NEW YORK MORTGAGE TRUST INC
Form 10-K
February 25, 2016

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

FORM 10-K

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the Fiscal Year Ended December 31, 2015
¨	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 001-32216
NEW YORK MORTGAGE TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	47-0934168 (I.R.S. Employer Identification No.)

275 Madison Avenue, New York, NY 10016
(Address of principal executive office) (Zip Code)
(212) 792-0107
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	NASDAQ Stock Market
7.75% Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share, $25.00 Liquidation Preference	NASDAQ Stock Market
7.875% Series C Cumulative Redeemable Preferred Stock, par value $0.01 per share, $25.00 Liquidation Preference	NASDAQ Stock Market

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

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

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

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2015 was $813,215,764.

The number of shares of the registrant's common stock, par value $.01 per share, outstanding on February 24, 2016 was 109,360,208.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
1. Portions of the Registrant's Definitive Proxy Statement relating to its 2016 Annual Meeting of Stockholders scheduled for May 2016 to be filed with the Securities and Exchange Commission by no later than April 29, 2016.	Part III, Items 10-14

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NEW YORK MORTGAGE TRUST, INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2015

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PART I

Item 1. BUSINESS

In this Annual Report on Form 10-K we refer to New York Mortgage Trust, Inc., together with its consolidated subsidiaries, as “we,” “us,” “Company,” or “our,” unless we specifically state otherwise or the context indicates otherwise. We refer to our wholly-owned taxable REIT subsidiaries as “TRSs” and our wholly-owned qualified REIT subsidiaries as “QRSs.” In addition, the following defines certain of the commonly used terms in this report: “RMBS” refers to residential mortgage-backed securities comprised of adjustable-rate, hybrid adjustable-rate, fixed-rate, interest only and inverse interest only, and principal only securities; “Agency RMBS” refers to RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by a federally chartered corporation (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. government, such as the Government National Mortgage Association (“Ginnie Mae”); “Agency ARMs” refers to Agency RMBS comprised of adjustable-rate and hybrid adjustable-rate RMBS; “non-Agency RMBS” refers to RMBS backed by prime jumbo and Alternative A-paper (“Alt-A”) residential mortgage loans; “IOs” refers collectively to interest only and inverse interest only mortgage-backed securities that represent the right to the interest component of the cash flow from a pool of mortgage loans; “Agency IOs” refers to IOs that represent the right to the interest components of the cash flow from a pool of residential mortgage loans issued or guaranteed by a GSE or an agency of the U.S. government; “POs” refers to mortgage-backed securities that represent the right to the principal component of the cash flow from a pool of mortgage loans; “ARMs” refers to adjustable-rate residential mortgage loans; “prime ARM loans” and “residential securitized loans” each refer to prime credit quality residential ARM loans (“prime ARM loans”) held in securitization trusts; “distressed residential loans” refers to pools of performing and re-performing, fixed-rate and adjustable-rate, fully amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties; “CMBS” refers to commercial mortgage-backed securities comprised of commercial mortgage pass-through securities, as well as IO or PO securities that represent the right to a specific component of the cash flow from a pool of commercial mortgage loans; “multi-family CMBS” refers to CMBS backed by commercial mortgage loans on multi-family properties; “CDOs” refers to collateralized debt obligations; “CLO” refers to collateralized loan obligation; “Consolidated K-Series” refers to, as of December 31, 2015, five separate Freddie Mac- sponsored multi-family loan K-Series securitizations, or, as of December 31, 2014, six separate Freddie Mac-sponsored multi-family loan K-Series securitizations of which we, or one of our "special purpose entities," or "SPEs," own the first loss PO securities and certain IO securities; “Variable Interest Entity" or "VIE” refers to an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties; and “Consolidated VIEs” refers to VIEs where the Company is the primary beneficiary, as it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE.

General

We are a real estate investment trust, or REIT, for federal income tax purposes, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and financial assets. Our objective is to deliver long-term stable distributions to our stockholders over changing economic conditions through a combination of net interest margin and net realized capital gains from a diversified investment portfolio. Our portfolio includes credit sensitive assets and investments sourced from distressed markets in recent years that create the potential for capital gains, as well as more traditional types of mortgage-related investments that generate interest income.

Our investment portfolio includes residential mortgage loans, including second mortgages and loans sourced from distressed markets, multi-family CMBS, mezzanine loans to and preferred equity investments in owners of multi-family properties, equity and debt securities issued by entities that invest in residential and commercial real estate and commercial real estate-related debt investments, and Agency RMBS. Subject to maintaining our qualification as a REIT, we also may opportunistically acquire and manage various other types of mortgage-related and financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, non-Agency RMBS (which may include IOs and POs), collateralized mortgage obligations and securities issued by newly originated residential securitizations, including credit sensitive securities from these securitizations.

We seek to achieve a balanced and diverse funding mix to finance our assets and operations. We currently rely primarily on a combination of short-term borrowings, such as repurchase agreements with terms typically of 30 days, longer term repurchase agreement borrowing with terms between one year and 18 months and longer term structured financings, such as securitizations with terms longer than one year.

We internally manage a certain portion of our portfolio, including Agency ARMs, Agency fixed-rate RMBS, non-Agency RMBS, CLOs, residential securitized loans and second mortgage loans. In addition, as part of our investment strategy, we also contract with certain external investment managers to manage specific asset types targeted by us. We are a party to separate investment management agreements with Headlands Asset Management, LLC, or Headlands, RiverBanc, LLC, or RiverBanc, and The Midway Group, L.P., or Midway, with Headlands providing investment management services with respect to our investments in certain distressed residential loans, RiverBanc providing investment management services with respect to our investments in multi-family CMBS and certain commercial real estate-related debt investments, and Midway providing investment management services with respect to our investments in Agency IOs.

We have elected to be taxed as a REIT for federal income tax purposes and have complied, and intend to continue to comply, with the provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), with respect thereto. Accordingly, we do not expect to be subject to federal income tax on our REIT taxable income that we currently distribute to our stockholders if certain asset, income, distribution and ownership tests and recordkeeping requirements are fulfilled. Even if we maintain our qualification as a REIT, we expect to be subject to some federal, state and local taxes on our income generated in our TRSs.

The financial information requirements required under this Item 1 may be found in our consolidated financial statements beginning on page F-1 of this Annual Report.

Our Investment Strategy

Our strategy is to construct a residential portfolio that includes elements of both interest rate and credit risk. Our investment strategy focuses on the acquisition and management of (i) "credit residential" assets, which we define as residential mortgage loans, including distressed residential loans and second mortgage loans, multi-family investments, including CMBS, mezzanine loans to and preferred equity investments in owners of multi-family properties and equity and debt securities issued by entities that invest in commercial real estate and commercial real estate-related debt investments, (ii) leveraged Agency RMBS, which may include Agency ARMs, Agency fixed-rate and Agency IOs and (iii) the opportunistic acquisition of other types of mortgage-related and financial assets that meet our investment criteria.

Prior to deploying capital to any of our targeted asset classes or determining to dispose of any of our investments, our management team will consider, among other things, the amount and nature of anticipated cash flows from the asset, our ability to finance or borrow against the asset and the terms of such financing, the related capital requirements, the credit risk related to the asset or the underlying collateral and future general market conditions. Consistent with our strategy to produce returns through a combination of net interest margin and net realized capital gains, we will seek, from time to time, to sell certain assets within our portfolio when we believe the combination of realized gains on an asset and reinvestment potential for the related sale proceeds are consistent with our long-term return objectives.

Our investment strategy does not, subject to our continued compliance with applicable REIT tax requirements and the maintenance of our exclusion from the Investment Company Act of 1940, as amended (the "Investment Company Act"), limit the amount of our capital that may be invested in any of these investments or in any particular class or type of assets. Thus, our future investments may include asset types different from the targeted or other assets described in this Annual Report. The investment and capital allocation decisions of our company and our external managers depend on prevailing market conditions, among other factors, and may change over time in response to opportunities available in different economic and capital market environments. As a result, we cannot predict the percentage of our capital that will be invested in any particular investment at any given time.

For more information regarding our portfolio as of December 31, 2015, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

Investments in Credit Residential Assets

We seek to identify credit sensitive assets, primarily relating to residential housing, including multi-family housing, from which we can extract value through a combination of current yield and/or capital appreciation. Our portfolio of credit residential assets is currently comprised of residential mortgage loans, including distressed residential loans and second mortgage loans, multi-family CMBS, mezzanine loans to and preferred equity investments in owners of multi-family properties and equity and debt securities issued by entities that invest in residential and commercial real estate and commercial real estate-related debt investments. Our portfolio also includes distressed residential mortgage loans held in securitization trusts and prime ARM loans held in securitization trusts (which we refer to as residential securitized loans).

During the years ended December 31, 2015 and 2014, we acquired multiple pools of distressed residential mortgage loans having an estimated aggregate market value of approximately $152.2 million and $400.9 million, respectively, at the time of their respective acquisitions. These distressed residential mortgage loans consist of performing and re-performing, fixed- and adjustable-rate, fully-amortizing, interest-only and balloon, seasoned mortgage loans secured by first liens on one- to four-family properties. The loans were purchased at a discount to the aggregate principal amount outstanding, which we believe will provide us with adequate credit protection and an opportunity to modify and sell the loan and achieve an attractive yield. Our distressed residential mortgage loans are sourced and managed by Headlands.

During the third quarter of 2015, we announced the expansion of our credit residential strategy through investments in targeted newly originated second lien mortgages, or "second mortgages". Pursuant to our second mortgage program, we have established relationships with mortgage originators that will underwrite the second mortgages to guidelines established by us. These guidelines should lead to the origination of a mortgage that will be a qualified mortgage as defined by the Consumer Finance Protection Bureau. We intend to purchase from these originators the closed second mortgages that meet our underwriting guidelines and have gone through our due diligence procedures. We intend to continue to accumulate second mortgage loans pursuant to flow sale and purchase agreements with our current partners and we intend to pursue new relationships with additional partners in the future. We believe this program will provide us with an attractive way to expand our portfolio with credit assets that should generate attractive risk-adjusted returns by targeting higher credit-quality borrowers that we believe are currently underserved by large financial institutions.

Our portfolio of multi-family CMBS is comprised of (i) fixed rate PO securities issued from the first loss tranche, or “first loss,” of certain multi-family K-series securitizations sponsored by Freddie Mac and (ii) certain IO securities issued by these securitizations. Our investments in these privately placed first loss PO securities generally represent approximately 7.5% of the overall securitization which typically totals approximately $1.0 billion in multi-family residential loans consisting of 70 to 100 individual properties diversified across a wide geographic footprint. These first loss securities are typically backed by balloon non-recourse mortgage loans that provide for the payment of principal at maturity date, which is typically seven to ten years. Moreover, each first loss tranche of multi-family CMBS in our portfolio is, in most cases, the most junior tranche of security issued by the securitization, meaning it will absorb all losses in the securitization prior to other more senior tranches being exposed to loss. As a result, each of the first loss securities in our portfolio has been purchased, upon completion of a credit analysis and due diligence by our external manager and after consultation with and approval of our senior management, at a significant discount to its then-current par value, which we believe provides us with adequate protection against projected losses. In addition, as the owner of the first loss tranche, the Company, through RiverBanc, has the right to participate in the workout of any distressed property in the securitization. We believe this right will allow the Company to mitigate or reduce any possible loss associated with the distressed property. The Company also invests in IO securities from a number of the same multi-family securitizations from which we acquired our first loss PO investments. These IO securities are stripped off the entire securitization allowing the Company to receive cashflows over the life of the multi-family loans backing the securitization. These investments range from 10 to 17 basis points and the underlying notional amount approximates $1.0 billion each. We may in the future invest in more senior tranches of multi-family CMBS, which may include some form of leverage, if we believe the risk-adjusted returns for such assets are attractive. In addition, we may acquire multi-family CMBS from private originators of, or investors in, mortgage loans, including non-financial institutions and other entities. With respect to the multi-family CMBS owned by us, all of the loans that back the respective securitizations have been underwritten in accordance with Freddie Mac underwriting guidelines and standards; however, the multi-family securities we own are not guaranteed by Freddie Mac.

We invest in other commercial real estate-related investments, such as the origination or acquisition of mezzanine loans to and preferred equity investments in owners of multi-family properties, with a primary focus on conventional apartments, cooperative housing associations, student housing and other related property types in increments as low as $1 million secured by properties valued at $10 million or greater. A mezzanine loan is a loan made to a property owner that is subordinate to mortgage debt and is typically secured by a pledge of the borrower's ownership interests in the property and/or direct or indirect entities that own the property. A preferred equity investment typically takes the form of an equity investment in the special purpose entity ("SPE") that owns the property and is structured such that the preferred equity investor will receive cash distributions from the SPE in seniority to a more junior class of equity. These preferred equity interests may be subordinate to other forms of mortgage or property-level debt. We also may participate in structured investments such as the acquisition of seasoned or distressed commercial loan portfolios.

We also invest in equity and debt securities of entities that invest in residential and commercial real estate and commercial real estate-related debt investments focused on multi-family properties. For example, as of December 31, 2015, we own a $56.9 million investment in RB Multifamily Investors LLC ("RBMI"), a fund that is managed by RiverBanc and owns preferred equity and joint venture investments in, and mezzanine loans secured by, an aggregate of ten multi-family apartment properties. Included in our total investment in RBMI are preferred equity interests amounting to approximately $41.5 million as of December 31, 2015, with the balance represented by common equity interests.

The prime ARM loans held in securitization trusts, which we refer to as “residential mortgage loans held in securitization trusts” in our consolidated financial statements, are loans that primarily were originated by our discontinued mortgage lending business, and to a lesser extent purchased from third parties, that we securitized in 2005. These loans are substantially prime, full documentation, hybrid ARMs on residential properties and are all first lien mortgages. We maintain the ownership trust certificates, or equity, of these securitizations, which includes rights to excess interest, if any, and also take an active role in managing delinquencies and default risk related to the loans.

Investments in Agency RMBS

Our Agency RMBS consist of Agency ARMs, Agency fixed-rate RMBS and Agency IOs. Our Agency ARMs and Agency fixed-rate RMBS portfolios are managed by us, our Agency IO portfolio is managed by Midway. Our Agency ARMs consist of pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, and are backed by ARMs or hybrid ARMs. Our current portfolio of Agency ARMs has interest reset periods ranging from 30 years to less than three months.

Our Agency fixed-rate RMBS portfolio consists of pass-through certificates, the principal and interest of which are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, which are primarily backed by 15-year residential fixed rate mortgage loans with lesser amounts invested in 20-year residential fixed-rate mortgage loans. The majority of these securities have coupons ranging from 2.5% to 3.5%.

