 2023, the Company has concluded that there are no material uncertain tax positions requiring recognition in the Company's consolidated financial statements. As of December 31, 2022 December 31, 2023, tax years 2018 2019 through 2021 2022 remain subject to examination by taxing authorities.

REIT Qualification

During tax years 2021 2022 and 2022 2023 the Company passed all the requisite ownership, asset and income tests.

NOTE 16 - SUBSEQUENT EVENTS

On February 27, 2023 January 18, 2024, the Company received a second insurance payment, in connection with the sale amount of approximately \$13.5 million, relating to a "5" risk rated loan collateralized by a multifamily property in Columbus, Ohio, currently in receivership, which had a carrying value of \$8.9 million as of December 31, 2023. The application of these insurance proceeds will reduce the office building collateralizing our impaired carrying value of this loan by to \$0, and it is expected that after taking into consideration certain legal and other costs and amounts deemed recoverable, will result in the recognition of approximately \$1.9 million of income in the quarter ending March 31, 2024.

On February 5, 2024, LFT CRE 2021-FL1, Ltd, as lender, and the borrower to on a loan collateralized by a multifamily property in Virginia Beach, VA, entered into an unaffiliated third-party, the Company accepted, under amendment which modified the terms of a discounted payoff ("DPO") agreement with the borrower, a DPO of approximately \$6.0 million on the impaired underlying loan agreement. The loan, which had an unpaid principal balance of \$10.3 \$36.8 million as of December 31, 2022 December 31, 2023, was on non-accrual status as of such date and was risk rated a "5" due to monetary default. In connection with the modification, the borrower, among other things, made a principal payment of approximately \$3.6 million and brought current any past due interest, escrows and reserves, which will result in interest of approximately \$0.5 million that was unpaid as of December 31, 2023 being recognized as income in the quarter ending March 31, 2024. \$4.3 million, which had The note rate on the loan has been provided for during amended to SOFR + 400 basis points from SOFR + 327 basis points and the year-ended December 31, 2022, will be charged off against stated maturity date of the Company's allowance for loan losses during the three months ended March 31, 2023 has been amended to April 5, 2024, with de minimis impact the ability for borrower to the provision for loan losses in the corresponding period.

March 16, 2023, the Company's Board of Directors declared a regular cash dividend of \$0.06 per common share with respect extend, under certain conditions, to the first quarter of 2023. The dividend is payable on April 15, 2023, to common stockholders of record as of the close of business March 31, 2023.

LUMENT FINANCE TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2022

NOTE 16 - SUBSEQUENT EVENTS (Continued)

On March 16, 2023, the Company's Board of Directors declared a regular cash dividend of \$0.49219 per share of Series A Preferred Stock with respect to the first quarter of 2023. The dividend is payable on April 15, 2023, to preferred stockholders of record as of the close of business April 3, 2023 May 3, 2024.

Schedule IV - Mortgage Loans on Real Estate
As of December 31, 2022 December 31, 2023

Type of Loan/Borrower	Type of Loan/Borrower		Interest ⁽²⁾ Payment Rates	Extended Maturity Date ⁽³⁾	Periodic Payment Terms ⁽⁴⁾	Prior Liens ⁽⁵⁾	Unpaid Principal Balance	Carrying Amount of Loans	Type of Loan/Borrower		Interest ⁽²⁾ Payment Rates	Extended Maturity Date ⁽³⁾	Periodic Payment Terms ⁽⁴⁾	Prior Liens ⁽⁵⁾	Unpaid Princip
Senior Mortgage Loans ⁽¹⁾	Senior Mortgage Loans ⁽¹⁾	Description/Location							Senior Mortgage Loans ⁽¹⁾	Description/Location					
Senior Loans in excess of 3% of the carrying amount of total loans															
Borrower A	Borrower A	Multifamily /FL	L+3.05%	2027	I/O \$ —	\$	51,375,000	\$	51,375,000						
Borrower B		Multifamily /VA	L+3.27%	2024	I/O —		36,781,588		36,781,588						
Borrower C		Multifamily / NJ	L+3.05%	2026	I/O —		34,690,000		34,690,000						
Borrower D		Multifamily / GA	L+3.00%	2024	I/O —		33,500,000		33,500,000						
Borrower E		Multifamily / TN	L+3.65%	2026	I/O —		33,360,000		33,360,000						
Senior Loans less than 3% of the carrying amount of total loans															
Senior Loan	Senior Loan	Multifamily /	L+2.90%	2024 -	I/O \$ —	\$	635,190,012	\$	635,190,012						
		Diversified	- 3.95%	2027											
Senior Loan	Senior Loan	Multifamily /	S+3.25%	2025 -	I/O —		135,388,390		135,326,238						
		Diversified	- 4.15%	2027											
		Healthcare/													
Senior Loan		Diversified	S+4.00%	2026	I/O —		70,000,000		69,325,986						
Senior Loan		Self-Storage / WA	L+3.60%	2024	I/O —		19,648,818		19,668,071						
Senior Loan		Retail / TX	L+4.60%	2023	I/O \$ —	\$	16,672,623	\$	16,672,623						
Senior Loan		Office / IL	L+3.75%	2023	I/O \$ —	\$	10,258,668	\$	6,000,000						
Borrower B															

Total senior loans	Total senior loans	\$	—	\$1,076,865,099	\$1,071,889,518
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- (1) Includes senior mortgage loans and *pari passu* participations in senior mortgage loans.
- (2) **L S** = one-month LIBOR 30-day term SOFR rate
- (3) Extended maturity date assumes all extension options are exercised
- (4) I/O = interest only
- (5) Represents only third party liens

1. Reconciliation of Mortgage Loans on Real Estate

The following table reconciles activity regarding mortgage loans on real estate for the years ended:

		2022	2021		
		2023		2023	2022
Balance at January 1,	Balance at January 1,	\$ 1,001,825,294	\$ 547,345,334		
Additions during period:	Additions during period:				
Mortgage loans purchased	Mortgage loans purchased	345,158,577	983,694,326		
Mortgage loans purchased	Mortgage loans purchased				
Deductions during period	Deductions during period				
Mortgage loan repayments	Mortgage loan repayments				
Mortgage loan repayments	Mortgage loan repayments				
Mortgage loan repayments	Mortgage loan repayments	(270,926,723)	(528,802,705)		
Accretion of purchase discount	Accretion of purchase discount	125,098	46,088		
Amortization of purchase premium	Amortization of purchase premium	(61,144)	(457,749)		
Accretion of deferred loan fees	Accretion of deferred loan fees	27,084	—		
Provision for loan losses	Provision for loan losses	(4,258,668)	—		
Cumulative-effect adjustment upon adoption of ASU 2016-13	Cumulative-effect adjustment upon adoption of ASU 2016-13				
Provision for credit losses	Provision for credit losses				
Balance at December 31,	Balance at December 31,	\$ 1,071,889,518	\$1,001,825,294		

DESCRIPTION OF SECURITIES

The following is a summary of (1) the rights and preferences of our common stock and preferred stock and (2) the related provisions of our charter and bylaws. Copies of our charters and bylaws are filed as exhibits to our Annual Report on Form 10-K of which this exhibit is a part.

General

Our charter provides that we may issue up to 450,000,000 shares of common stock and 50,000,000 shares of preferred stock, both having par value \$0.01 per share. Our charter also provides that our board of directors has the authority, without any action by the stockholders, to designate and issue shares of preferred stock in one or more classes or series and to fix rights, preferences, privileges and restrictions of each class or series of preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any class or series, which may be greater than the rights of the holders of the common stock. As of **March 14, 2023** **March 13, 2024**, we have **52,231,152** **52,248,631** shares of common stock issued and outstanding, and 2,400,000 shares of 7.875% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), issued and outstanding.

Our common stock is listed and traded on the New York stock Exchange (the "NYSE") under the symbol "LFT." Our Series A Preferred Stock is listed and traded on the NYSE under the symbol "LFTPA."

The transfer agent and registrar for our common stock and Series A Preferred Stock is American Stock Transfer & Trust Co

Common Stock**Voting rights**

Subject to the provisions of our charter restricting the transfer and ownership of shares of our stock and except as may otherwise be specified in the terms of any class or series of stock, each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors, and, except as provided with respect to any other class or series of shares of our stock, the holders of our common stock possess exclusive voting power. There is no cumulative voting in the election of directors, which means that the holders of a plurality of the outstanding shares of common stock, voting as a single class, may elect all of the directors then standing for election.

In accordance with the Maryland General Corporation Law (the "MGCL"), a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business unless declared advisable by the board of directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter, unless a lesser percentage (but not less than a majority of all the votes entitled to be cast on the matter) is set forth in the corporation's charter. Our charter provides that such matters may be approved by the affirmative vote of stockholders entitled to cast a majority of the votes entitled to be cast on the matter, except for amendments to our charter relating to restrictions on transfer and ownership of shares, removal of directors or the voting requirement relating to these actions which require the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. This may discourage others from entering into such transactions with us and increase the difficulty of consummating any such transaction.

The MGCL permits the merger of a 90% or more owned subsidiary with or into its parent without stockholder approval provided (1) the charter of the successor is not amended other than in certain minor respects (such as the name of the successor) and (2) the contract rights of any stock of the successor issued in the merger in exchange for stock of the other corporation are identical to the contract rights of the stock for which it is exchanged. Also, because Maryland law may not require the stockholders of a parent corporation to approve a merger or sale of all or substantially all of the assets of a subsidiary entity, our subsidiaries may be able to merge or sell all or substantially all of their assets without a vote of our stockholders.

Dividends, liquidation and other rights

All of our outstanding shares of common stock are duly authorized, fully paid and non-assessable. Holders of shares of our common stock are entitled to receive dividends or other distributions if and when authorized by our board of directors and declared by us out of assets legally available for the payment of dividends or other distributions. They also are entitled to share ratably in our assets legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up, after payment of or adequate provision for all of our known debts and liabilities. These rights are subject to the preferential rights of any other class or series of our stock, including the Series A Preferred Stock, and to the provisions of our charter regarding restrictions on transfer and ownership of our stock.

Holders of shares of our common stock generally have no preference, conversion, exchange, sinking fund or redemption rights and have no preemptive rights to subscribe for any of our securities. As permitted by Maryland law, our charter provides that our stockholders will not be entitled to appraisal rights unless the board of directors determines that such rights will apply to certain transactions. Subject to the restrictions on transfer of capital stock contained in our charter, all shares of our common stock have equal dividend, liquidation and other rights.

Preferred Stock

Our charter provides that our board of directors has the authority, without action by the stockholders, to designate and issue up to 50,000,000 shares of preferred stock in one or more classes or series and to fix the rights, preferences, privileges and restrictions of

each class or series of preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any class or series, which may be greater than the rights of the holders of the common stock. Any issuance of shares of preferred stock could adversely affect the voting power of holders of common stock, and the likelihood that the holders will receive dividend payments and payments upon liquidation could have the effect of delaying, deferring or preventing a change in control.

As of **March 14, 2023** **March 13, 2024**, we have 2,400,000 shares of Series A Preferred Stock issued and outstanding. The Series A Preferred Stock ranks senior to our common stock with respect to distribution rights and rights upon the voluntary or involuntary liquidation, dissolution or winding up of our company. In addition to other preferential rights, each holder of Series A Preferred Stock is entitled to receive a liquidation preference, which is equal to \$25.00 per share of Series A Preferred Stock plus any accrued and unpaid dividends thereon, before the holders of our common stock receive any distributions in the event of any voluntary or involuntary liquidation, dissolution or winding up of our company. Furthermore, we are generally restricted from declaring or paying any distributions, or setting aside any funds for the payment of distributions, on our common stock or, subject to certain exceptions, redeeming or otherwise acquiring shares of our common stock unless full cumulative dividends on the Series A Preferred Stock have been declared and either paid or set aside for payment in full for all past periods.

Power to Issue Additional Shares of Capital Stock

Our charter also authorizes our board of directors to amend or supplement our charter to increase or decrease the aggregate number of shares of capital stock of any class or series that we have the authority to issue, to classify and reclassify any unissued shares of our common stock into any other classes or series of classes of our stock, to establish the number of shares in each class or series and to set the terms, preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such class or series. We believe that the power of our board of directors to take these actions provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. The additional classes or series, as well as our common stock, are available for issuance without further action by our stockholders, unless stockholder action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors has no intention at the present time of doing so, it could authorize us to issue a class or series that could, depending upon the terms of such class or series, delay, defer or prevent a transaction or a change in control of us that might involve a premium price for holders of our common stock that our common stockholders or otherwise believe to be in their best interest.

Restrictions on Ownership and Transfer of Our Capital Stock

In order to maintain our qualification as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") for each taxable year beginning after December 31, 2012, our shares of capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, during the second half of each taxable year no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities).

Our charter, subject to certain exceptions, contains restrictions on the number of shares of our capital stock that a person may own and may prohibit certain entities from owning our shares. Our charter prohibits, with certain exceptions described below, any stockholder from beneficially or constructively owning, applying certain attribution rules under the Internal Revenue Code, more than 8.75% by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock, more than 8.75% by value or number of shares, whichever is more restrictive, of our outstanding shares of Series A Preferred Stock, or 8.75% by value or number of shares, whichever is more restrictive, of our outstanding capital stock. Pursuant to our charter, our board of directors has the power to increase or decrease the percentage of common or capital stock that a person may beneficially or constructively own. However, any decreased stock ownership limit will not apply to any person whose percentage ownership of our common or capital stock, as the case may be, is in excess of such decreased stock ownership limit until that person's percentage ownership of our common or capital stock, as the case may be, equals or falls below the decreased stock ownership limit. Until such a person's percentage ownership of our common or capital stock, as the case may be, falls below such decreased stock ownership limit, any further acquisition of common stock will be in violation of the decreased stock ownership limit.