Agency IOs are securities that represent the right to receive the interest portion of the cash flow from a pool of mortgage loans issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Agency IOs allow us to make a direct investment in borrower prepayment trends; however, Agency IOs introduce increased risk due to price sensitivity as these securities have no underlying principal cash flows, which will cause them to underperform in high prepayment environments as future interest payments will be reduced as a direct result of prepayments. In a rising interest rate environment, the value of an Agency IO generally tends to increase as their expected average life increases and prepayments decrease. Our investments in Agency IOs and related hedging and borrowing activities are managed by Midway. We sometimes refer to these investments and related hedging and borrowing activities as our Agency IO strategy or our Agency IO portfolio.

It should be noted that the guarantee provided by the GSEs on Agency RMBS issued by them does not protect us from prepayment risk. In addition, our Agency RMBS (including Agency IOs) are at risk to new or modified government-sponsored homeowner stimulus programs that may induce unpredictable and excessively high prepayment speeds resulting in accelerated premium amortization and reduced net interest margin, both of which could materially adversely affect our business, financial condition and results of operations.

Our Financing Strategy

We strive to maintain and achieve a balanced and diverse funding mix to finance our assets and operations. To achieve this, we rely primarily on a combination of short-term and longer-term repurchase agreement borrowings and structured financings, including securitized debt, CDOs and long term subordinated debt. The Company's policy for leverage is based on the type of asset, underlying collateral and overall market conditions, with the intent of obtaining more permanent, longer-term financing for our more illiquid assets, such as our credit sensitive first loss tranche multi-family CMBS and distressed residential loans. Currently, we target maximum leverage ratios for callable or short-term financings of 8 to 1, in the case of Agency RMBS (other than Agency IOs), and 2 to 1, in the case of Agency IOs. We may utilize short term financing on other asset classes with leverage ratios driven by the nature of the underlying asset as well as current market conditions.

As of December 31, 2015, our overall leverage ratio, including our short-term financings, such as repurchase agreements, and longer-term financings, such as securitized debt and subordinated debt (excluding the CDOs issued by the Consolidated K-Series and our residential CDOs), divided by stockholders' equity, was approximately 1.1 to 1. Our leverage ratio on our short term financings or callable debt was approximately 0.9 to 1. In each case, there may be occasional short-term increases or decreases in the amount of leverage used due to significant market events, and we may change our leverage strategy at any time. We monitor all at risk or short term borrowings to ensure that we have adequate liquidity to satisfy margin calls and liquidity covenant requirements.

We primarily rely on short-term repurchase agreements to fund our Agency RMBS portfolio. These repurchase agreements provide us with short-term borrowings (typically 30 days) that bear interest rates that are linked to the London Interbank Offered Rate ("LIBOR"), a short term market interest rate used to determine short term loan rates. Pursuant to these repurchase agreements, the financial institution that serves as a counterparty will generally agree to provide us with financing based on the market value of the securities that we pledge as collateral, less a "haircut." The market value of the collateral represents the price of such collateral obtained from generally recognized sources or most recent closing bid quotation from such source plus accrued income. Our repurchase agreements may require us to deposit additional collateral pursuant to a margin call if the market value of our pledged collateral declines as a result of market conditions or due to principal repayments on the mortgages underlying our pledged securities. Interest rates and haircuts will depend on the underlying collateral pledged.

With respect to our investments in multi-family CMBS, other commercial mortgage debt-related investments and distressed residential loans, we finance our investment in these assets through working capital and, subject to market conditions, both short-term and long-term borrowings. Our financings may include repurchase agreement borrowings with terms of one year or less, or longer term structured debt financing, such as longer-term repurchase agreement financing and securitized debt where the assets we intend to finance are contributed to an SPE and serve as collateral for the financing. We engage in longer-term financings for the primary purpose of obtaining longer-term non-recourse financing on these assets. As of December 31, 2015, our multi-family CMBS amounting to approximately $265.0 million and distressed residential mortgage loans amounting to approximately $421.2 million are financed by some form of repurchase agreement borrowing or securitized debt.

Pursuant to the terms of our long-term debt financings, our ability to access the cash flows generated by the assets serving as collateral for these borrowings may be significantly limited and we may be unable to sell or otherwise transfer or dispose of or modify such assets until the financing has matured. As part of each of our securitized debt financings and longer-term master repurchase agreements we are currently party to, we have provided a guarantee with respect to certain terms of some of these longer-term borrowings incurred by certain of our subsidiaries and we may provide similar guarantees in connection with future financings.

We finance our prime ARM loans held in securitization trusts with approximately $116.7 million of residential CDOs as of December 31, 2015. These residential CDOs were issued in securitization transactions we completed in 2005.

For more information regarding our outstanding borrowings and debt instruments at December 31, 2015, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report.

Our Hedging Strategy

The Company enters into derivative instruments in connection with its risk management activities. These derivative instruments may include interest rate swaps, swaptions, futures, put and call options on futures and mortgage derivatives such as forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are "To-Be-Announced," or TBAs.

In connection with our investment in Agency IOs, we utilize several types of derivative instruments such as interest rate swaps, futures, put and call options on futures and TBAs to hedge interest rate risk and spread risk. For example, we utilize TBAs to hedge the interest rate and spread risk inherent in our Agency fixed rate RMBS, including certain of our Agency IOs that are backed by Agency fixed rate RMBS. In a TBA transaction, we would agree to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. The Company typically does not take delivery of TBAs, but rather settles with its trading counterparties on a net basis prior to the forward settlement date. By utilizing TBA transactions, we attempt to reduce changes in portfolio values due to changes in interest rates. Although TBAs are liquid and have quoted market prices and represent the most actively traded class of RMBS, the use of TBAs exposes us to increased market value risk. We typically conduct TBA and other interest rate futures hedging transactions through one of our TRSs.

We also use interest rate swaps (separately from the interest rate swaps we use in connection with our Agency IO portfolio) to hedge variable cash flows associated with borrowings made under our financing arrangements and Residential CDOs. We typically pay a fixed rate and receive a floating rate based on one month LIBOR, on the notional amount of the interest rate swaps. The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics and cash flows of our financing arrangements.

In connection with our hedging strategy, we, together with our external managers, utilize a model based risk analysis system to assist in projecting portfolio performances over a variety of different interest rates and market scenarios, such as shifts in interest rates, changes in prepayments and other factors impacting the valuations of our assets and liabilities. However, given the uncertainties related to prepayment rates, it is not possible to perfectly lock-in a spread between the earnings asset yield and the related cost of borrowings. Moreover, the cash flows and market values of certain types of structured Agency RMBS, such as the IOs we invest in, are more sensitive to prepayment risks than other Agency RMBS. Nonetheless, through active management and the use of evaluative stress scenarios, we believe that we can mitigate a significant amount of both value and earnings volatility.

Our External Managers

The Midway Group, L.P.

A portion of our Agency RMBS portfolio comprised of Agency IOs is externally managed and advised by Midway pursuant to an investment management agreement between Midway and us (as amended, the “Midway Management Agreement”). Midway was founded in 2000 by Mr. Robert Sherak, a mortgage industry veteran with more than 25 years’ experience, to serve as investment manager to the Midway Market Neutral Fund LLC, a private investment fund. Midway has been managing a hedged portfolio of mortgage-related securities for over 15 years.

Midway is responsible for administering the business activities and day-to-day operations of our investments in Agency IOs, and certain derivative instruments. These responsibilities include arranging and coordinating the purchase and sale of various investment assets and the financing and hedging associated with such assets, with direct oversight from our management team. Midway also may invest from time to time in, among other things, Agency RMBS consisting of pass-through certificates, CMOs, and POs and non-agency RMBS (which may include IOs and POs). As part of its investment process, we expect that Midway will analyze significant amounts of data regarding the historical performance of mortgage-related securities transactions and collateral over various market cycles.

Midway has established portfolio management resources for the investment assets described above and an established infrastructure supporting those resources. We believe that we benefit from Midway’s highly analytical investment processes, broad-based deal flow, extensive relationships in the financial community and operational expertise. Moreover, since its founding, we believe Midway has developed strong relationships with a wide range of dealers and other market participants that provide Midway access to a broad range of trading opportunities and market information.

As of December 31, 2015, we had allocated approximately $108.3 million of capital to investments managed by Midway.

The Midway Management Agreement

We entered into an investment management agreement with Midway on February 11, 2011, as amended on March 9, 2012 and April 1, 2014. The Midway Management Agreement currently operates under a one-year term that is automatically renewed for successive one-year terms unless a termination notice is delivered by either party to the other party at least six months prior to the end of the then current term. Pursuant to the Midway Management Agreement, Midway implements our Agency IO investment strategy and related hedging and borrowing activities and has complete discretion and authority to manage these assets and related hedging and borrowing activities, subject to compliance with the written investment guidelines included in the Midway Management Agreement and the other terms and conditions of the Midway Management Agreement, including our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act.

Pursuant to the terms of the Midway Management Agreement, Midway receives a base management fee payable monthly in arrears in a cash amount equal to (i) 1.50% per annum of our invested capital in the assets managed by Midway as of the last business day of the previous month, multiplied by (ii) 1/12th. In addition, Midway is entitled to a quarterly incentive fee (the "Midway Incentive Fee") that is calculated quarterly and paid quarterly in arrears. The Midway Incentive Fee is subject to a high water mark equal to an 11% return on our invested capital in assets managed by Midway (the “High Water Mark”), and is payable in an amount equal to the excess, if any, of 35% of the dollar amount by which adjusted net income (as defined below) attributable to the assets managed by Midway, on a quarterly basis and before accounting for the Midway Incentive Fee, exceeds an annual 12.5% rate of return on invested capital (the “Hurdle Rate”), after adjusting for any carried over shortfall from previous quarters. The return rate for each quarter (the “Calculation Period”) is determined by dividing (i) the adjusted net income for the Calculation Period by (ii) the weighted average of our invested capital in assets managed by Midway during the Calculation Period. Upon mutual agreement of the parties to the Midway Management Agreement, a portion of each Midway Incentive Fee payable to Midway may be paid in shares of our common stock. For the purpose of the Midway Management Agreement, adjusted net income is defined as net income (loss) calculated in accordance with generally accepted accounting principles in the United States (“GAAP”), including any unrealized gains and losses, after giving effect to certain expenses. All securities managed for us by Midway are valued in accordance with GAAP. Unlike the Hurdle Rate, which is calculated on a three month basis, the High Water Mark is calculated on a calendar 12 month basis and resets every 24 months. The High Water Mark is a static dollar figure that Midway is required to recoup, to the extent there is a deficit in the prior High Water Mark calculation period, before it is eligible again to receive a Midway Incentive Fee.

In addition to the base management and incentive fees provided for in the Midway Management Agreement, we issued 213,980 shares of restricted stock to Midway in March 2012 that vested annually in one-third increments beginning on December 31, 2012. All of the restricted shares issued to Midway had vested in full as of December 31, 2014. We also reimburse Midway for all transaction costs and expenses incurred in connection with the management and administration of the assets and liabilities that they manage on our behalf.

Although the assets and invested capital managed by Midway are held in an account that is wholly owned by our company, we may only redeem invested capital in an amount equal to the lesser of 10% of our invested capital managed by Midway or $10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act. Pursuant to the terms of the Midway Management Agreement, we are only permitted to make one such redemption request in any 75-day period.

RiverBanc LLC

In April 2011, we formed a relationship with RiverBanc, a privately owned investment management and specialty finance company founded by Kevin Donlon, for the purpose of investing in multi-family CMBS, such as Freddie Mac Multifamily Loan Securitization K-Series’ assets, and other commercial real estate-related debt investments, such as mezzanine loans to and preferred equity investments in owners of multi-family properties. Pursuant to an investment management agreement between RiverBanc and us. RiverBanc sources, structures and manages our investments in these asset classes. As of December 31, 2015, we owned a 20% equity interest in RiverBanc.

In addition to the assets that RiverBanc manages directly for us, it also manages RBMI of which the Company owns, as of December 31, 2015, approximately 67% of the outstanding common equity interests. Pursuant to a management agreement between RiverBanc and this entity, RiverBanc is entitled to receive base management and incentive fees for its management of assets owned by RBMI. Our total investment in RBMI, amounts to approximately $56.9 million as of December 31, 2015. Included in our total investment in RBMI are preferred equity interests having an aggregate liquidation preference of approximately $41.5 million as of December 31, 2015.

RiverBanc Management Agreement

On March 13, 2013, we entered into an amended and restated management agreement with RB Commercial Mortgage LLC, our wholly-owned subsidiary, and RiverBanc (the “RiverBanc Management Agreement”). The RiverBanc Management Agreement, which replaces the prior management agreement between RiverBanc and RB Commercial Mortgage LLC, has an annual term that is now subject to automatic annual one-year renewals (subject to any notice of termination).

Pursuant to the terms of the RiverBanc Management Agreement, RiverBanc will receive a monthly base management fee in arrears in a cash amount equal to the product of (i) 1.50% per annum of "Equity" as of the last business day of the previous month, multiplied by (ii) 1/12th. For purposes of the RiverBanc Management Agreement, Equity is defined as "Assets" minus "Debt," where Assets is defined as the aggregate net carrying value (in accordance with GAAP) of those assets of our company managed by RiverBanc (specifically excluding (i) any unrealized gains or losses that have impacted net carrying value as reported in our financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss or in net income, and (ii) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case, as mutually agreed between RiverBanc and us) and Debt is defined as the greater of (1) the net carrying value (in accordance with GAAP, excluding adjustments for unrealized gains or losses) of all third-party debt or liabilities secured by the Assets and (2) prior to termination of the RiverBanc Management Agreement, zero, or following termination of the RiverBanc Management Agreement, an amount equal to 50% of Assets. In addition, RiverBanc will be entitled to an incentive fee that is calculated quarterly and paid in cash in arrears. The incentive fee is based upon the average Equity during the fiscal quarter, subject to a high water mark equal to a 9% return on Equity, and shall be payable in an amount equal to 35% of the dollar amount by which adjusted net income (as defined in the RiverBanc Management Agreement) attributable to the Assets, before accounting for any incentive fees payable to RiverBanc, exceeds an annualized 12% rate of return on such average Equity (provided, however, that the applicable percentage for calculation of the incentive fee on any incremental return in excess of 21% shall be reduced to 20% from 35%). Any incentive fee paid for the fourth fiscal quarter of each year under the agreement is calculated based on the incentive fee earned during the calendar twelve-month period less the aggregate incentive fees paid for the first three quarters during the period.