Our charter also prohibits any person from beneficially or constructively owning shares of our capital stock that would result in our being "closely held" under Section 856(h) of the Internal Revenue Code or otherwise cause us to fail to qualify as a REIT and from transferring shares of our capital stock if the transfer would result in our capital stock being beneficially owned by fewer than 100 persons. Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our capital stock that may violate any of the foregoing restrictions on transferability and ownership, or who is the intended transferee of shares of our capital stock that are transferred to the trust (as described below), is required to give written notice immediately to us and provide us (or, in the case of such a proposal or attempted transaction, give at least 15 days prior written notice) with such other information as we may request in order to determine the effect of such transfer on our qualification as a REIT. The foregoing restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

Our board of directors, in its sole discretion, may exempt a person from the ownership limits set forth in our charter. The person seeking an exemption must provide to our board of directors such representations and undertakings and satisfy such conditions, in each case as our board of directors may deem reasonably necessary to conclude that granting the exemption will not cause us to lose our qualification as a REIT. Our board of directors may also require a ruling from the U.S. Internal Revenue Service or an opinion of counsel in order to determine or ensure our qualification as a REIT in the context of granting such exemptions. Our board of directors

has granted exemptions to the aggregate stock ownership limit and the common stock ownership limit in our charter to (i) XL Bermuda Ltd, (ii) OREC Investment Holdings, LLC, an affiliate of our external manager, and (iii) James C. Hunt, a member of our board of directors, and Hunt Companies Equity Holdings, LLC.

Any purported transfer of our capital stock which, if effective, would result in a violation of the foregoing restrictions (other than a transfer that would result in our capital stock being owned by fewer than 100 persons, which shall be void ab initio) will cause the number of shares causing the violation (rounded up to the nearest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries, and the proposed transferee will not acquire any rights in such shares. The automatic transfer will be deemed to be effective as of the close of business on the business day (as defined in our charter) prior to the date of the transfer. If, for any reason, the transfer to the trust does not occur or would not prevent a violation of the restrictions on ownership contained in our charter, our charter provides that the purported transfer will be void ab initio. Shares of our capital stock held in the trust will be issued and outstanding shares. The proposed transferee will not benefit economically from ownership of any shares of our capital stock held in the trust, will have no rights to dividends and no rights to vote or other rights attributable to the shares of capital stock held in the trust. The trustee of the trust will have all voting rights and rights to dividends or other distributions with respect to shares held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or other distribution paid prior to our discovery that shares of capital stock have been transferred to the trust will be paid by the recipient to the trustee upon demand. Any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or distribution paid to the trustee will be held in trust for the charitable beneficiary. Subject to Maryland law, the trustee will have the authority to rescind as void any vote cast by the proposed transferee prior to our discovery that the shares have been transferred to the trust and to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that shares of our capital stock have been transferred to the trust, the trustee will sell the shares to a person designated by the trustee, whose ownership of the shares will not violate the above ownership limitations. Upon such sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows: the proposed transferee will receive the lesser of (1) the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the trust (e.g., a gift, devise or other similar transaction), the market price (as defined in our charter) of the shares on the day of the event causing the shares to be held in the trust and (2) the price received by the trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the shares. Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. If, prior to our discovery that shares of our capital stock have been transferred to the trust, the shares are sold by the proposed transferee, then (1) the shares shall be deemed to have been sold on behalf of the trust and (2) to the extent that the proposed transferee received an amount for the shares that exceeds the amount the proposed transferee was entitled to receive, the excess shall be paid to the trustee upon demand.

In addition, shares of our capital stock held in the trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of the price per share in the transaction that resulted in the transfer to the trust (or, in the case of a devise or gift, the market price at the time of the devise or gift) and the market price on the date we, or our designee, accept the offer. We will have the right to accept the offer until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee.

Every owner of 5% or more (or such lower percentage as required by the Internal Revenue Code or the regulations promulgated thereunder) of the outstanding shares of capital stock, including shares of our common stock, within 30 days after the end of each taxable year, will be required to give written notice to us stating the name and address of such owner, the number of shares of each class and series of shares of our capital stock that the owner beneficially owns and a description of the manner in which the shares are held. Each owner shall provide to us such additional information as we may request to determine the effect, if any, of the beneficial ownership on our qualification as a REIT and to ensure compliance with the ownership limitations. In addition, each such owner and beneficial or constructive owners shall, upon demand, be required to provide to us such information as we may request, in good faith, to determine our qualification as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

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

SUBSIDIARIES	
Subsidiary	Jurisdiction of Incorporation
Five Oaks Acquisition Corp.	Delaware
Oaks Funding, LLC	Delaware
Oaks Funding II, LLC	Delaware
Oaks Holding I, LLC	Delaware
Lument CMT Equity, LLC	Delaware
Lument CMT Finance, LLC	Delaware
Lument Commercial Mortgage Trust	Maryland
LFT CRE 2021-FL1 Advances, LLC	Delaware
LFT CRE 2021-FL1 Preferred, LLC	Delaware
LFT CRE 2021-FL1, Ltd.	Cayman Islands
LFT CRE 2021-FL1, LLC	Delaware
LFT CRE 2021-FL1 Seller, LLC	Delaware
LCMT REO I Corp.	Maryland
LMF 2023-1, LLC	Delaware
LMF 2023-1 Holder, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Lument Finance Trust, Inc.

We consent to the incorporation by reference in the registration statements (Nos. 333-211027 and 333-258134) on Form S-3 and registration statement (No. 333-271856) on Form S-8 of our report dated March 23, 2023 March 15, 2024, with respect to the consolidated financial statements and financial statement schedule IV, of Lument Finance Trust, Inc. and subsidiaries.

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2023 due to the adoption of ASC Topic 326, Financial Instruments - Credit Losses.

/s/ KPMG LLP

New York, New York
March 23, 2023 15, 2024

**Certification in the Form Provided by Rule 15d-14(a)
of the Securities Exchange Act of 1934**

I, James P. Flynn, certify that:

1. I have reviewed this Annual Report on Form 10-K for the period ended ~~December 31, 2022~~ December 31, 2023 of Lument Finance Trust, Inc.
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 the financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: ~~March 23, 2023~~ March 15, 2024

/s/ James P. Flynn

James P. Flynn

Chief Executive Officer

**Certification in the Form Provided by Rule 15d-14(a)
of the Securities Exchange Act of 1934**

I, James A. Briggs, certify that:

1. I have reviewed this Annual Report on Form 10-K for the period ended **December 31, 2022** **December 31, 2023** of Lument Finance Trust, Inc.
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 the financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **March 23, 2023** **March 15, 2024**

/s/ James A. Briggs

James A. Briggs

Chief Financial Officer

EXHIBIT 32.1

**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 Annual Report of Lument Finance Trust, Inc. (the "Company") on Form 10-K for the period ended **December 31, 2022** **December 31, 2023**, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James P. Flynn, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); 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: ~~March 23, 2023~~ March 15, 2024