We may terminate the RiverBanc Management Agreement or elect not to renew the agreement, subject to certain conditions and subject, in certain cases, to paying a termination fee equal to the product of (A) 24 and (B) the monthly base management fee earned by RiverBanc during the month immediately preceding the month in which the termination occurs. In the event we terminate the RiverBanc Management Agreement for any reason (other than for "cause"), RiverBanc has, subject to certain conditions, a right of first refusal to purchase from us the assets managed by them.

Headlands Asset Management LLC

We engaged Headlands to manage and advise us with respect to the distressed residential mortgage loans that we acquire. Headlands sources and performs due-diligence procedures on the pools of distressed residential mortgage loans that we acquire and manages the servicing, modification and final disposition or resolution of the loans, which can range from modifying a mortgage loan balance, interest rate or payment to selling the underlying loan or the real estate asset.

Headlands was founded on May 2008 as an investment manager focused on purchasing, servicing and managing all aspects of a portfolio of residential mortgage loans.

Headlands Management Agreements

Pursuant to the terms of our investment management agreements with Headlands, Headlands receives a monthly base management fee payable on the tenth business day of each month in a cash amount equal to the product of (i) 1.50% per annum of assets under management ("AUM") as of the first day of each such month, multiplied by (ii) 1/12th, where AUM represents the net asset value of the mortgage loans being managed by Headlands. In addition, Headlands is entitled to an incentive fee that is calculated quarterly. The incentive fee is based upon the weighted average AUM during the fiscal quarter and is payable in an amount equal to 35% of the dollar amount by which the taxable income (before accounting for any incentive fees earned by Headlands and interest on the notes) of the subsidiary that holds the loans exceeds an annualized 12% rate of return on such weighted average AUM (provided, however, that the applicable percentage for calculation of the incentive fee on any incremental return in excess of 22% shall be reduced by the amount of any subordinate servicing fees). The parties will recalculate the annual incentive fee earned by Headlands (if any) after the fourth fiscal quarter of each year and will adjust any payments owed or required to be remitted based on such annual calculation. We also pay Headlands a servicing surveillance fee equal to 0.5% of the unpaid principal of the mortgage loans they manage for us.

Headlands may terminate its investment management relationship with us at any time upon not less than 60 days' notice; provided, however, that, subject to certain exceptions, it may not terminate or resign as manager prior to the time certain debt issued to finance the mortgage loans managed by them is repaid. We may terminate an investment management agreement with Headlands in the event of an uncured violation of the agreement or any bankruptcy, insolvency or liquidation proceedings in respect of Headlands. Neither Headlands nor we will incur a termination fee upon termination of any Headlands investment management agreement. We have agreed to guarantee the payment of the base management fees and expenses payable to Headlands by our subsidiaries.

Conflicts of Interest with Our External Managers; Equitable Allocation of Opportunities

Each of Midway, RiverBanc and Headlands manages, and is expected to continue to manage, other client accounts with similar or overlapping investment strategies. In connection with the services provided to those accounts, these managers may be compensated more favorably than for the services provided under our external management agreements, and such discrepancies in compensation may affect the level of service provided to us by our external managers. Moreover, each of our external managers may have an economic interest in the accounts they manage or the investments they propose. In addition, we have in the past engaged in certain co-investment opportunities with an external manager or one of its affiliates and we may participate in future co-investment opportunities with our external managers or their affiliates. In these cases, it is possible that our interests and the interests of our external managers will not always be aligned and this could result in decisions that are not in the best interests of our company.

Each of Midway and RiverBanc has agreed that, when making investment allocation decisions between us and its other client accounts, it will, in the case of RiverBanc, allocate investments in a fair and equitable manner and, in the case of Midway, seek to allocate investment opportunities on an equitable basis and in a manner it believes is in the best interests of its relevant accounts. Since certain of our targeted assets are typically available only in specified quantities and since certain of these targeted assets will also be targeted assets for other accounts managed by or associated with our external managers, our external managers may not be able to buy as much of certain assets as required to satisfy the needs of all of its clients' or associated accounts. In these cases, we understand that the allocation procedures and policies of our external managers would typically allocate such assets to multiple accounts in proportion to, among other things, the objectives, strategy, and stage of development or needs of each account. Moreover, the investment allocation policies of Midway may permit departure from proportional allocation when the total allocation would result in an inefficiently small amount of the security being purchased for an account. Although we believe that each of our external managers will seek to allocate investment opportunities in a manner which it believes to be in the best interests of all accounts involved and will seek to allocate, on an equitable basis, investment opportunities believed to be appropriate for us and the other accounts it manages or is associated with, there can be no assurance that a particular investment opportunity will be allocated in any particular manner.

Midway is authorized to follow broad investment guidelines in determining which assets it will invest in. Although our Board of Directors will ultimately determine when and how much capital to allocate to assets managed by Midway, we generally will not approve transactions in advance of their execution. As a result, because Midway has great latitude to determine the types of assets it may decide are proper investments for us, there can be no assurance that we would otherwise approve of these investments individually or that they will be successful. Meanwhile, RiverBanc has complete discretion and authority to manage assets on our behalf subject to investment guidelines approved by our Board of Directors. However, our Board of Directors may elect to change the investment guidelines or waive them for various investments. In addition to conducting periodic reviews, we will rely primarily on information provided to us by our external managers. Finally, our external managers may use complex investment strategies and may engage in complex transactions on our behalf which may be difficult or impossible to unwind.

Pursuant to the terms of the Midway Management Agreement, we may only redeem invested capital in an amount equal to the lesser of 10% of the invested capital in assets managed by Midway or $10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exemption from the Investment Company Act, and we are only permitted to make one such redemption request in any 75-day period. In the event of a significant market event or shock, we may be unable to effect a redemption of invested capital in greater amounts or at a greater rate unless we obtain the consent of Midway. Because a reduction of invested capital would reduce the base management fee under the Midway Management Agreement, Midway may be less inclined to consent to such redemptions.

None of our external managers is obligated to dedicate any specific personnel exclusively to us, nor are they or their personnel obligated to dedicate any specific portion of their time to the management of our business. As a result, we cannot provide any assurances regarding the amount of time our external managers will dedicate to the management of our business. Moreover, each of our external managers has significant responsibilities for other investment vehicles and may not always be able to devote sufficient time to the management of our business. Consequently, we may not receive the level of support and assistance that we otherwise might receive if such services were provided internally by us.

Certain Federal Income Tax Considerations and Our Status as a REIT

We have elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code for federal income tax purposes, commencing with our taxable year ended December 31, 2004, and we believe that our current and proposed method of operation will enable us to continue to qualify as a REIT for our taxable year ending December 31, 2016 and thereafter. Accordingly, the net interest income we earn on our assets is generally not subject to federal income tax as long as we distribute at least 90% of our REIT taxable income in the form of a dividend to our stockholders each year and comply with various other requirements. Taxable income generated by TRSs is subject to regular corporate income tax.

The benefit of REIT tax status is a tax treatment that avoids “double taxation,” or taxation at both the corporate and stockholder levels, that generally applies to distributions by a corporation to its stockholders. Failure to qualify as a REIT would subject us to federal income tax (including any applicable minimum tax) on our taxable income at regular corporate rates and distributions to our stockholders would not be deductible by us.

Summary Requirements for Qualification

Organizational Requirements

A REIT is a corporation, trust, or association that meets each of the following requirements:

1) It is managed by one or more trustees or directors.

2) Its beneficial ownership is evidenced by transferable shares, or by transferable certificates of beneficial interest.

3) It would be taxable as a domestic corporation, but for the REIT provisions of the federal income tax laws.

4) It is neither a financial institution nor an insurance company subject to special provisions of the federal income tax laws.

5) At least 100 persons are beneficial owners of its shares or ownership certificates.

6) Not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, which the federal income tax laws define to include certain entities, during the last half of any taxable year.

7) It elects to be a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status.

8) It meets certain other qualification tests, described below, regarding the nature of its income and assets.

We must meet requirements 1 through 4 during our entire taxable year and must meet requirement 5 during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

Qualified REIT Subsidiaries. A corporation that is a QRS is not treated as a corporation separate from its parent REIT. All assets, liabilities, and items of income, deduction, and credit of a “QRS” are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A “QRS” is a corporation, all of the capital stock of which is owned by the REIT. Thus, in applying the requirements described herein, any “QRS” that we own will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as our assets, liabilities, and items of income, deduction, and credit.

Taxable REIT Subsidiaries. A REIT is permitted to own up to 100% of the stock of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. Overall, no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of a REIT's assets may consist of stock or securities of one or more TRSs.

A TRS will pay income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Our TRSs are subject to corporate income tax on their taxable income.

Qualified REIT Assets. On the last day of each calendar quarter, at least 75% of the value of our assets (which includes any assets held through a QRS) must consist of qualified REIT assets — primarily real estate, mortgage loans secured by real estate, and certain mortgage-backed securities (“Qualified REIT Assets”), government securities, cash, and cash items. We believe that substantially all of our assets are and will continue to be Qualified REIT Assets. On the last day of each calendar quarter, of the assets not included in the foregoing 75% asset test, the value of securities that we hold issued by any one issuer may not exceed 5% in value of our total assets and we may not own more than 10% of the voting power or value of any one issuer’s outstanding securities (with an exception for securities of a QRS or of a TRS). In addition, the aggregate value of our securities in TRSs cannot exceed 25% (20% for taxable years beginning after December 31, 2017) of our total assets, and no more than 25% of the value of our total assets may consist of debt instruments of "publicly offered REITs" (i.e., REITs that are required to file annual and periodic reports with the SEC pursuant to the Securities Exchange Act of 1934, as amended, or the Exchange Act). We monitor the purchase and holding of our assets for purposes of the above asset tests and seek to manage our portfolio to comply at all times with such tests.

We may from time to time hold, through one or more TRSs, assets that, if we held them directly, could generate income that would have an adverse effect on our qualification as a REIT or on certain classes of our stockholders.

Gross Income Tests

We must meet the following separate income-based tests each year:

1. The 75% Test. At least 75% of our gross income for the taxable year must be derived from Qualified REIT Assets. Such income includes interest (other than interest based in whole or in part on the income or profits of any person) on obligations secured by mortgages on real property, rents from real property, gains from the sale of Qualified REIT Assets, and qualified temporary investment income or interests in real property. The investments that we have made and intend to continue to make will give rise primarily to mortgage interest qualifying under the 75% income test.

2. The 95% Test. At least 95% of our gross income for the taxable year must be derived from the sources that are qualifying for purposes of the 75% test, and from dividends, interest or gains from the sale or disposition of stock or other assets that are not dealer property.

Distributions

We must distribute to our stockholders on a pro rata basis each year an amount equal to at least (i) 90% of our taxable income before deduction of dividends paid and excluding net capital gain, plus (ii) 90% of the excess of the net income from foreclosure property over the tax imposed on such income by the Internal Revenue Code, less (iii) any “excess non-cash income.” We have made and intend to continue to make distributions to our stockholders in sufficient amounts to meet the distribution requirement for REIT qualification.

Competition

Our success depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. When we invest in mortgage-backed securities, mortgage loans and other investment assets, we compete with other REITs, investment banking firms, savings and loan associations, insurance companies, mutual funds, hedge funds, pension funds, banks and other financial institutions and other entities that invest in the same types of assets.

Corporate Offices and Personnel

We were formed as a Maryland corporation in 2003. Our corporate headquarters are located at 275 Madison Avenue, Suite 3200, New York, New York, 10016 and our telephone number is (212) 792-0107. As of December 31, 2015, we employed seven full-time employees.

Access to our Periodic SEC Reports and Other Corporate Information

Our internet website address is www.nymtrust.com. We make available free of charge, through our internet website, our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments thereto that we file or furnish pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Corporate Governance Guidelines and Code of Business Conduct and Ethics and the charters of our Audit, Compensation and Nominating and Corporate Governance Committees are also available on our website and are available in print to any stockholder upon request in writing to New York Mortgage Trust, Inc., c/o Secretary, 275 Madison Avenue, Suite 3200, New York, New York, 10016. Information on our website is neither part of, nor incorporated into, this Annual Report on Form 10-K.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

When used in this Annual Report on Form 10-K, in future filings with the SEC or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “would,” “could,” “goal,” “objective,” “will,” “may” expressions, are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Exchange Act, and, as such, may involve known and unknown risks, uncertainties and assumptions.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities; changes in credit spreads; the impact of the downgrade of the long-term credit ratings of the U.S., Fannie Mae, Freddie Mac, and Ginnie Mae; market volatility; changes in the prepayment rates on the mortgage loans underlying our investment securities; increased rates of default and/or decreased recovery rates on our assets; delays in identifying and acquiring our targeted assets; our ability to borrow to finance our assets and the terms thereof; changes in governmental laws, regulations, or policies affecting our business; changes to our relationships with our external managers; our ability to maintain our qualification as a REIT for federal tax purposes; our ability to maintain our exemption from registration under the Investment Company Act; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including the risk factors described in Item 1A – “Risk Factors” elsewhere in this Annual Report on Form 10-K, as updated by those risks described in our subsequent filings under the Exchange Act, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1A. RISK FACTORS

Set forth below are the risks that we believe are material to stockholders and prospective investors. You should carefully consider the following risk factors and the various other factors identified in or incorporated by reference into any other documents filed by us with the SEC in evaluating our company and our business. The risks discussed herein can adversely affect our business, liquidity, operating results, prospects, and financial condition. These risks could cause the market price of our securities to decline. The risk factors described below are not the only risks that may affect us. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, also may adversely affect our business, liquidity, operating results, prospects, and financial condition.

Risks Related to Our Business and Our Company

Declines in the market values of assets in our investment portfolio may adversely affect periodic reported results and credit availability, which may reduce earnings and, in turn, cash available for distribution to our stockholders.

The market value of the interest-bearing assets in which we invest and any related hedging instruments may move inversely with changes in interest rates. We anticipate that increases in interest rates will generally tend to decrease our net income and the market value of our interest-bearing assets. A significant percentage of the securities within our investment portfolio are classified for accounting purposes as “available for sale.” Changes in the market values of trading securities will be reflected in earnings and changes in the market values of available for sale securities will be reflected in stockholders’ equity. As a result, a decline in market values of certain of our investment securities may reduce the book value of our assets. Moreover, if the decline in market value of an available for sale security is other than temporary, such decline will reduce earnings.