/s/ James P. Flynn

James P. Flynn

Chief Executive Officer

EXHIBIT 32.2

**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 Annual Report of Lument Finance Trust, Inc. (the "Company") on Form 10-K for the period ended ~~December 31, 2022~~ December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James A. Briggs, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); 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: ~~March 23, 2023~~ March 15, 2024

/s/ James A. Briggs

James A. Briggs

Chief Financial Officer

Exhibit 97.1

LUMENT FINANCE TRUST, INC. CLAWBACK POLICY

The following Clawback Policy (the "Policy") of Lument Finance Trust, Inc., a Maryland corporation (the "Company"), requires the recovery of erroneously awarded compensation in order to satisfy the requirements of Section 303A.14 of the New York Stock Exchange Listed Company Manual (the "Listing Standards") and to satisfy the requirements of Rule 10D-1 ("Rule 10D-1"), as adopted by the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") to implement Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Section 1. Definitions. As used in this Policy, the following definitions shall apply:

(a) "Applicable Period" means the three completed fiscal years prior to the earlier of (i) the date the Company's board of directors, a board committee, or officer(s) authorized to take such action if board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare a Restatement or (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare a Restatement. In addition to the last three completed fiscal years described in the preceding sentence, the Applicable Period includes any transition period (that results from a change in the Company's fiscal year) within or immediately following those three completed fiscal years; provided, however, a transition period between the last day of the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months would be deemed a completed fiscal year for purposes of the Applicable Period.

(b) "Committee" means the compensation committee of the Board of Directors of the Company.

(c) "Covered Executive" means all of the Company's current and former executive officers, as determined by the Committee, in accordance with the Listing Standards and Rule 10D-1 and the definition of executive officer as defined in Rule 10D-1(d).

(d) “**Erroneously Awarded Compensation**” means the amount of Incentive-Based Compensation received by a Covered Executive that exceeds the amount of Incentive-Based Compensation that otherwise would have been received had it been determined based on the restated financial statements.

(e) “**Incentive-Based Compensation**” means all compensation (including cash bonuses or other cash incentive awards (including any deferred element thereof), and vested and unvested equity awards, including options, restricted stock and restricted stock units, performance stock unit awards, and performance stock awards) from the Company or a subsidiary of the Company that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure. For the avoidance of doubt, Incentive-Based Compensation does not include annual salary, compensation awarded based on completion of a specified period of service, or compensation awarded based on subjective standards, strategic measures, or operational measures, unless also based on attainment of a Financial Reporting Measure.

(f) “**Financial Reporting Measures**” are measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures, including stock price and total shareholder return.

1

(g) “**Restatement**” means an accounting restatement of the Company’s financial statements due to material noncompliance with any financial reporting requirement under the federal securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

Section 2. Recovery Event. If the Company is required to prepare a Restatement, then, as determined by the Committee, the Covered Executive’s unsettled Incentive-Based Compensation will be subject to forfeiture, and the Covered Executive’s settled Incentive-Based Compensation will be subject to recoupment, subject to the following:

(a) The forfeiture or recoupment of the Incentive-Based Compensation will apply to a recipient of Incentive-Based Compensation if the recipient of the Incentive-Based Compensation was a Covered Executive at any time during the performance period for such Incentive-Based Compensation. This Policy applies to Incentive-Based Compensation received by a Covered Executive after beginning services as a Covered Executive, and any subsequent changes in a Covered Executive’s employment status, including retirement or termination of employment, do not affect the Company’s rights to recover Erroneously Awarded Compensation pursuant to this Policy.

(b) The amount to be forfeited or recouped will equal the Erroneously Awarded Compensation. The Committee will take actions necessary to recover the Erroneously Awarded Compensation reasonably promptly following a Restatement. Where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the Restatement, the amount must be based on a reasonable estimate of the effect of the Restatement on stock price or total shareholder return upon which the Incentive-Based Compensation was granted, vested, paid, or settled. The Company will maintain documentation of the determination of that reasonable estimate and provide such documentation to the New York Stock Exchange. The amount of the Erroneously Awarded Compensation shall not be reduced based on, or otherwise calculated with regard to, any taxes paid by the Covered Executive with respect to such amounts.

(c) This Policy shall only apply to Incentive-Based Compensations that was received (or would have been settled in the absence of an elective deferral of payment by the individual) during, or in respect of, the Applicable Period and that was received (or would have been settled in the absence of an elective deferral of payment by the individual) during the period while the Company has a class of securities listed on a national securities exchange or a national securities association. For purposes of this Policy, Incentive-Based Compensation shall be deemed to have been received during the fiscal period in which the financial reporting measure specified in the applicable Incentive-Based Compensation is attained, even if such Incentive-Based Compensation is paid or granted after the end of such fiscal period. The Company’s obligation to recover erroneously awarded compensation is not dependent on if or when the restated financial statements are filed.

Section 3. Impracticability. The Company shall recover any Erroneously Awarded Compensation unless the conditions set forth in clauses (a), (b), or (c) of the following sentence are met and such recovery would be impracticable, as determined by the Committee in accordance with Rule 10D-1 and the Listing Standards. No recovery shall be required if:

(a) the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered; *provided* that before concluding that it would be impractical to recover any amount of Erroneously Awarded Compensation based on this clause (a), the Company shall make a reasonable attempt to recover such Erroneously Awarded Compensation, document such reasonable attempt(s), and provide such documentation to the New York Stock Exchange;

(b) recovery would violate home country law where that law was adopted prior to November 28, 2022; *provided* that before concluding that it would be impractical to recover any amount of Erroneously Awarded Compensation based on this clause (b), the Company shall obtain an

2

opinion of home country counsel, acceptable to the New York Stock Exchange, that recovery would result in such violation, and shall provide such opinion to the New York Stock Exchange; or

(c) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company or a subsidiary, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Code.

Section 4. Method of Clawback. The Committee shall determine, in its sole discretion, the method of recovering any Erroneously Awarded Compensation pursuant to this Policy, which may include, without limitation:

- (a) requiring reimbursement of cash Erroneously Awarded Compensation previously paid;
- (b) seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards;
- (c) offsetting the recouped amount from any compensation otherwise owed by the Company or any subsidiary to the Covered Executive;
- (d) cancelling outstanding vested or unvested equity awards; and/or
- (e) taking any other remedial and recovery action, as determined by the Committee; provided, however that any such action pursuant to subsections (a) through (e) shall be subject to applicable law and shall be subject to compliance with Section 409A of the Internal Revenue Code.

Section 5. Suspension of Outstanding Incentive-Based Compensation.

(a) After a determination by the Committee that a Restatement may have occurred, the Committee may suspend all Incentive-Based Compensation that the Committee determines may be forfeited under this Policy or otherwise subject to offset pursuant to Section 4, in which case and subject to the terms of this Section, Incentive-Based Compensation subject to the suspension: (i) if unvested, will not vest, and (ii) otherwise will not be distributed or permitted to be exercised or otherwise settled. In the event the term of an option award will expire during a period of suspension, the Covered Executive will be permitted to exercise the option before it expires; however, settlement of the option award following such exercise will remain suspended and the securities otherwise deliverable upon settlement shall remain subject to forfeiture under the terms of this Policy.