A decline in the market value of our interest-bearing assets may adversely affect us, particularly in instances where we have borrowed money based on the market value of those assets. If the market value of those assets declines, the lender may require us to post additional collateral to support the loan, which would reduce our liquidity and limit our ability to leverage our assets. In addition, if we are, or anticipate being, unable to post the additional collateral, we would have to sell the assets at a time when we might not otherwise choose to do so. In the event that we do not have sufficient liquidity to meet such requirements, lending institutions may accelerate indebtedness, increase interest rates and terminate our ability to borrow, any of which could result in a rapid deterioration of our financial condition and cash available for distribution to our stockholders. Moreover, if we liquidate the assets at prices lower than the amortized cost of such assets, we will incur losses.

The market values of our investments may also decline without any general increase in interest rates for a number of reasons, such as increases in defaults, actual or perceived increases in voluntary prepayments for those investments that we have that are subject to prepayment risk, and widening of credit spreads. If the market values of our investments were to decline for any reason, the value of your investment could also decline.

Difficult conditions in the mortgage and real estate markets, the financial markets and the economy generally have caused and may cause us to experience losses and these conditions may persist for the foreseeable future.

Our business is materially affected by conditions in the residential and commercial mortgage markets, the residential and commercial real estate markets, the financial markets and the economy generally. Furthermore, because a significant portion of our current assets and our targeted assets are credit sensitive, we believe the risks associated with our investments will be more acute during periods of economic slowdown, recession or market dislocations, especially if these periods are accompanied by declining real estate values and defaults. In recent years, concerns about the health of the global economy generally and the residential and commercial mortgage markets specifically, as well as inflation, energy costs, European sovereign debt, U.S. budget debates and geopolitical issues and the availability and cost of credit have contributed to increased volatility and uncertainty for the economy and financial markets. The residential and commercial mortgage markets were adversely affected by changes in the lending landscape during the financial market crisis of 2008, the severity of which was largely unanticipated by the markets, and there is no assurance that these markets will not worsen again.

In addition, an economic slowdown, delayed recovery or general disruption in the mortgage markets may result in decreased demand for residential and commercial property, which would likely further compress homeownership rates and place additional pressure on home price performance, while forcing commercial property owners to lower rents on properties with excess supply. We believe there is a strong correlation between home price growth rates and mortgage loan delinquencies. Moreover, to the extent that a property owner has fewer tenants or receives lower rents, such property owners will generate less cash flow on their properties, which reduces the value of their property and increases significantly the likelihood that such property owners will default on their debt service obligations. If the borrowers of our mortgage loans, or the loans underlying certain of our investment securities, default, we may incur material losses on those loans or investment securities. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income and our ability to acquire our targeted assets in the future on favorable terms or at all. The further deterioration of the mortgage markets, the residential or commercial real estate markets, the financial markets and the economy generally may result in a decline in the market value of our investments or cause us to experience losses related to our assets, which may adversely affect our results of operations, the availability and cost of credit and our ability to make distributions to our stockholders.

An increase in interest rates may cause a decrease in the availability of certain of our targeted assets, which could adversely affect our ability to acquire targeted assets that satisfy our investment objectives and to generate income and pay dividends.

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

In addition, the RMBS and residential mortgage loans we invest in may be comprised of ARMs that are subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase over the life of the security or loan. Our borrowings typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while interest rate caps could limit the interest rates on the Agency ARMs or residential mortgage loans comprised of ARMs in our portfolio. This problem is magnified for securities backed by, or residential mortgage loans comprised of, ARMs and hybrid ARMs that are not fully indexed. Further, certain securities backed by, or residential mortgage loans comprised of, ARMs and hybrid ARMs may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, the payments we receive on Agency ARMs backed by, or residential mortgage loans comprised of, ARMs and hybrid ARMs may be lower than the related debt service costs. These factors could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Interest rate fluctuations will also cause variances in the yield curve, which may reduce our net income. The relationship between short-term and longer-term interest rates is often referred to as the “yield curve.” 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 interest-earning assets. For example, because the Agency RMBS in our investment portfolio typically bear interest based on longer-term rates while our borrowings typically bear interest based on short-term rates, a flattening of the yield curve would tend to decrease our net income and the market value of these securities. Additionally, to the extent cash flows from investments that return scheduled and unscheduled principal are reinvested, the spread between the yields of 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 significant operating losses.

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

The frequency at which prepayments (including both voluntary prepayments by the borrowers and liquidations due to defaults and foreclosures) occur on the residential mortgage loans we own and those that underlie our RMBS is difficult to predict and is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, legislative and other factors. Generally, borrowers tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans.

In general, “premium” securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster-than-anticipated prepayments because the above-market coupon that such premium securities carry will be earned for a shorter period of time. Generally, “discount” securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower-than-anticipated prepayments. Since many RMBS will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these RMBS may be adversely affected by changes in prepayments in any interest rate environment. Although we estimate prepayment rates to determine the effective yield of our assets and valuations, these estimates are not precise and prepayment rates do not necessarily change in a predictable manner as a function of interest rate changes.

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

Some of the commercial real estate loans we may originate or invest in may allow the borrower to make prepayments without incurring a prepayment penalty and some may include provisions allowing the borrower to extend the term of the loan beyond the originally scheduled maturity. Because the decision to prepay or extend a commercial loan is typically controlled by the borrower, we may not accurately anticipate the timing of these events, which could affect the earnings and cash flows we anticipate and could impact our ability to finance these assets.

Increased levels of prepayments on the mortgages underlying structured mortgage-backed securities, particularly IOs, might decrease net interest income or result in a net loss, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

When we acquire structured mortgage-backed securities, such as IOs, we anticipate that the underlying mortgages will prepay at a projected rate, generating an expected yield. When the prepayment rates on the mortgages underlying these securities are higher than expected, our returns on those securities may be materially adversely affected. For example, the value of our Agency IOs is extremely sensitive to prepayments because holders of these securities do not have the right to receive any principal payments on the underlying mortgages. As a result, increased levels of prepayments on our Agency IOs will negatively impact our net interest income and may result in a loss.

Interest rate mismatches between the interest-earning assets held in our investment portfolio and the borrowings used to fund the purchases of those assets may reduce our net income or result in a loss during periods of changing interest rates.

Certain of the assets held in our investment portfolio have a fixed coupon rate, generally for a significant period, and in some cases, for the average maturity of the asset. At the same time, our repurchase agreements and certain other borrowings typically provide for a payment reset period of 30 days or less. In addition, the average maturity of our borrowings generally will be shorter than the average maturity of the assets currently in our portfolio and certain other targeted assets in which we seek to invest. Historically, we have used swap agreements as a means for attempting to fix the cost of certain of our liabilities over a period of time; however, these agreements will generally not be sufficient to match the cost of all our liabilities against all of our investments. In the event we experience unexpectedly high or low prepayment rates on RMBS or other mortgage-related assets, our strategy for matching our assets with our liabilities is more likely to be unsuccessful which may result in reduced earnings or losses and reduced cash available for distribution to our stockholders.

Our investments include high yield or subordinated and lower rated securities that have greater risks of loss than other investments, which could adversely affect our business, financial condition and cash available for dividends.

We own and seek to acquire higher yielding or subordinated or lower rated securities, including subordinated tranches of CMBS or non-Agency RMBS, which involve a higher degree of risk than other investments. Numerous factors may affect a company's ability to repay its high yield or subordinated securities, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. These assets may not be secured by mortgages or liens on assets. Our right to payment and security interest with respect to such assets may be subordinated to the payment rights and security interests of the senior lender. Therefore, we may be limited in our ability to enforce our rights to collect on these assets through a foreclosure of collateral.

The commercial mortgage loans we may originate or acquire and the mortgage loans underlying our CMBS investments are subject to the ability of the commercial property owner to generate net income from operating the property as well as the risks of delinquency and foreclosure.

Commercial mortgage loans are secured by multi-family or commercial property and are subject to risks of delinquency and foreclosure, and risk of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such 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 adversely affected by, among other things:

- tenant mix;
- success of tenant businesses;
- property management decisions;
- property location, condition, and design;
- new construction of competitive properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in national, regional or local economic conditions and/or specific industry segments, including the labor, credit and securitization markets;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates, and other operating expenses;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and
- acts of God, terrorist attacks, social unrest, and civil disturbances.

In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss to the extent of any deficiency between the value of the collateral and the outstanding principal and accrued interest of the mortgage loan, and any such losses could have a material adverse effect on our cash flow from operations and our ability to make distributions to our stockholders. Similarly, the CMBS we own will be adversely affected by a default on any of the loans that underly those securities. See "—We invest in CMBS that are subordinate to more senior securities issued by the applicable securitization, which entails certain risks."

In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

The preferred equity investments or mezzanine loan assets that we may acquire or originate will involve greater risks of loss than senior loans secured by income-producing properties.

We may acquire or originate mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. We also may make preferred equity investments in the entity that owns the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured or our equity investment may be effectively extinguished as a result of foreclosure by the senior lender. In addition, mezzanine loans and preferred equity investments are often used to achieve a very high leverage on large commercial projects, resulting in less equity in the property and increasing the risk of loss of principal or investment. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan or preferred equity investment will be satisfied only after the senior debt, in case of a mezzanine loan, or all senior and subordinated debt, in case of a preferred equity investment, is paid in full. Where senior debt exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies or control decisions made in bankruptcy proceedings relating to borrowers or preferred equity investors. As a result, we may not recover some or all of our investment, which could result in significant losses.

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

Before acquiring certain assets, such as whole mortgage loans, CMBS or other mortgage-related or other fixed income assets, we or the external manager responsible for the acquisition and management of such asset may decide to conduct (either directly or using third parties) certain due diligence. Such due diligence may include (i) an assessment of the strengths and weaknesses of the asset’s credit profile, (ii) a review of all or merely a subset of the documentation related to the asset, or (iii) other reviews that we or the external manager may deem appropriate to conduct. There can be no assurance that we or the external manager will conduct any specific level of due diligence, or that, among other things, the due diligence process will uncover all relevant facts or that any purchase will be successful, which could result in losses on these assets, which, in turn, could adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Our real estate assets are subject to risks particular to real property.

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

- acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and market conditions; and
- 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.

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

The lack of liquidity in certain of our assets may adversely affect our business.

A portion of the securities or loans we own or acquire may be subject to legal, contractual and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. For example, a portion of our multi-family CMBS is held in a securitization trust and may not be sold or transferred until the note issued by the securitization trust matures or is repaid. Similarly, any transfer of our investment in the equity and debt securities of an entity externally managed by RiverBanc requires prior consent of the Board and certain preferred equity holders in that entity. The illiquidity of certain of our assets may make it difficult for us to sell such assets if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our assets. 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 results of operations and financial condition.

Our Level 2 portfolio investments are recorded at fair value based on market quotations from pricing services and brokers/dealers. Our Level 3 investments are recorded at fair value utilizing internal valuation models. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

All of our current portfolio investments are, and some of our future portfolio investments will be, in the form of securities or other investments that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We currently value and will continue to value these investments on a quarterly-basis at fair value as determined by our management based on market quotations from pricing services and brokers/dealers and/or internal valuation models. Because such quotations and valuations are inherently uncertain, they may fluctuate over short periods of time and are based on estimates, our determinations of fair value may differ materially from the values that would have been used if a public market for these securities existed. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Our adoption of fair value option accounting could result in income statement volatility, which in turn, could cause significant market price and trading volume fluctuations for our securities.

We have determined that certain securitization trusts that issued certain of our multi-family CMBS or securitized debt are VIEs of which we are the primary beneficiary, and elected the fair value option on the assets and liabilities held within those securitization trusts. As a result, we are required to consolidate the underlying multi-family loan or securities, as applicable, related debt, interest income and interest expense of those securitization trusts in our financial statements, although our actual investments in these securitization trusts generally represent a small percentage of the total assets of the trusts. Prior to the year ended December 31, 2012, we historically accounted for the multi-family CMBS in our investment portfolio through accumulated other comprehensive income, pursuant to which unrealized gains and losses on those multi-family CMBS were reflected as an adjustment to stockholders’ equity. However, the fair value option requires that changes in valuations in the assets and liabilities of those VIEs of which we are the primary beneficiary, such as the Consolidated K-Series, be reflected through our earnings. As we acquire additional multi-family CMBS assets in the future that are similar in structure and form to the Consolidated K-Series’ assets or securitize investment securities owned by us, we may be required to consolidate the assets and liabilities of the issuing or securitization trust and would expect to elect the fair value option for those assets. Because of this, our earnings may experience greater volatility in the future as a decline in the fair value of the assets of any VIE that we consolidate in our financial statements could reduce both our earnings and stockholders' equity, which in turn, could cause significant market price and trading volume fluctuations for our securities.

Competition may prevent us from acquiring assets on favorable terms or at all, which could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive market for investment opportunities. Our net income largely depends on our ability to acquire our targeted assets at favorable spreads over our borrowing costs. In acquiring our targeted assets, we compete with other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders and other entities that purchase mortgage-related assets, many of which have greater financial resources than us. Additionally, many of our potential competitors are not subject to REIT tax compliance or required to maintain an exclusion from the Investment Company Act. As a result, we may not in the future be able to acquire sufficient quantities of our targeted assets at favorable spreads over our borrowing costs, which could have a material adverse effect on our business, financial condition, results of operations and ability to make distributions to our stockholders.

We may change our investment strategy, hedging strategy and asset allocation and operational and management policies without stockholder consent, which may result in the purchase of riskier assets and materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We may change our investment strategy, hedging strategy and asset allocation and operational and management policies at any time without the consent of our stockholders, which could result in our purchasing assets or entering into hedging transactions that are different from, and possibly riskier than, the assets and hedging transactions described in this report. A change in our investment strategy or hedging strategy may increase our exposure to real estate values, interest rates, prepayment rates, credit risk and other factors. A change in our asset allocation could result in us purchasing assets in classes different from those described in this report. Our Board of Directors determines our operational policies and may amend or revise our policies, including those with respect to our acquisitions, growth, operations, indebtedness, capitalization and distributions or approve transactions that deviate from these policies without a vote of, or notice to, our stockholders. In addition, certain of our external managers have great latitude in making investment and hedging decisions on our behalf. Changes in our investment strategy, hedging strategy and asset allocation and operational and management policies could materially adversely affect our business, financial condition and results of operations and ability to make distributions to our stockholders.

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 or 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 relatively 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.

In connection with our operating and investment activity, we rely on third-party service providers, including our external managers, to perform a variety of services, comply with applicable laws and regulations, and carry out contractual covenants and terms, the failure of which by any of these third-party service providers may adversely impact our business and financial results.