(b) Following suspension of Incentive-Based Compensation under subsection (a) of this Section 5, the Committee will determine as promptly as practicable whether the suspended Incentive-Based Compensation is to be forfeited or whether the suspension of the Incentive-Based Compensation is to be ended. For Incentive-Based Compensation that are ultimately not forfeited, the following provisions will apply upon the Committee's determination to lift the suspension:

- (i) Unvested awards that would not otherwise have vested during the suspension by their original terms will be thereafter subject to vesting under their original terms;
- (ii) Unvested awards that otherwise would have vested during the suspension will vest as soon as practicable and otherwise consistent with their original terms;
- (iii) Cash awards such as annual bonus withheld during the suspension will be immediately payable;

(iv) In no event will distribution of cash or shares be made to a Covered Executive with respect to Incentive-Based Compensation if, by reason of termination of employment or otherwise, the Covered Executive would have forfeited the Incentive-Based Compensation if the Incentive-Based Compensation had not been suspended; and

3

(v) Distribution or settlement of Incentive-Based Compensation will be made no later than the latest date on which such distribution or settlement would be required to avoid additional tax by reason of Section 409A of the Internal Revenue Code; provided, however, that if such distribution or settlement occurs during a period when such Incentive-Based Compensation remains suspended pursuant to this Section 5, then the after-tax proceeds of such distribution or settlement shall be held in escrow until such time as such Incentive-Based Compensation is no longer subject to a suspension or such amounts are determined to have been forfeited by the Committee.

Section 6. Committee Administration and Discretion. The authority to manage the operation and administration of this Policy is vested in the Committee. This authority includes the obligation to determine (i) whether a Restatement has occurred for the purposes of this Policy, Rule 10D-1, and the Listing Standards, and (ii) the amount of Erroneously Awarded Compensation. The Committee may retain and rely upon the advice and determinations of legal counsel, accountants, and other relevant experts to operate and administer this Policy. Any interpretation of this Policy by the Committee and any decision made by it with respect to this Policy will be final, binding, and conclusive on all persons.

Section 7. No Indemnification. The Company shall not indemnify any current or former Covered Executive against the loss of Erroneously Awarded Compensation, and shall not pay, or reimburse any Covered Executives for premiums, for any insurance policy to fund such executive's potential repayment obligations.

Section 8. Notice. Before the Committee determines to seek recovery pursuant to this Policy, it shall provide the Covered Executive with written notice and the opportunity to be heard at a meeting of the Committee or the Board (either in person or via telephone).

Section 9. Effective Date. This Policy is effective as of December 1, 2023 (the "EffectiveDate"). The terms of this Policy shall apply to any Incentive-Based Compensation that is received by a Covered Executive on or after October 2, 2023, even if such Incentive-Based Compensation was approved, awarded, or granted to the Covered Executive prior to October 2, 2023. Subject to applicable law, the Committee may effect forfeiture or recoupment under this Policy from any amount of compensation approved, awarded, granted, payable, or paid to the Covered Executive prior to, on, or after the Effective Date.

Section 10. Amendment and Interpretation. The Committee may amend this Policy from time to time in its discretion, and shall amend this Policy as it deems necessary, appropriate, or advisable to reflect the regulations adopted by the SEC and to comply with any rules or standards adopted by a national securities exchange on which the Company's securities are then listed. The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Rule 10D-1 and any applicable rules or standards adopted by the SEC and any national securities exchange on which the Company's securities are then listed.

Section 11. Other Recoupment Rights. The Committee intends that this Policy will be applied to the fullest extent of the law. The Committee may require that any employment agreement, equity award agreement, or similar agreement entered into, amended, or restated on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require a Covered Executive to agree to abide by the terms of this Policy and the application of this Policy to any award made prior to the Effective Date. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any other recoupment or recoupment policy, any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company.

4

Section 12. Successors. This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators, or other legal representatives.

Section 13. Disclosure Obligations. The Company shall file all disclosures with respect to this Policy required by applicable SEC filings and rules.

Section 14. Entire Agreement. To the extent inconsistent with this Policy, this Policy supersedes all prior contracts, agreements, and understandings, written or oral, with any Covered Executive. In the event any contract, agreement or understanding with any Covered Executive is inconsistent with the terms of this Policy, the terms of this Policy shall govern.

5

Appendix A

Acknowledgement

[Date]

[Covered Executive name
Address]

Dear [Covered Executive name]:

Please sign and return to me this letter acknowledging that you have received a copy of the Lument Finance Trust, Inc. Clawback Policy (the "Policy") and that you agree to its application to you as a Covered Executive. Your receipt of grants of equity or incentive compensation on or after the effective date of the Policy is conditioned on your agreeing to the terms of the Policy.

By signing this letter, you agree that the Policy, as it may be amended from time to time, applies to your Incentive-Based Compensation (as defined in the Policy), regardless of whether it is granted on, before, or after the date on which this Policy was adopted by the Company or the date that you sign this letter. Additionally, you agree and acknowledge that the Policy supersedes any prior contract, agreement, and understanding, written or oral, between you and the Company and that, in the event any contract, agreement, or understanding with you is inconsistent with the Policy, the terms of the Policy shall govern.

You also agree and acknowledge that the Incentive-Based Compensation subject to the Policy are voluntary programs, that you have chosen to accept such Incentive-Based Compensation understanding that such Incentive-Based Compensation are subject to forfeiture and recoupment as set forth in the Policy, and that you specifically agree to such forfeiture and recoupment. If you do not wish to accept any future Incentive-Based Compensation subject to the Policy or to otherwise agree to the terms of the Policy, you must notify in writing ☐ in [Human Resources] within 10 days after receiving notice of a grant of Incentive-Based Compensation that you are rejecting such grant.

If you have any questions about the Policy, please contact me.

Very truly yours,

[Company representative name]

[Title]

Acknowledged and agreed:

[Covered Executive name]

Date: _____

6

Exhibit 99.1

AMENDED AND RESTATED THIRD AMENDMENT TO CREDIT AND GUARANTY AGREEMENT

THIS AMENDED AND RESTATED THIRD AMENDMENT TO CREDIT AND GUARANTY AGREEMENT (this "**A&R Amendment**") is dated as of August 23, 2021 and is entered into by and among, on the one hand, the lenders identified on the signature pages hereof (the "**Lenders**") which Lenders constitutes the Required Lenders under the Credit Agreement, Cortland Capital Market Services LLC, as the administrative agent for the Lenders (in such capacity, together with its successors and permitted assigns in such capacity, "**Administrative Agent**") and as the collateral agent for the Secured Parties (in such capacity, together with its successors and permitted assigns in such capacity, "**Collateral Agent**") and, together with the Administrative Agent, the "**Agents**"), and, on the other hand, Lument Finance Trust, Inc. (formerly known as Hunt Companies Finance Trust, Inc.), a Maryland corporation ("**Borrower**"), and is made with reference to that certain Credit and Guaranty Agreement, dated January 15, 2019 (as amended by that certain First Amendment to Credit and Guaranty Agreement, dated as of February 13, 2019, and by that certain Second Amendment to Credit and Guaranty Agreement, dated as of July 9, 2020, and as further amended, restated, supplemented, waived or otherwise modified from time to time prior to the date hereof, the "**Credit Agreement**"), by and among the Borrower, the Guarantors, the lenders and the other persons party thereto. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement after giving effect to this A&R Amendment (the "**Amended Agreement**").