In connection with our business of acquiring and holding loans, engaging in securitization transactions, and investing in third-party issued securities, we rely on third-party service providers, including our external managers, to perform a variety of services, comply with applicable laws and regulations, and carry out contractual covenants and terms. For example, we rely on the mortgage servicers who service the mortgage loans we purchase as well as the mortgage loans underlying our CMBS to, among other things, collect principal and interest payments on such mortgage loans and perform loss mitigation services. In addition, legislation that has been enacted or that may be enacted in order to reduce or prevent foreclosures through, among other things, loan modifications may reduce the value of mortgage loans backing our CMBS or mortgage loans that we acquire. Mortgage servicers may be incentivized by the U.S. Government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the beneficial owners of the mortgage loans. Mortgage servicers and other service providers, such as our external managers, trustees, bond insurance providers, due diligence vendors and document custodians, may fail to perform or otherwise not perform in a manner that promotes our interests. As a result, we are subject to the risks associated with a third party’s failure to perform, including failure to perform due to reasons such as fraud, negligence, errors, miscalculations, or insolvency.

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

One of the biggest risks overhanging the RMBS market has been uncertainty around the timing and ability of servicers to foreclose on defaulted loans, so that they can liquidate the underlying properties and ultimately pass the liquidation proceeds through to RMBS holders. Given the magnitude of the recent housing crisis, and in response to the well-publicized failures of many servicers to follow proper foreclosure procedures (such as involving "robo-signing"), mortgage servicers are being held to much higher foreclosure-related documentation standards than they previously were. However, because many mortgages have been transferred and assigned multiple times (and by means of varying assignment procedures) throughout the origination, warehouse, and securitization processes, mortgage servicers are generally having much more difficulty furnishing the requisite documentation to initiate or complete foreclosures. This leads to stalled or suspended foreclosure proceedings, and ultimately additional foreclosure-related costs. Foreclosure-related delays also tend to increase ultimate loan loss severities as a result of property deterioration, amplified legal and other costs, and other factors. Many factors delaying foreclosure, such as borrower lawsuits and judicial backlog and scrutiny, are outside of a servicer's control and have delayed, and will likely continue to delay, foreclosure processing in both judicial states (where foreclosures require court involvement) and non-judicial states. The extension of foreclosure timelines also increases the inventory backlog of distressed homes on the market and creates greater uncertainty about housing prices. The concerns about deficiencies in foreclosure practices of servicers and related delays in the foreclosure process may impact our loss assumptions and affect the values of, and our returns on, our investments in RMBS and residential mortgage loans.

Our results of operations may be affected by the value of equity securities we hold for investment and we may be unable to liquidate such equity securities in a timely manner at full value.

As of December 31, 2015, we owned approximately 67% of the common equity ownership interests and 71% of preferred equity ownership interests in RBMI (the “RBMI Equity Interests”), a private entity that owns a portfolio of structured investments comprised of preferred equity and joint venture investments in, and mezzanine loans secured by, multifamily apartment properties, and that is externally managed by RiverBanc. In July 2015, we entered into a Contribution Agreement with RiverBanc Multifamilty Investors Inc. (“RMI”) and certain other third parties pursuant to which we agreed to contribute 100% of our RBMI Equity Interests to RMI in exchange for shares of RMI’s common stock (the “RMI Stock”). RBMI would become a subsidiary of RMI upon completion of the transaction. The transaction contemplated by the contribution agreement is subject to certain closing conditions, including the completion of RMI’s initial public offering of RMI stock, which as of the date of this report, has not been completed.

At December 31, 2015, the fair value of our RBMI Equity Interests was approximately $56.9 million and represents approximately 3% of our total assets (excluding all Consolidated K-Series assets other than those securities issued by the securitizations comprising the Consolidated K-Series that are actually owned by us). Our results of operations may be affected by gain or loss recognized upon the sale of these investments, including the exchange of our RBMI Equity Interests for RMI Stock, or upon the determination that any such investment has become impaired.

Our investment in these securities involve special risks relating to RBMI or RMI, as applicable, including the financial and operating condition and business outlook of the entity, its focus on the multi-family apartment sector and risks inherent to investing in real estate generally, and preferred equity and joint venture investments in, and mezzanine loans secured by, multi-family apartment properties specifically. Moreover, our investment in such entities are further subject to risks of: limited liquidity in the secondary trading market in the case of unlisted or thinly traded securities; substantial market price volatility in the case of traded equity securities; subordination to the debt and other liabilities of the issuer; the possibility that earnings of the issuer may be insufficient to meet its debt service and other obligations and, therefore, to make distributions to us on any equity securities we may currently own or acquire in the future; and the declining creditworthiness and potential for insolvency of the issuer during periods of rising interest rates and economic downturn. In the event that the transactions contemplated by the exchange of RBMI Equity

Interests for RMI Stock are completed, RMI will become a listed company and the fair value of our investment in this issuer will be conducted as a Level 1 or Level 2 instrument. Accordingly, there may be periods where the trading price of RMI’s common stock does not correlate with the performance or value of its assets. These risks may adversely affect the value of RMI's equity securities and its ability to make distributions to its equity holders, which in turn could have a material adverse effect on our business, result of operations, financial conditions and ability to make distributions to our stockholders.

In addition, we own a significant amount of RBMI’s outstanding equity ownership interests and may in the future own a significant amount of RMI’s outstanding common stock and we may be unable to liquidate or dispose of our investment in a timely manner at full value or at all. In the event that we are unable to liquidate or dispose of our investment at full value, our gain from the sale of our investment may be reduced or our loss from the sale of our investment may be increased.

We are dependent on certain of our external managers and certain of their key personnel and may not find a suitable replacement if their respective management agreements with us are terminated or such key personnel are no longer available to us.

We historically were organized as a self-advised company that acquired, originated, sold and managed its assets; however, as we modified our business strategy and our targeted assets, we began to outsource the management of certain targeted asset classes for which we had limited internal resources or experience. We presently utilize three external managers to manage certain of our assets and investment strategies. Each of our external managers, in some manner, identifies, evaluates, negotiates, structures, closes and monitors certain investments on our behalf. In each case, we have engaged these third parties because of the expertise of certain key personnel of our external managers. The departure of any of the senior officers of our external managers, or of a significant number of investment professionals or principals of our external managers, could have a material adverse effect on our ability to achieve our investment objectives. We are subject to the risk that our external managers will terminate their respective management agreement with us or that we may deem it necessary to terminate such agreement or prevent certain individuals from performing services for us, and that no suitable replacement will be found to manage certain of our assets and investment strategies on a timely basis or at all.

Pursuant to our management agreements, our external managers are entitled to receive a management fee that is payable regardless of the performance of the assets under their management.

We will pay each of our external managers substantial base management fees, based on our invested capital (as such term is defined in the respective management agreements), regardless of the performance of the assets under their management. The external managers' entitlement in many cases to non-performance based compensation may reduce its incentive to devote the time and effort of its professionals to seeking profitable investment opportunities for our company, which could result in the under-performance of assets under their management and negatively affect our ability to pay distributions to our stockholders or to achieve capital appreciation.

Pursuant to the terms of our management agreements, our external managers are generally entitled to receive an incentive fee, which may induce them to make certain investments, including speculative or high risk investments.

In addition to the base management fees payable to our external managers, our external managers are generally entitled to receive incentive compensation based, in part, upon the achievement of targeted levels of net income. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on net income may lead our external managers to place undue emphasis on the maximization of net income at the expense of other criteria, such as preservation of capital, maintaining liquidity and/or management of interest rate, credit or market risks, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. In addition, Midway has broad discretion regarding the types of investments it will make pursuant to its management agreement with us. This could result in increased risk to the value of our assets under the management of our external managers.

We compete with our external managers' other clients for access to them.

Each of our external managers manages, and is expected to continue to manage, other client accounts with similar or overlapping investment strategies. In connection with the services provided to those accounts, these managers may be compensated more favorably than for the services provided under our external management agreements, and such discrepancies in compensation may affect the level of service provided to us by our external managers. Moreover, each of our external managers may have an economic interest in the accounts they manage or the investments they propose. As a result, we will compete with these other accounts and interests for access to our external managers and the benefits derived from those relationships. For the same reasons, the personnel of our external managers may be unable to dedicate a substantial portion of their time managing our investments to the extent they manage or are associated with any future investment vehicles not related to us.

There are conflicts of interest in our relationships with our external managers, which could result in decisions that are not in the best interests of our stockholders.

We may acquire or sell assets in which an external manager or its affiliates have or may have an interest, or we may participate in co-investment opportunities with our external managers or their affiliates. In these cases, it is possible that our interests and the interests of our external managers will not always be aligned and this could result in decisions that are not in the best interests of our company. Similarly, our external managers or its affiliates may acquire or sell assets in which we have or may have an interest. Although such acquisitions or dispositions may present conflicts of interest, we nonetheless may pursue and consummate such transactions. Additionally, we may engage in transactions directly with our external managers or their affiliates, including the purchase and sale of all or a portion of a targeted asset.

Acquisitions made for entities with similar objectives may be different from those made on our behalf. Our external managers may have economic interests in or other relationships with others in whose obligations or assets we may acquire. In particular, such persons may make and/or hold an investment in assets that we acquire that may be pari passu, senior or junior in ranking to our interest in the assets or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such assets and otherwise create conflicts of interest. In such instances, the external managers may, in their sole discretion, make recommendations and decisions regarding such assets for other entities that may be the same as or different from those made with respect to assets acquired by us and may take actions (or omit to take actions) in the context of these other economic interests or relationships, the consequences of which may be adverse to our interests.

The key personnel of our external managers and its affiliates devote as much time to us as our external managers deem appropriate, however, these individuals may have conflicts in allocating their time and services among us and their other accounts and investment vehicles. During turbulent conditions in the mortgage industry, distress in the credit markets or other times when we will need focused support and assistance from our external managers, other entities for which our external managers serve as manager, or their accounts, will likewise require greater focus and attention, placing the resources of our external managers in high demand. In such situations, we may not receive the necessary support and assistance we require or would otherwise receive if we were internally managed.

We, directly or through our external managers, may obtain confidential information about the companies or securities in which we have invested or may invest. If we do possess confidential information about such companies or securities, there may be restrictions on our ability to dispose of, increase the amount of, or otherwise take action with respect to the securities of such companies. Our external managers' management of other accounts could create a conflict of interest to the extent such external manager is aware of material non-public information concerning potential investment decisions and this in turn could impact our ability to make necessary investment decisions. Any limitations that develop as a result of our access to confidential information could therefore materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

There are limitations on our ability to withdraw invested capital from the account managed by Midway and our inability to withdraw our invested capital when necessary may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Pursuant to the terms of the Midway Management Agreement, we may only redeem invested capital in an amount equal to the lesser of 10% of the invested capital in the account managed by Midway or $10 million as of the last calendar day of the month upon not less than 75 days written notice, subject to our authority to direct Midway to modify its investment strategy for purposes of maintaining our qualification as a REIT and exclusion from the Investment Company Act. In addition, we are only permitted to make one such redemption request in any 75-day period. In the event of a significant market event or shock, we may be unable to effect a redemption of invested capital in greater amounts or at a greater rate unless we obtain the consent of Midway. Moreover, because a reduction of invested capital would reduce the base management fee under the Midway Management Agreement, Midway may be less inclined to consent to such redemptions. If we are unable to withdraw invested capital as needed to meet our obligations in the future, our business and financial condition could be materially adversely affected.

Termination of our external management agreements may be difficult and costly.

Termination of the RiverBanc Management Agreement without cause is subject to several conditions which may make such a termination difficult and costly. The RiverBanc Management Agreement provides that we may only terminate the agreement (i) for cause, (ii) without cause and upon providing 180 days advance notice and subject to a termination fee described herein, or (iii) in the event we realize a negative 15% return on the assets managed for us by RiverBanc. In the event the RiverBanc Management Agreement is terminated pursuant to clauses (i) or (iii) in the preceding sentence, no termination fee is required. The termination fee required upon termination of the RiverBanc Management Agreement for cause is equal to the product of (A) 24 and (B) the base management fee earned by RiverBanc during the one month period immediately preceding the termination date. Thus, in the event we elect not to renew the RiverBanc Management Agreement for any reason other than cause or as otherwise described in this paragraph, we will be required to pay this termination fee. In addition, the RiverBanc Management Agreement provides RiverBanc with an exclusive right of first refusal to purchase any of our assets managed by it subject to certain exceptions, in the event we terminate them for any reason. This provision could result in our loss of assets that our earnings are dependent upon or may cause us to sell assets prior to our recovery of lost value. These provisions may increase the effective cost to us of terminating the RiverBanc Management Agreement, thereby adversely affecting our ability to terminate RiverBanc without cause.

Pursuant to the Midway Management Agreement, in the event we determine to terminate the Midway Management Agreement at any time in the future, Midway has the right to liquidate the assets it manages on our behalf in its sole discretion. Moreover, as discussed above, there are certain restrictions on our ability to redeem invested capital under the Midway Management Agreement. As a result, we may have little control over the liquidation of any of our assets that are managed by Midway or the timing of the full redemption of our invested capital, which may make it more difficult to terminate our agreement with Midway and could have a material adverse effect on our business, financial condition and results of operations.

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

The market price of our stock is highly volatile and subject to wide fluctuations. In addition, the trading volume in our stock may fluctuate and cause significant price variations to occur. Some of the factors that could result in fluctuations in the price or trading volume of our stock include, among other things: actual or anticipated changes in our current or future financial performance; actual or anticipated changes in our current or future dividend yield; changes in market interest rates and general market and economic conditions. We cannot assure you that the market price of our stock will not fluctuate or decline significantly.

We have not established a minimum dividend payment level for our common stockholders and there are no assurances of our ability to pay dividends to common or preferred stockholders in the future.

We intend to pay quarterly dividends and to make distributions to our common stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code. We have not established a minimum dividend payment level for our common stockholders and our ability to pay dividends may be harmed by the risk factors described herein. From July 2007 until April 2008, our Board of Directors elected to suspend the payment of quarterly dividends on our common stock. Our Board's decision reflected our focus on the elimination of operating losses through the sale of our mortgage lending business and the conservation of capital to build future earnings from our portfolio management operations. 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 are no assurances of our ability to pay dividends to our common or preferred stockholders in the future at the current rate or at all.

Future offerings of debt securities, which would rank senior to our common stock and preferred stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our preferred stock and common stock, with holders of our preferred stock having priority over holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

Future sales of our stock could have an adverse effect on the price of our stock.

We cannot predict the effect, if any, of future sales of our stock, or the availability of shares for future sales, on the market price of our common or preferred stock. Sales of substantial amounts of stock, or the perception that such sales could occur, may adversely affect prevailing market prices for our common or preferred stock.

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 expected future dividend rates) 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.

Your interest in us may be diluted if we issue additional shares.

Current stockholders of our company do not have preemptive rights to any common stock issued by us in the future. Therefore, our stockholders may experience dilution of their equity investment if we sell additional common stock in the future, sell securities that are convertible into common stock or issue shares of common stock or options exercisable for shares of common stock. In addition, we could sell securities at a price less than our then-current book value per share.

Investing in our securities may involve a high degree of risk.

The investments we make in accordance with our investment strategy may result in a high degree of risk, volatility or loss of principal than alternative investment options. Our investments may be highly speculative and aggressive, and therefore, an investment in our securities may not be suitable for someone with lower risk tolerance.

The downgrade of the U.S.'s and certain European countries' or certain European financial institutions’ credit ratings, any future downgrades of the U.S.'s and certain European countries' or certain European financial institutions’ credit ratings and the failure to resolve issues related to U.S. fiscal and debt policies may materially adversely affect our business, liquidity, financial condition and results of operations.

U.S. debt ceiling and budget deficit concerns in recent years have increased the possibility of credit-rating downgrades or economic slowdowns in the U.S. Although U.S. lawmakers passed legislation to raise the federal debt ceiling in 2011 and again in 2013, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the U.S. from “AAA” to “AA+” in August 2011. The impact of any further downgrades to the U.S. Government's sovereign credit rating or its perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. If the U.S.'s credit rating were downgraded it would likely impact the credit risk associated with Agency RMBS in our portfolio. A downgrade of the U.S. Government's credit rating or a default by the U.S. Government to satisfy its debt obligations likely would create broader financial turmoil and uncertainty, which would weigh heavily on the global banking system and these developments could cause interest rates and borrowing costs to rise and a reduction in the availability of credit, which may negatively impact the value of the assets in our portfolio, our net income, liquidity and our ability to finance our assets on favorable terms.

In the years following the financial and credit crisis of 2007-2008, many financial institutions in Europe experienced financial difficulty and were either rescued by government assistance or otherwise benefited from accommodative monetary policy of central banks. Several European governments implemented measures to attempt to shore up their financial sectors through loans, credit guarantees, capital infusions, promises of continued liquidity funding and interest rate cuts. Additionally, other governments of the world’s largest economic countries also implemented interest rate cuts. Some of these European financial institutions have U.S. banking subsidiaries that serve as financing or hedging counterparties to us. Although economic and credit conditions have stabilized in the past few years, there is no assurance that these and other plans and programs will be successful in the longer term, and, in particular, when governments and central banks begin to significantly unwind or otherwise reverse these programs and policies. In addition, in recent years, the U.S. government placed many of the U.S. banking subsidiaries of these major European financial institutions on credit watch. If European credit concerns continue to impact these major European banks, there is the possibility that it will also impact the operations of their U.S. banking subsidiaries. Some of these financial institutions have U.S. banking subsidiaries that serve as financing or hedging counterparties to us. Any future downgrade of the credit ratings of these European financial institutions could result in greater counterparty default risk and could materially adversely affect our business, liquidity, access to financing and results of operations.

Risks Related to Our Company, Structure and Change in Control Provisions

We are highly dependent on information systems and system failures could significantly disrupt our business, which may, in turn, materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems could cause delays or other problems in our securities trading and other investment activities which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

The occurrence of cyber-incidents, or a deficiency in our cybersecurity or in those of any of our third party service providers, could negatively impact our business by causing a disruption to our operations, a compromise or corruption 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 information resources or the information resources of our third party service providers. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data, or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. The primary risks that could directly result from the occurrence of a cyber-incident include operational interruption and private data exposure. We have implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as our increased awareness of a risk of a cyber-incident, do not guarantee that our business and results of operations will not be negatively impacted by such an incident.

Our directors have approved broad investment guidelines for us and do not approve each investment we make.

Our external managers are generally authorized to follow broad investment guidelines in determining which assets we will invest in. Although our Board of Directors will ultimately determine when and how much capital to allocate to our investment strategies, we generally will not, with certain exceptions, approve transactions in advance of their execution by these managers. In addition, in conducting periodic reviews, we will rely primarily on information provided to us by our external managers. Complicating matters further, our external managers may use complex investment strategies and transactions, which may be difficult or impossible to unwind. As a result, because our external managers have great latitude to determine the types of assets they may decide are proper investments for us, there can be no assurance that we would otherwise approve of these investments individually or that they will be successful.

We are dependent on certain key personnel.

We are a small company and are substantially dependent upon the efforts of our Chief Executive Officer and President, Steven R. Mumma, and certain key individuals employed by our external managers. The loss of Mr. Mumma or any key personnel of our Company or our external manager or their services could have a material adverse effect on our operations.

The stock ownership limit imposed by our charter may inhibit market activity in our common stock and may restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Internal Revenue Code, not more than 50% in value of the issued and outstanding shares of our capital stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the last half of each taxable year (other than our first year as a REIT). This test is known as the “5/50 test.” Attribution rules in the Internal Revenue Code apply to determine if any individual or entity actually or constructively owns our capital stock for purposes of this requirement. Additionally, at least 100 persons must beneficially own our capital stock during at least 335 days of each taxable year (other than our first year as a REIT). To help ensure that we meet these tests, our charter restricts the acquisition and ownership of shares of our capital stock. Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and provides that, unless exempted by our Board of Directors, no person may own more than 9.9% in value of the aggregate of the outstanding shares of our capital stock or more than 9.9% in value or in number of shares, whichever is more restrictive, of the aggregate of our outstanding shares of common stock. The ownership limits contained in our charter could delay or prevent a transaction or a change in control of our company under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then current market price for our common stock or would otherwise be in the best interests of our stockholders.

Risks Related to Credit

Our efforts to manage credit risks may fail.

Despite our efforts to manage credit risk, there are many aspects of credit risk that we cannot control. Our credit policies and procedures may not be successful in limiting future delinquencies, defaults, and losses, or they may not be cost effective. Our underwriting reviews may not be effective. Loan servicing companies may not cooperate with our loss mitigation efforts or those efforts may be ineffective. Service providers to securitizations, such as trustees, loans servicers, bond insurance providers, and custodians, may not perform in a manner that promotes our interests. Delay of foreclosures could delay resolution and increase ultimate loss severities, as a result.

The value of the properties collateralizing or underlying the loans or securities we own may decline. The frequency of default and the loss severity on loans upon default may be greater than we anticipate. Interest-only loans, negative amortization loans, adjustable-rate loans, larger balance loans, reduced documentation loans, non-QM loans, subprime loans, alt-a loans, second lien loans, loans in certain locations, and loans or investments that are partially collateralized by non-real estate assets may have increased risks and severity of loss. If property securing or underlying loans become real estate owned as a result of foreclosure, we bear the risk of not being able to sell the property and recovering our investment and of being exposed to the risks attendant to the ownership of real property.

If we underestimate the loss-adjusted yields of our investments in credit sensitive assets, we may experience losses.

We and our managers expect to value our investments in many credit sensitive assets, including, but not limited to, multi-family CMBS, based on loss-adjusted yields taking into account estimated future losses on the loans that we are investing in directly or that underly securities owned by us, and the estimated impact of these losses on expected future cash flows. Our loss estimates may not prove accurate, as actual results may vary from our estimates. In the event that we underestimate the losses relative to the price we pay for a particular investment, we may experience material losses with respect to such investment.

We invest in CMBS that are subordinate to more senior securities issued by the applicable securitization, which entails certain risks.

We currently own and may acquire in the future principal only multi-family CMBS that represent the first loss tranche of a multi-family mortgage loan securitization. These first loss principal only securities are subject to the first risk of loss if any losses are realized on the underlying mortgage loans in the securitization. We also own and may acquire in the future interest only securities issued by multi-family mortgage loan securitizations. However, these interest only CMBS typically only receive payments of interest to the extent that there are funds available in the securitization to make the payments. CMBS generally entitle the holders thereof to receive payments that depend primarily on the cash flow from a specified pool of commercial or multi-family mortgage loans. Consequently, the CMBS, and in particular, first loss principal only CMBS, will be adversely affected by payment defaults, delinquencies and losses on the underlying mortgage loans, each of which could have a material adverse effect on our cash flows and results of operations.

Residential mortgage loans, including non-QM residential mortgage loans, subprime residential mortgage loans and non-performing, sub-performing and re-performing residential mortgage loans, are subject to increased risks.

We acquire and manage residential whole mortgage loans, including loans sourced from distressed markets. Residential mortgage loans, including non-performing, sub-performing and re-performing mortgage loans as well as subprime mortgage loans and mortgage loans that are not deemed "qualified mortgage", or "QM," loans under the rules of the Consumer Financial Protection Bureau, or "CFPB", are subject to increased risks of loss. Unlike Agency RMBS, the residential mortgage loans we invest in generally are not guaranteed by the federal government or any GSE. Additionally, by directly acquiring residential mortgage loans, we do not receive the structural credit enhancements that benefit senior tranches of RMBS. A residential whole mortgage loan is directly exposed to losses resulting from default. Therefore, the value of the underlying property, the creditworthiness and financial position of the borrower and the priority and enforceability of the lien will significantly impact the value of such mortgage. In the event of a foreclosure, we may assume direct ownership of the underlying real estate. The liquidation proceeds upon sale of such real estate may not be sufficient to recover our cost basis in the loan, and any costs or delays involved in the foreclosure or liquidation process may increase losses.

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

Our targeted assets currently include distressed residential loans that we acquire from third parties, typically at a discount. Distressed residential loans sell at a discount because they may constitute riskier investments than those selling at or above par value. The distressed residential loans we invest in may be distressed because a borrower may have defaulted thereupon, because the borrower is or has been in the past delinquent on paying all or a portion of his obligation under the loan or because the loan may otherwise contain credit quality that is considered to be poor. The likelihood of full recovery of a distressed loan's principal and contractual interest is less than that for loans trading at or above par value. Although we typically expect to receive less than the principal amount or face value of the distressed residential loans that we purchase, the return that we in fact receive thereupon may be less than our investment in such loans due to the failure of the loans to perform or reperform. An economic downturn would exacerbate the risks of the recovery of the full value of the loan or the cost of our investment therein.

Second mortgage loan investments expose us to greater credit risks.
We expect to invest in second mortgages on residential properties, which are subject to a greater risk of loss than a traditional mortgage. Our security interest in the property securing a second mortgage is subordinated to the interest of the first mortgage holder and the second mortgages have a higher combined loan-to-value ratio than do the first mortgages. If the borrower experiences difficulties in making senior lien payments or if the value of the property is equal to or less than the amount needed to repay the borrower's obligation to the first mortgage holder upon foreclosure, our investment in the second mortgage loan may not be repaid in full or at all. Further, it is likely that any investments we make in second mortgages will be placed with private entities and not insured by a GSE.

If we sell or transfer any whole mortgage loans to a third party, including a securitization entity, we may be required to repurchase such loans or indemnify such third party if we breach representations and warranties.

When we sell or transfer any whole mortgage loans to a third party, including a securitization entity, we generally are required to make customary representations and warranties about such loans to the third party. Our residential mortgage loan sale agreements and terms of any securitizations into which we sell or transfer loans will generally require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser or securitization. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against an originating broker or correspondent. Repurchased loans are typically worth only a fraction of the original price. Significant repurchase activity could materially adversely affect our business, financial condition and results of operations and our ability to pay dividends to our stockholders.

Risks Related to Our Use of Hedging Strategies

Hedging against credit events and interest rate changes and other risks may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Subject to compliance with the requirements to qualify as a REIT, we engage in certain hedging transactions to limit our exposure to changes in interest rates and therefore may expose ourselves to risks associated with such transactions. We may utilize instruments such as interest rate swaps, caps, collars and floors and Eurodollar and U.S. Treasury futures to seek to hedge the interest rate risk associated with our portfolio. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, we may establish other hedging positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, at any point in time we may choose not to hedge all or a portion of these risks, and we generally will not hedge those risks that we believe are appropriate for us to take at such time, or that we believe would be impractical or prohibitively expensive to hedge.

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Even if we do choose to hedge certain risks, for a variety of reasons we generally will not seek to establish a perfect correlation between our hedging instruments and the risks being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. Our hedging activity will vary in scope based on the composition of our portfolio, our market views, and changing market conditions, including the level and volatility of interest rates. When we do choose to hedge, hedging may fail to protect or could materially adversely affect us because, among other things:

- either we or our external managers may fail to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the assets in the portfolio being hedged;

- either we or our external managers may fail to recalculate, re-adjust and execute hedges in an efficient and timely manner;

- the hedging transactions may actually result in poorer over-all performance for us than if we had not engaged in the hedging transactions;

- credit hedging can be expensive, particularly when the market is forecasting future credit deterioration and when markets are more illiquid;

- interest rate hedging can be expensive, particularly during periods of volatile interest rates;

- available hedges may not correspond directly with the risks for which protection is sought;

- the durations of the hedges may not match the durations of the related assets or liabilities being hedged;

- many hedges are structured as over-the-counter contracts with counterparties whose creditworthiness is not guaranteed, raising the possibility that the hedging counterparty may default on their payment obligations; and

- to the extent that the creditworthiness of a hedging counterparty deteriorates, it may be difficult or impossible to terminate or assign any hedging transactions with such counterparty.

For these and other reasons, our hedging activity may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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

Hedging instruments and other derivatives involve risk because they may not, in many cases, be traded on regulated exchanges and may not be guaranteed or regulated by any U.S. or foreign governmental authorities. Consequently, for these instruments, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. We are restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with one counterparty. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default under the hedging agreement. Default by a party with whom we enter into a hedging transaction may result in losses and may force us to re-initiate similar hedges with other counterparties at the then-prevailing market levels. Generally we will seek to reserve the right to terminate our hedging transactions upon a counterparty’s insolvency, but absent an actual insolvency, we may not be able to terminate a hedging transaction without the consent of the hedging counterparty, and we may not be able to assign or otherwise dispose of a hedging transaction to another counterparty without the consent of both the original hedging counterparty and the potential assignee. If we terminate a hedging transaction, we may not be able to enter into a replacement contract in order to cover our risk. There can be no assurance that a liquid secondary market will exist for hedging instruments purchased or sold, and therefore we may be required to maintain any hedging position until exercise or expiration, which could materially adversely affect our business, financial condition and results of operations.