RECITALS

WHEREAS, pursuant to **Section 11.2** of the Credit Agreement, the Borrower, the Administrative Agent and the Lenders party hereto, which constitute the Required Lenders, wish to amend the Credit Agreement on the terms and subject to the conditions set forth in the Original Amendment (as defined below);

WHEREAS, the Borrower, the Guarantors, Administrative Agent, the Collateral Agent and certain Lenders constituting the Required Lenders executed that certain Third Amendment to Credit and Guaranty Agreement dated as of April 21, 2021 and entered into the letter agreement related thereto dated May 5, 2021 (collectively, the "Original Amendment"; as amended and restated by this A&R Amendment, collectively, this "**Amendment**"); and

WHEREAS, the Borrower and the Lenders party to the Original Amendment desire to add an additional Lender as a Lender party to the Credit Agreement and amend and restate the Original Amendment on the terms and conditions hereof, which additional Lender is a signatory hereto.

WHEREAS, it is understood and agreed that the First Incremental Term Loans are being funded pursuant to the terms and conditions of an escrow agreement (the "**Escrow Agreement**") with Wells Fargo Bank, National Association as escrow agent ("**Escrow Agent**") being funded on the First Incremental Term Loans Funding Date as contemplated by this Amendment,

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION I. AMENDMENTS TO CREDIT AGREEMENT

A. The following definitions are hereby added to Section 1.1 of the Credit Agreement in their appropriate places in alphabetical order:

“First Incremental Term Loans” has the meaning set forth in the Amended and Restated Third Amendment to this Agreement dated as of August 23, 2021.”

“Third Amendment Effective Date” has the meaning set forth in the Amended and Restated Third Amendment to this Agreement dated as of August 23, 2021.”

B. The definition of “Anticipated Repayment Date” is hereby amended and restated in its entirety as follows:

“Anticipated Repayment Date” means February 14, 2025.”

C. Subclauses (i) and (vi) of clause (b) of the definition of “Borrowing Base Eligibility Criteria” are hereby amended and restated as follows:

“(i) no more than 10% of the Borrowing Base Eligible Assets (by Assigned Value) shall be secured by non-mall retail properties;”

“(vi) no more than 15% of the Borrowing Base Eligible Assets (by Assigned Value) shall constitute student housing, assisted living and other health care assets;”

D. The definition of “Term Loan Maturity Date” is hereby amended and restated in its entirety as follows:

“Term Loan Maturity Date” means (a) with respect to the Initial Term Loans and the First Incremental Term Loans, the Maturity Date and (b) with respect to any other Incremental Term Loans, the final maturity date as specified in the applicable Incremental Amendment; provided that, if any such day is not a Business Day, the applicable Term Loan Maturity Date shall be the Business Day immediately succeeding such day.”

E. The definition of “Yield Maintenance Date” is hereby amended and restated in its entirety as follows:

“Yield Maintenance Date” means February 14, 2024.”

F. The definition of “Yield Maintenance Premium” is hereby amended by adding the following additional proviso at the end of the first sentence of such definition:

“; provided, however, that the Yield Maintenance Premium with respect to any Loan prepaid on or after February 14, 2023 and prior to the Yield Maintenance Date shall be 2.5% of the principal amount of the Loans so prepaid.”

G. Section 2.8(a) of the Credit Agreement is amended by adding the following sentence at the end thereof:

“For the avoidance of doubt, no Yield Maintenance Premium or other premium or penalty shall be payable in connection with any prepayment of the Loans, in whole or in part, made on or after February 14, 2024.”

H. Section 2.17(b) of the Credit Agreement is amended and restated in its entirety as follows:

2

“(b) Except for prepayments contemplated by Section 2.8(d)(y), each repayment by the Borrower in respect of principal or interest on the Initial Term Loans and the First Incremental Term Loans and each payment in respect of fees or expenses payable hereunder shall be applied to the amounts of such obligations owing to the Lenders entitled thereto in accordance with their respective Pro Rata Share. Each voluntary prepayment by the Borrower of Initial Term Loans and the First Incremental Term Loans shall be applied to the amounts of such obligations owing to the Lenders in accordance with their respective Pro Rata Share (unless such payment is made in accordance with Section 9.1(f), in which case it shall be made in accordance with such Section).”

I. Section 3.3 of the Credit Agreement is amended and restated in its entirety as follows:

“3.3 Maturity Date.

(a) This Agreement shall continue in full force and effect for a term ending on the earlier of (the “Maturity Date”): (a) February 14, 2026 and (b) such earlier date on which the Loans shall become due and payable in accordance with the terms of this Agreement and the other Loan Documents.”

J. Section 6.12 of the Credit Agreement is amended and restated in its entirety as follows:

“6.12 Financial Covenants. The Borrower shall not:

(a) **Minimum Asset Coverage Ratio.** Permit the Asset Coverage Ratio on the last day of each Test Period ending after the Third Amendment Effective Date, to be less than 150%.

(b) **Minimum Unencumbered Asset Ratio.** Permit the Unencumbered Asset Ratio on the last day of each Test Period ending after the Third Amendment Effective Date, to be less than 170%.

(c) **Maximum Total Net Leverage Ratio.** Permit the Total Net Leverage Ratio on the last day of each Test Period ending after the Third Amendment Effective Date, to exceed 6.00:1.00; provided that, after any equity offering of the Borrower following the preferred stock offering consummated on the Third Amendment Effective Date, the Total Net Leverage Ratio shall step down to a ratio no greater than 120% of the ratio immediately after the Capital Event, with a floor of 4.50:1.00.

(d) **Minimum Tangible Net Worth.** Permit the Tangible Net Worth on the last day of each Test Period ending after the Third Amendment Effective Date, to be less than the amount equal to the sum of (i) eighty percent (80%) of the Borrower's and its Subsidiaries' Tangible Net Worth as of the Third Amendment Effective Date plus (ii) eighty percent (80%) of the net proceeds (after deducting transaction costs) that the Borrower and its Subsidiaries receive from subsequent equity issuances following the Third Amendment Effective Date.

(e) **Minimum Interest Coverage Ratio.** Commencing with the fiscal quarter ending March 31, 2019, permit the Interest Coverage Ratio on the last day of each Test Period ending after the Third Amendment Effective Date, to be less than 1.6x.