The Commodity Futures Trading Commission ("CFTC ") and certain commodity exchanges have established limits referred to as speculative position limits or position limits on the maximum net long or net short position which any person or group of persons may hold or control in particular futures and options. Limits on trading in options contracts also have been established by the various options exchanges. It is possible that trading decisions may have to be modified and that positions held may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could materially adversely affect our business, financial condition and results of operation and our ability to make distributions to our stockholders.

Certain of our hedging instruments are regulated by the CFTC and such regulations may cause us to incur increased compliance costs.

From time to time, we enter into interest rate swaps and other derivative instruments on corporate indices to hedge risks associated with our portfolio. Entities entering into such swaps are exposed to credit losses in the event of non-performance by counterparties to these transactions. Effective October 12, 2012, the CFTC issued new rules regarding such swaps under the authority granted to it pursuant to the Dodd-Frank Act. Although the new rules do not directly affect the negotiations and terms of individual hedging transactions between counterparties, they do require that since September 9, 2013, these swap transactions be cleared through registered derivatives clearing organizations, or swap execution facilities, through standardized documents under which each swap counterparty transfers its position to another entity. In this arrangement, the centralized clearinghouse effectively becomes the counterparty to each side of the swap. It is the intent of the Dodd-Frank Act that the clearing of swaps in this manner is designed to avoid concentration of swap risk in any single entity by spreading and centralizing the risk in the clearinghouse and its members. In addition to greater initial and periodic margin (collateral) requirements and additional transaction fees both by the swap execution facility and the clearinghouse, the swap transactions are now subjected to greater regulation by both the CFTC and the SEC. These additional fees, costs, margin requirements, documentation, and regulation could adversely affect our business and results of operations.

Our delayed delivery transactions, including TBAs, subject us to certain risks, including price risks and counterparty risks.

We purchase a significant portion of our Agency RMBS through delayed delivery transactions, including TBAs. In a delayed delivery transaction, we enter into a forward purchase agreement with a counterparty to purchase either (i) an identified Agency RMBS, or (ii) a to-be-issued (or “to-be-announced”) Agency RMBS with certain terms. As with any forward purchase contract, the value of the underlying Agency RMBS may decrease between the contract date and the settlement date. Furthermore, a transaction counterparty may fail to deliver the underlying Agency RMBS at the settlement date. If any of the above risks were to occur, our financial condition and results of operations may be materially adversely affected.

Risks Related to Debt Financing

Failure to procure adequate funding and capital would adversely affect our results and may, in turn, negatively affect the value of our common stock and our ability to distribute cash to our stockholders.

We depend upon the availability of adequate funding and capital for our operations. To maintain our status as a REIT, we are required to distribute at least 90% of our REIT taxable income annually, determined without regard to the deduction for dividends paid and excluding net capital gain, to our stockholders and therefore are not able to retain our earnings for new investments. We cannot assure you that any, or sufficient, funding or capital will be available to us in the future on terms that are acceptable to us. In the event that we cannot obtain sufficient funding and capital on acceptable terms, there may be a negative impact on the value of our common stock and our ability to make distributions to our stockholders, and you may lose part or all of your investment.

Our access to financing sources, which may not be available on favorable terms, or at all, may be limited, and this may materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We depend upon the availability of adequate capital and financing sources on acceptable terms to fund our operations. However, as previously discussed, the capital and credit markets have experienced unprecedented levels of volatility and disruption in recent years that has generally caused a reduction of available credit. Continued volatility or disruption in the credit markets or a downturn in the global economy could materially adversely affect one or more of our lenders and could cause one or more of our lenders to be unwilling or unable to provide us with financing, or to increase the costs of that financing, or to become insolvent. Although we finance some of our assets with longer-term structured financing having terms of three years or more, we rely heavily on access to short-term borrowings, primarily in the form of repurchase agreements, to finance our investments. We are currently party to repurchase agreements of a short duration and there can be no assurance that we will be able to roll over or re-set these borrowings on favorable terms, if at all. In the event we are unable to roll over or re-set our repurchase agreement borrowings, it may be more difficult for us to obtain debt financing on favorable terms or at all. In addition, regulatory capital requirements imposed on our lenders have changed the willingness of many repurchase agreement lenders to make repurchase agreement financing available and additional regulatory capital requirements imposed on our lenders may cause them to change, limit, or increase the cost of, the financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price. Under current market conditions, securitizations are generally unavailable or limited, which has also limited borrowings under warehouse facilities and other credit facilities that are intended to be refinanced by such securitizations. Consequently, depending on market conditions at the relevant time, we may have to rely on additional equity issuances to meet our capital and financing needs, which may be dilutive to our stockholders, or we may have to rely on less efficient forms of debt financing that restrict our operations or consume a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities, cash distributions to our stockholders and other purposes. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause us to curtail our investment activities and/or dispose of assets, which could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We may incur increased borrowing costs related to repurchase agreements and that would adversely affect our profitability.

Currently, a significant portion of our borrowings are collateralized borrowings in the form of repurchase agreements. If the interest rates on these agreements increase at a rate higher than the increase in rates payable on our investments, our profitability would be adversely affected.

Our borrowing costs under repurchase agreements generally correspond to short-term interest rates such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon a number of factors, including, without limitation:

- the movement of interest rates;

- the availability of financing in the market; and

- the value and liquidity of our mortgage-related assets.

During 2008 and 2009, many repurchase agreement lenders required higher levels of collateral than they had required in the past to support repurchase agreements collateralized by RMBS. Although these collateral requirements have been reduced to more appropriate levels, we cannot assure you that they will not again experience a dramatic increase.

If the interest rates, lending margins or collateral requirements under our short-term borrowings, including repurchase agreements, increase, or if lenders impose other onerous terms to obtain this type of financing, our results of operations will be adversely affected.

The repurchase agreements that we use to finance our investments may require us to provide additional collateral, which could reduce our liquidity and harm our financial condition.

We use repurchase agreements to finance certain of our investments, primarily RMBS. If the market value of the loans or securities pledged or sold by us to a funding source decline in value, we may be required by the lending institution to provide additional collateral or pay down a portion of the funds advanced, but we may not have the funds available to do so. Posting additional collateral to support our repurchase agreements will reduce our liquidity and limit our ability to leverage our assets. In the event we do not have sufficient liquidity to meet such requirements, lending institutions can accelerate our indebtedness, increase our borrowing rates, liquidate our collateral at inopportune times and terminate our ability to borrow. This could result in a rapid deterioration of our financial condition and possibly require us to file for protection under the U.S. Bankruptcy Code.

We leverage our equity, which can exacerbate any losses we incur on our current and future investments and may reduce cash available for distribution to our stockholders.

We leverage our equity through borrowings, generally through the use of repurchase agreements and other short-term borrowings or through longer-term structured debt, such as CDOs and other forms of securitized debt. We may, in the future, utilize other forms of borrowing. The amount of leverage we incur varies depending on the asset type, our ability to obtain borrowings, the cost of the debt and our lenders' estimates of the value of our portfolio's cash flow. The return on our investments and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets we hold in our investment portfolio. Further, the leverage on our equity may exacerbate any losses we incur.

Our debt service payments will reduce the net income available for distribution to our stockholders. We may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to sale to satisfy our debt obligations. A decrease in the value of the assets may lead to margin calls under our repurchase agreements which we will have to satisfy. Significant decreases in asset valuation, could lead to increased margin calls, and we may not have the funds available to satisfy any such margin calls. Although we have established target leverage amounts for many of our assets, there is no established limitation, other than may be required by our financing arrangements, on our leverage ratio or on the aggregate amount of our borrowings.

If we are unable to leverage our equity to the extent we currently anticipate, the returns on certain of our assets could be diminished, which may limit or eliminate our ability to make distributions to our stockholders.

If we are limited in our ability to leverage our assets to the extent we currently anticipate, the returns on these assets may be harmed. A key element of our strategy is our use of leverage to increase the size of our portfolio in an attempt to enhance our returns. Our repurchase agreements, excluding our repurchase agreements with Deutsche Bank AG, Cayman Islands Branch that finance our residential mortgage loans, including our distressed loans are not currently committed facilities, meaning that the counterparties to these agreements may at any time choose to restrict or eliminate our future access to the facilities and we have no other committed credit facilities through which we may leverage our equity. If we are unable to leverage our equity to the extent we currently anticipate, the returns on our portfolio could be diminished, which may limit or eliminate our ability to make distributions to our stockholders.

We directly or indirectly utilize non-recourse securitizations and recourse structured financings and such structures expose us to risks that could result in losses to us.

We sometimes utilize non-recourse securitizations of our investments in mortgage loans or CMBS to the extent consistent with the maintenance of our REIT qualification and exclusion from the Investment Company Act in order to generate cash for funding new investments and/or to leverage existing assets. In most instances, this involves us transferring loans or CMBS owned by us to a SPE in exchange for cash and typically the ownership certificate or residual interest in the entity. In some sale transactions, we also retain a subordinated interest in the loans or CMBS sold, such as a B-note. The securitization or other structured financing of our portfolio investments might magnify our exposure to losses on those portfolio investments because the subordinated interest we retain in the loans or CMBS sold would be subordinate to the senior interest in the loans or CMBS sold, and we would, therefore, absorb all of the losses sustained with respect to a loan sold before the owners of the senior interest experience any losses. Under the terms of these financings, which generally have terms of three to ten years, we may agree to receive no cash flows from the assets transferred to the SPE until the debt issued by the special purpose entity has matured or been repaid. We cannot be assured that we will be able to access the securitization markets in the future, or be able to do so at favorable rates. The inability to consummate longer term financing for the credit sensitive assets in our portfolio 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 our performance and our ability to grow our business.

In addition, under the terms of the securitization or structured financing, we may have limited or no ability to sell, transfer or replace the assets transferred to the SPE, which could have a material adverse effect on our ability to sell the assets opportunistically or during periods when our liquidity is constrained or to refinance the assets. Finally, we have in the past and may in the future guarantee certain terms or conditions of these financings, including the payment of principal and interest on the debt issued by the SPE, the cash flows for which are typically derived from the assets transferred to the entity. If a SPE defaults on its obligations and we have guaranteed the satisfaction of that obligation, we may be materially adversely affected.

If a counterparty to our repurchase transactions defaults on its obligation to resell the underlying security back to us at the end of the transaction term or if we default on our obligations under the repurchase agreement, we may incur losses.

When we engage in repurchase transactions, we generally sell RMBS, CMBS, mortgage loans or certain other assets to lenders (i.e., repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same security or asset back to us at the end of the term of the transaction. Because the cash we receive from the lender when we initially sell the security or asset to the lender is less than the value of that security or asset (this difference is referred to as the “haircut”), if the lender defaults on its obligation to resell the same security or asset back to us we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the security). Certain of the assets that we pledge as collateral, including Agency IOs, CLOs and distressed residential loans are currently subject to significant haircuts. Further, if we default on one of our obligations under a repurchase transaction, the lender can terminate the transaction and cease entering into any other repurchase transactions with us. Our repurchase agreements contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default. Any losses we incur on our repurchase transactions could adversely affect our earnings and thus our cash available for distribution to our stockholders.

Our use of repurchase agreements to borrow funds may give our lenders greater rights in the event that either we or a lender files for bankruptcy.

Our borrowings under repurchase agreements may qualify for special treatment under the bankruptcy code, giving our lenders the ability to avoid the automatic stay provisions of the bankruptcy code and to take possession of and liquidate our collateral under the repurchase agreements without delay in the event that we file for bankruptcy. Furthermore, the special treatment of repurchase agreements under the bankruptcy code may make it difficult for us to recover our pledged assets in the event that a lender files for bankruptcy. Thus, the use of repurchase agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either a lender or us.

Our liquidity may be adversely affected by margin calls under our repurchase agreements because we are dependent in part on the lenders' valuation of the collateral securing the financing.

Each of these repurchase agreements allows the lender, to varying degrees, to revalue the collateral to values that the lender considers to reflect market value. If a lender determines that the value of the collateral has decreased, it may initiate a margin call requiring us to post additional collateral to cover the decrease. When we are subject to such a margin call, we must provide the lender with additional collateral or repay a portion of the outstanding borrowings with minimal notice. Any such margin call could harm our liquidity, results of operation and financial condition. Additionally, in order to obtain cash to satisfy a margin call, we may be required to liquidate assets at a disadvantageous time, which could cause it to incur further losses and adversely affect our results of operations and financial condition.

Risks Related to Regulatory Matters

Changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. government may adversely affect our business.

Payments on the Agency RMBS (excluding Agency IOs) in which we invest are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. Fannie Mae and Freddie Mac are government sponsored enterprises, or "GSEs," but their guarantees are not backed by the full faith and credit of the United States. As broadly publicized, significant losses at Fannie Mae and Freddie Mac caused the U.S. Government to place Fannie Mae and Freddie Mac under federal conservatorship and to inject significant capital in these businesses. Questions regarding the continued viability of Fannie Mae and Freddie Mac, as currently structured, including the guarantees that back the RMBS issued by them, and the U.S. Government's participation in the U.S. residential mortgage market through the GSEs, continue to persist. In February 2011, the U.S. Department of the Treasury along with the U.S. Department Housing and Urban Development released a much-awaited report titled "Reforming America's Housing Finance Market," which outlines recommendations for reforming the U.S. housing system, including reducing the roles of Fannie Mae and Freddie Mac and transforming the government's involvement in the housing market and its relationship to Fannie Mae and Freddie Mac. In February 2012, the Federal Housing Finance Agency, or FHFA, released its "Strategic Plan for Enterprise Conservatorships," as updated in May 2014, which sets forth three goals for the next phase of the Fannie Mae and Freddie Mac conservatorships, which include (i) build a new infrastructure for the secondary mortgage market, (ii) gradually reduce Fannie Mae and Freddie Mac's presence in the marketplace while simplifying and shrinking their operations, and (iii) maintaining foreclosure prevention activities and credit availability for new and refinanced mortgages. Since the FHFA first released its strategic plan, there have been a number of other housing finance reform proposals introduced, both from industry groups and by the U.S. Congress, many of which could potentially increase private capital flows to the mortgage sector while reducing taxpayer risk. One of the proposed bills to receive serious consideration is the "Housing Finance Reform and Taxpayer Protection Act of 2013," which, among other things, would eliminate Freddie Mac and Fannie Mae and replace them with a new agency which would provide a financial guarantee that would only be tapped after private institutions and investors stepped in. This proposed bill failed to make it out of the Senate Banking Committee for a full vote. To date, no definitive legislation has been enacted with respect to a possible unwinding of Fannie Mae or Freddie Mac or a material reduction in their roles in the U.S. mortgage market and it is not possible at this time to predict the scope and nature of the actions that the U.S. Government will ultimately take with respect to these entities.