(f) **Loan Concentration.**

3

(i) Permit less than 65.0% of loans held for investment (as defined in the consolidated balance sheet of the Borrower) by the Borrower to be comprised of Senior Commercial Real Estate Loans, as measured by the average daily outstanding principal balance of all loans held for investment (as defined in the consolidated balance sheet of the Borrower) during a fiscal quarter and as adjusted for non-controlling interests for which none of the Borrower or its Affiliates or the Borrower's external manager or its Affiliates holds majority lender status or similar voting control for the subject loan.

(ii) Permit more than 25% of total assets (by unpaid principal balance or if unpaid principal balance is not available, by book value (which in the case of MSRs, shall be the value provided by the Valuation Agent) owned by the Borrower to be comprised of non-multi-family assets during a fiscal quarter.

(iii) Permit more than 25% of the Borrowing Base Eligible Assets (by unpaid principal balance or if unpaid principal balance is not available, by book value (which in the case of MSRs, shall be the value provided by the Valuation Agent) to be comprised of non-multi-family assets during a fiscal quarter.”

K. Exhibit P-1 to the Credit Agreement is amended and restated in its entirety in the form attached to this A&R Amendment as Exhibit P-1.

SECTION II.FIRST INCREMENTAL TERM LOANS

Each Lender agrees, severally and not jointly, to make on August 23, 2021 (the “First Incremental Term Loans Funding Date”) an Incremental Term Loan to the Borrower in the principal amount set forth on Schedule II hereto for such Lender (the “First Incremental Term Loans”). The First Incremental Term Loans shall constitute Loans under the Credit Agreement as amended by this A&R Amendment and shall have the same terms as to interest rate, repayments and prepayments as do the Initial Term Loans under the Credit Agreement as amended by this A&R Amendment. The Incremental Facility Closing Date for the First Incremental Term Loans shall be the First Incremental Term Loans Funding Date, and accordingly, the conditions precedent to the making of the First Incremental Term Loans are set forth in Section III (in lieu of the conditions set forth in Section 2.15(d) of the Credit Agreement). This A&R Amendment constitutes the Incremental Amendment for the First Incremental Term Loans. In addition, the Borrower, the Guarantors, the Lenders and the Agents agree that Variable Portfolio – Partners Core Bond Fund (the “New Lender”) is party to the Credit Agreement as amended by this A&R Amendment as a Lender.

The New Lender: (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this A&R Amendment and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) Reserved, (iii) from and after the Third Amendment Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of its share of the First Incremental Term Loans, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to lend its share of the First Incremental Term Loans and either it, or the Person exercising discretion in making its decision to lend its share of the First Incremental Term Loans, is experienced in making loans of such type, (v) it has received a copy of the Credit Agreement, and has received or has been accorded the opportunity to receive copies of the most recent financial statements delivered pursuant to Section 5.2 thereof and such other documents and information as it deems appropriate to make its own credit analysis and decision to enter into this A&R Amendment and to lend its share of the First Incremental Term Loans, (vi) it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this A&R Amendment and to lend its share of the

4

First Incremental Term Loans, and (vii) it has delivered to Administrative Agent all documentation and other information required by regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations, including, without limitation, the PATRIOT Act, and (viii) if it is a foreign Lender it has delivered to Administrative Agent any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by such New Lender; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

Unless Borrower has notified the Administrative Agent in writing (which notification may be by email) by not later than 5:00 p.m. (New York City time) on August 23, 2021 that it has not received the First Incremental Term Loans, Administrative Agent shall deem the First Incremental Term Loans funded and make the appropriate recordings in the Register only after confirmation of allocations by the Lenders.

SECTION III. CONDITIONS TO EFFECTIVENESS

This Original Amendment became effective on May 5, 2021 upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the “Third Amendment Effective Date”):

A. Executed Counterparts. The Agents shall have received the Original Amendment and this A&R Amendment, duly executed and delivered by each party thereto;

B. Fees and Expenses. The Borrower shall have paid to each Lender an amendment fee in the amount of 0.25% of the outstanding principal amount of such Lender’s Loans on the Third Amendment Effective Date (not including the First Incremental Term Loans being made on the Third Amendment Effective Date) and the Borrower shall have paid all Lender Group Expenses, including payment of any legal fees for counsel to Lenders and the Administrative Agent, incurred in connection with the transactions evidenced by this Amendment for which the Borrower received an invoice at least one (1) Business Day prior to the Third Amendment Effective Date;

C. Representations and Warranties. The representations and warranties of the Borrower contained in the Original Amendment and the other Loan Documents shall be true and correct on the Third Amendment Effective Date in all material respects (except that such materiality qualifier shall not be applicable to any representation or warranty to the extent that such representation or warranty is qualified or modified by materiality) on and as of the Third Amendment Effective Date as though made on and as of such date (except to the extent that such representations and warranties solely relate to an earlier date);

D. No Event of Default or Default. No Event of Default or Default shall have occurred and be continuing on the Third Amendment Effective Date, nor shall either result from the effectiveness of the Original Amendment on the Third Amendment Effective Date, the borrowing of the First Incremental Term Loans or the consummation of the other transactions contemplated by this Amendment; and the Borrower is in compliance with all the financial covenants set forth in Section 6.12 of the Amended Agreement before and after giving effect to the First Incremental Term Loans;

5

E. Preferred Stock Offering. The preferred stock offering of the Borrower contemplated by the Form S-11 filing of the Borrower made with the SEC on March 29, 2021 shall have been consummated; and

F. Amendment Closing Deliveries. The Agents shall have received customary legal opinions and officers' certificates reasonably requested by the Agents.

SECTION IV. REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants to the Administrative Agent, the Collateral Agent and the Lenders that all of the representations and warranties of the Borrowers set forth in each of the Amended Agreement and the other Loan Documents are true and correct in all material respects (or in all respects to the extent such representation or warranty is limited by materiality except that such materiality qualifier shall not be applicable to any representation or warranty to the extent that such representation or warranty is qualified or modified by materiality) as of the Third Amendment Effective Date (except to the extent that such representations and warranties solely relate to an earlier date).

SECTION V. MISCELLANEOUS

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

(i) This Amendment shall constitute a Loan Document for purposes of each of the Credit Agreement, this Amendment and the other Loan Documents and on and after the Third Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Administrative Agent, the Collateral Agent, the Lenders or any other secured party under the Credit Agreement or any of the other Loan Documents.

(iv) As of the date hereof, this A&R Amendment shall amend, restate and supersede the Original Amendment in its entirety, except as otherwise provided herein. The rights and obligations of the parties evidenced by the Original Amendment shall be evidenced by this A&R Amendment.

B. Reaffirmation.

(i) The Borrower hereby (a) agrees that, notwithstanding the occurrence of the Third Amendment Effective Date, each of the guarantees, the Security Agreement and each of the Negative Pledge Agreement and the Borrower DACA continue to be in full force and effect and are not impaired or adversely affected in any manner whatsoever, (b) confirms its guarantee of the Obligations and its grant of a security interest in its

assets as Collateral therefor, all as provided in the Loan Documents as originally executed and (c) acknowledges that such guarantee and grant continues in full force and effect in respect of, and to secure, the Obligations under the Amended Agreement and the other Loan Documents.

6

(ii) The Guarantors hereby (a) agree that, notwithstanding the occurrence of the Third Amendment Effective Date, each of the guarantees, the Security Agreement and each of the Negative Pledge Agreement and the Mezz DACAs continue to be in full force and effect and are not impaired or adversely affected in any manner whatsoever, (b) confirms its guarantee of the Obligations and its grant of a security interest in its assets as Collateral therefor, all as provided in the Loan Documents as originally executed and (c) acknowledges that such guarantee and grant continues in full force and effect in respect of, and to secure, the Obligations under the Amended Agreement and the other Loan Documents.

C. Headings. Section headings used in this Amendment are for convenience of reference only and are not to affect the construction hereof or to be taken in consideration in the interpretation hereof.

D. GOVERNING LAW. EXCEPT AS SPECIFICALLY SET FORTH IN ANY OTHER LOAN DOCUMENT: (A) THIS AMENDMENT SHALL BE DEEMED TO HAVE BEEN MADE IN THE STATE OF NEW YORK; AND (B) THE VALIDITY OF THIS AMENDMENT, AND THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.

E. JURISDICTION AND VENUE. TO THE EXTENT THEY MAY LEGALLY DO SO, THE PARTIES HERETO AGREE THAT ALL ACTIONS, SUITS, OR PROCEEDINGS ARISING BETWEEN ANY MEMBER OF THE LENDER GROUP OR THE BORROWER AND ITS SUBSIDIARIES IN CONNECTION WITH THIS AMENDMENT SHALL BE TRIED AND LITIGATED ONLY IN THE STATE OR FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK; PROVIDED HOWEVER THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT AT ANY AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE ANY AGENT ELECTS TO BRING SUCH ACTION TO THE EXTENT SUCH COURTS HAVE IN PERSONAM JURISDICTION OVER THE RELEVANT OBLIGOR OR IN REM JURISDICTION OVER SUCH COLLATERAL OR OTHER PROPERTY. THE BORROWER AND ITS SUBSIDIARIES AND EACH MEMBER OF THE LENDER GROUP, TO THE EXTENT THEY MAY LEGALLY DO SO, HEREBY WAIVE ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION AND STIPULATE THAT THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK SHALL HAVE IN PERSONAM JURISDICTION AND VENUE OVER SUCH PERSON FOR THE PURPOSE OF LITIGATING ANY SUCH DISPUTE, CONTROVERSY, OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AMENDMENT. TO THE EXTENT PERMITTED BY LAW, SERVICE OF PROCESS SUFFICIENT FOR PERSONAL JURISDICTION IN ANY ACTION AGAINST BORROWER OR ANY MEMBER OF THE LENDER GROUP MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO ITS ADDRESS INDICATED ON EXHIBIT 11.3 OF THE INDENTURE.

F. WAIVER OF TRIAL BY JURY. THE BORROWER AND ITS SUBSIDIARIES AND EACH MEMBER OF THE LENDER GROUP, TO THE EXTENT THEY MAY LEGALLY DO SO, HEREBY EXPRESSLY WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR PROCEEDING ARISING UNDER OR WITH RESPECT TO THIS AMENDMENT, OR IN ANY WAY CONNECTED WITH, OR RELATED TO, OR INCIDENTAL TO, THE

7

DEALINGS OF THE PARTIES HERETO WITH RESPECT TO THIS AMENDMENT, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND IRRESPECTIVE OF WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE. TO THE EXTENT THEY MAY LEGALLY DO SO, THE BORROWER AND ITS SUBSIDIARIES AND EACH MEMBER OF THE LENDER GROUP HEREBY AGREE THAT ANY SUCH CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR PROCEEDING SHALL BE DECIDED BY A COURT TRIAL WITHOUT A JURY AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE OTHER PARTY OR PARTIES HERETO TO WAIVER OF ITS OR THEIR RIGHT TO TRIAL BY JURY.

G. Severability. Any provision of this Amendment that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

H. Counterparts; Electronic Execution.

(i) This A&R Amendment may be executed by one or more of the parties to this A&R Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this A&R Amendment or any document or instrument delivered in connection herewith by facsimile transmission or electronic image scan transmission (e.g., PDF) shall be effective as delivery of a manually executed counterpart of this A&R Amendment or such other document or instrument, as applicable.

(ii) The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

[Remainder of Page Intentionally Blank; Signature Pages Follow]

8

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

LUMENT FINANCE TRUST, INC., a Maryland corporation, as Borrower

By: /s/ James A. Briggs
Name: James A. Briggs
Title: Chief Financial Officer

FIVE OAKS ACQUISITION CORP., a Delaware corporation, as Guarantor

By: /s/ James A. Briggs
Name: James A. Briggs
Title: Chief Financial Officer

HUNT CMT EQUITY, LLC, a Delaware limited liability company, as Guarantor

By: /s/ James A. Briggs
Name: James A. Briggs
Title: Chief financial Officer

CORTLAND CAPITAL MARKET SERVICES LLC, as Administrative Agent and Collateral Agent

By: /s/ Matthew Trybula

Name: Matthew Trybula

Title: Associate Counsel

LENDERS:

JPMORGAN GLOBAL BOND OPPORTUNITIES FUND

By: **J.P. Morgan Investment Management Inc., its Investor Advisor**

By: /s/ Kent R. Weber

Name: Kent R. Weber

Title: Managing Director

JPMORGAN INCOME FUND

By: **J.P. Morgan Investment Management Inc., its Investor Advisor**

By: /s/ Kent R. Weber

Name: Kent R. Weber

Title: Managing Director

JPMORGAN CORE PLUS BOND FUND

By: **J.P. Morgan Investment Management Inc., its Investor Advisor**

By: /s/ Kent R. Weber

Name: Kent R. Weber

Title: Managing Director

COMMINGLED PENSION TRUST FUND (CORE PLUS BOND) OF JPMORGAN CHASE BANK, N.A.

By: J.P. Morgan Investment Management Inc., its Investor Advisor

By: /s/ Kent R. Weber
Name: Kent R. Weber
Title: Managing Director

VARIABLE PORTFOLIO - PARTNERS CORE BOND FUND, A SERIES OF COLUMBIA FUNDS
VARIABLE SERIES TRUST II

By: J.P. Morgan Investment Management Inc., its Investor Advisor

S-3 Amended and Restated Third Amendment Signature Page

By: /s/ Kent R. Weber
Name: Kent R. Weber
Title: Managing Director

S-4 Amended and Restated Third Amendment Signature Page

SCHEDULE II

Lender	First Incremental Term Loan
JPMorgan Global Bond Opportunities Fund	\$0
JPMorgan Income Fund	\$5,000,000.00
JPMorgan Core Plus Bond Fund	\$0
Commingled Pension Trust Fund (Core Plus Bond) of JPMorgan Chase Bank, N.A.	\$0
Variable Portfolio - Partners Core Bond Fund, a series of Columbia Funds Variable Series Trust II	\$2,500,000.00
Total	\$7,500,000.00

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