As discussed above, each of Fannie Mae, Freddie Mac and Ginnie Mae could be dissolved and the U.S. Government could determine to stop providing liquidity support of any kind to the mortgage market. If Fannie Mae, Freddie Mac or Ginnie Mae were eliminated, or their structures were to change radically or the U.S. Government significantly reduced its support for any or all of them which would drastically reduce the amount and type of Agency RMBS available for purchase, we may be unable or significantly limited in our ability to acquire Agency RMBS, which, in turn, could materially adversely affect our ability to maintain our exclusion from regulation as an investment company under the Investment Company Act. Moreover, any changes to the nature of the guarantees provided by, or laws affecting, Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the credit quality of the guarantees, could increase the risk of loss on purchases of Agency RMBS issued by these GSEs and could have broad adverse market implications for the Agency RMBS they currently guarantee and the mortgage industry generally. Any action that affects the credit quality of the guarantees provided by Fannie Mae, Freddie Mac and Ginnie Mae could materially adversely affect the value of the Agency RMBS and other residential mortgage-related assets that we own or seek to acquire. In addition, any market uncertainty that arises from any such proposed changes, or the perception that such changes will come to fruition, could have a similar impact on us and the values of the Agency RMBS and other mortgage-related assets that we own.

In addition, we rely on our Agency RMBS as collateral for our financings under the repurchase agreements that we have entered into. Any decline in their value, or perceived market uncertainty about their value, would make it more difficult for us to obtain financing on our Agency RMBS on acceptable terms or at all, or to maintain compliance with the terms of any financing transactions.

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

The U.S. Government, through the U.S. Treasury, the Federal Housing Administration, or "FHA", and the Federal Deposit Insurance Corporation, or “FDIC," commenced implementation of programs designed to provide homeowners with assistance in avoiding residential or commercial mortgage loan foreclosures, including the Home Affordable Modification Program, or “HAMP,” which provides homeowners with assistance in avoiding residential mortgage loan foreclosures, and the Home Affordable Refinance Program, or “HARP,” which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments at loan-to-value ratios up to 125% without new mortgage insurance. The programs may involve, among other things, the modification of residential mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans.

Loan modification and refinance programs may adversely affect the performance of Agency RMBS, non-Agency RMBS and residential mortgage loans owned by us. Residential distressed mortgage loans and non-Agency RMBS are particularly sensitive to loan modification and refinance programs, as a significant number of loan modifications with respect to a given security or pool of loans, including those related to principal forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such investments. In addition, it is also likely that loan modifications would result in increased prepayments on some RMBS and residential mortgage loans.

The U.S. Congress and various state and local legislatures have considered in the past, and in the future may adopt, legislation, which, among other provisions, would permit limited assignee liability for certain violations in the mortgage loan origination process, and would allow judicial modification of loan principal in the event of personal bankruptcy. We cannot predict whether or in what form the U.S. Congress or the various state and local legislatures may enact legislation affecting our business or whether any such legislation will require us to change our practices or make changes in our portfolio in the future. These changes, if required, could materially adversely affect our business, results of operations and financial condition and our ability to make distributions to our stockholders, particularly if we make such changes in response to new or amended laws, regulations or ordinances in any state where we acquire a significant portion of our mortgage loans, or if such changes result in us being held responsible for any violations in the mortgage loan origination process. These loan modification programs, future legislative or regulatory actions, including possible amendments to the bankruptcy laws, which result in the modification of outstanding residential mortgage loans, as well as changes in the requirements necessary to qualify for refinancing mortgage loans with Fannie Mae, Freddie Mac or Ginnie Mae, may adversely affect the value of, and the returns on, our assets which, in turn, could materially adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

Actions of the U.S. Government, including the U.S. Congress, the U.S. Federal Reserve, U.S. Treasury and other governmental and regulatory bodies, to stabilize or reform the financial markets and economy may not achieve their desired effect and may materially adversely affect our business, financial condition and results of operations and our ability to pay dividends to our stockholders

In response to turmoil in the financial markets beginning in 2007, the U.S. Government, including the U.S. Congress, U.S. Federal Reserve, U.S. Treasury and other governmental and regulatory bodies have taken a number of actions designed to stabilize and reform the financial markets and economy. For example, the Federal Reserve implemented three different parts of the Federal Reserve’s accommodative monetary policy that was designed to keep long-term interest rates at low levels. The most recent quantitative easing program, known as "QE3," involved the purchase by the Federal Reserve of an additional $40 billion of Agency RMBS and an additional $45 million of longer-term U.S. Treasury securities per month until key economic indicators showed sufficient signs of improvement.

Given indications that the U.S. economy had improved sufficiently, the Federal Reserve reduced the pace of its purchases beginning in December 2013 and ultimately ending QE3 in October 2014. In December 2015, for the first time since 2006, the Federal Reserve increased the target for the federal funds rate by 25 basis points and has indicated its expectations for additional rate hikes in 2016. Should the U.S. economy begin to indicate signs of deterioration, the Federal Reserve could decide to restart an asset purchase program or institute other measures designed to reduce interest rates. These measures could lead to a flattening in the yield curve, and increased prepayment rates (resulting from lower long-term interest rates, including mortgage rates), and a narrowing of our net interest margin.

There can be no assurance that, in the long term, these actions taken by the U.S. Government will improve the efficiency and stability of the financial markets or the economy. To the extent the financial markets do not respond favorably to any of these actions or such actions do not function as intended over the longer term, our business may be harmed. The U.S. Government, the U.S. Federal Reserve, the U.S. Treasury and other governmental and regulatory bodies may take additional actions in the future to address financial crises and stimulate the economy. We cannot predict whether or when such actions may occur, and such actions could have an adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

We could be subject to liability for potential violations of predatory lending laws, which could materially adversely affect our business, financial condition and results of operations, and our ability to pay dividends to our stockholders.

Residential mortgage loan originators and servicers are required to comply with various federal, state and local laws and regulations, including anti-predatory lending laws and laws and regulations imposing certain restrictions on requirements on high cost loans. Failure of residential mortgage loan originators or servicers to comply with these laws, to the extent any of their residential mortgage loans become part of our investment portfolio, could subject us, as an assignee or purchaser of the related residential mortgage loans, to monetary penalties and could result in the borrowers rescinding the affected residential mortgage loans. Lawsuits have been brought in various states making claims against assignees or purchasers of high cost loans for violations of state law. Named defendants in these cases have included numerous participants within the secondary mortgage market. If the loans are found to have been originated in violation of predatory or abusive lending laws, we could incur losses that would materially adversely affect our business.

The Dodd-Frank Act and regulations implementing such legislation have had a substantial impact on the mortgage industry and the RMBS markets; these regulations as well as new and pending regulations yet to be implemented under Dodd-Frank may have an adverse impact on our business, results of operations and financial condition.

On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which has changed and continues to significantly change the regulation of financial institutions and the financial services industry, including the mortgage industry. The Dodd-Frank Act tasked many agencies with issuing a variety of new regulations, including rules related to mortgage origination, mortgage servicing, securitization transactions and derivatives. While a majority of the rulemaking requirements established by the Dodd-Frank Act have been finalized, a significant number of rulemakings remain in the proposal phase. Consequently, it is not possible to predict how additional regulation under the Dodd-Frank Act will affect our business, and there can be no assurance that new rules promulgated under the Dodd-Frank Act will not have an adverse effect on our business, results of operations and financial condition.

The Dodd-Frank Act created a new regulator, the CFPB, which is responsible for regulating the offering and provision of financial products and services for personal, family and household purposes. In addition to assuming many of the consumer financial protection functions exercised by other federal regulators under certain enumerated financial protection statutes, such as the Truth in Lending Act, or "TILA," the Real Estate Settlement Procedures Act, or "RESPA" and the Fair Credit Reporting Act, the CFPB was granted broad rulemaking and enforcement authority to protect consumers from unfair, deceptive or abusive practices. The CFPB has issued a series of final rules as part of ongoing efforts to effect reforms and create uniform standards for the mortgage lending and servicing industries. These new rules, many of which became effective recently, include requirements addressing how lenders must evaluate a consumer’s ability to repay a mortgage loan, what specific communications must be made to consumers at various stages in the mortgage lending and servicing processes, how consumer account records must be maintained and how servicers must respond to written borrower requests, complaints and notices of errors. The rules also provide specific guidance relating to servicing delinquent loans, undertaking loss mitigation efforts and commencing foreclosure proceedings. In addition, the CFPB has also issued final rules that combine the mortgage disclosures consumers are required to receive under TILA and RESPA, which will become effective in August 2015. The foregoing rules have led and will likely lead to increased costs to originate and service loans across the mortgage industry, and given their complexity, it is anticipated the originators, servicers and other mortgage industry participants will be exposed to greater regulatory scrutiny from federal and state regulators, and increased litigation and complaints from both consumers and government officials. We have incurred and expect in the future to incur ongoing operational and system costs as we build and maintain processes to ensure compliance with the rules and regulations applicable to us as well as to monitor compliance by our business partners and third-party service providers. Additional rules and regulations implemented by the CFPB could lead to changes in the way we conduct or business and increased costs of compliance, both of which may have an adverse impact on our business and financial condition.

Certain provisions of Maryland law and our charter and bylaws could hinder, delay or prevent a change in control which could have an adverse effect on the value of our securities.

Certain provisions of Maryland law, our charter and our bylaws may have the effect of delaying, deferring or preventing transactions that involve an actual or threatened change in control. These provisions include the following, among others:

- our charter provides that, subject to the rights of one or more classes or series of preferred stock to elect one or more directors, a director may be removed with or without cause only by the affirmative vote of holders of at least two-thirds of all votes entitled to be cast by our stockholders generally in the election of directors;
- our bylaws provide that only our Board of Directors shall have the authority to amend our bylaws;
- under our charter, our Board of Directors has authority to issue preferred stock from time to time, in one or more series and to establish the terms, preferences and rights of any such series, all without the approval of our stockholders;
- the Maryland Business Combination Act; and
- the Maryland Control Share Acquisition Act.

Although our Board of Directors has adopted a resolution exempting us from application of the Maryland Business Combination Act and our bylaws provide that we are not subject to the Maryland Control Share Acquisition Act, our Board of Directors may elect to make the “business combination” statute and “control share” statute applicable to us at any time and may do so without stockholder approval.

Maintenance of our Investment Company Act exemption imposes limits on our operations.

We have conducted and intend to continue to conduct our operations so as not to become regulated as an investment company under the Investment Company Act. We believe that there are a number of exclusions under the Investment Company Act that are applicable to us. To maintain the exclusion, the assets that we acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act. On August 31, 2011, the SEC published a concept release entitled “Companies Engaged in the Business of Acquiring Mortgages and Mortgage Related Instruments” (Investment Company Act Rel. No. 29778). This release suggests that the SEC may modify the exclusion relied upon by companies similar to us that invest in mortgage loans and mortgage-backed securities. If the SEC acts to narrow the availability of, or if we otherwise fail to qualify for, our exclusion, we could, among other things, be required either (a) to change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have a material adverse effect on our operations and the market price of our common stock.

Tax Risks Related to Our Structure

Failure to qualify as a REIT would adversely affect our operations and ability to make distributions.

We have operated and intend to continue to operate so to qualify as a REIT for federal income tax purposes. Our continued qualification as a REIT will depend on our ability to meet various requirements concerning, among other things, the ownership of our outstanding stock, the nature of our assets, the sources of our income, and the amount of our distributions to our stockholders. In order to satisfy these requirements, we might have to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our investment performance. Moreover, while we intend to continue to operate so to qualify as a REIT for federal income tax purposes, given the highly complex nature of the rules governing REITs, there can be no assurance that we will so qualify in any taxable year.

If we fail to qualify as a REIT in any taxable year and we do not qualify for certain statutory relief provisions, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. We might be required to borrow funds or liquidate some investments in order to pay the applicable tax. Our payment of income tax would reduce our net earnings available for investment or distribution to stockholders. Furthermore, if we fail to qualify as a REIT and do not qualify for certain statutory relief provisions, we would no longer be required to make distributions to stockholders. Unless our failure to qualify as a REIT were excused under the federal income tax laws, we generally would be disqualified from treatment as a REIT for the four taxable years following the year in which we lost our REIT status.

REIT distribution requirements could adversely affect our liquidity.

In order to qualify as a REIT, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income, excluding any net capital gain. To the extent that we distribute at least 90%, but less than 100% of our REIT taxable income, we will be subject to corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions paid by us with respect to any calendar year are less than the sum of (i) 85% of our ordinary REIT income for that year, (ii) 95% of our REIT capital gain net income for that year, and (iii) 100% of our undistributed REIT taxable income from prior years.

We have made and intend to continue to make distributions to our stockholders to comply with the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax. However, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax.

Certain of our assets may generate substantial mismatches between REIT taxable income and available cash. Such assets could include mortgage-backed securities we hold that have been issued at a discount and require the accrual of taxable income in advance of the receipt of cash. As a result, our taxable income may exceed our cash available for distribution and the requirement to distribute a substantial portion of our net taxable income could cause us to:

- sell assets in adverse market conditions,
- borrow on unfavorable terms or
- distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt in order to comply with the REIT distribution requirements.

Further, our lenders could require us to enter into negative covenants, including restrictions on our ability to distribute funds or to employ leverage, which could inhibit our ability to satisfy the 90% distribution requirement.

Dividends payable by REITs do not qualify for the reduced tax rates on dividend income from regular corporations.

The maximum U.S. federal income tax rate for dividends payable to domestic stockholders that are individuals, trust and estates is 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates. Although the reduced U.S. federal income tax rate applicable to dividend income from regular corporate dividends does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rate applicable to regular corporate 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 shares of REITs, including our common shares.

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

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

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

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge the RMBS in our investment portfolio. Our aggregate gross income from non-qualifying hedges, fees, and certain other non-qualifying sources cannot exceed 5% of our annual gross income. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. Any hedging income earned by a TRS would be subject to federal, state and local income tax at regular corporate rates. This could increase the cost of our hedging activities or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

Our ability to invest in and dispose of “to be announced” securities could be limited by our REIT status, and we could lose our REIT status as a result of these investments.

In connection with our investment in Agency IOs, we may purchase Agency RMBS through TBAs, or dollar roll transactions. In certain instances, rather than take delivery of the Agency RMBS subject to a TBA, we will dispose of the TBA through a dollar roll transaction in which we agree to purchase similar securities in the future at a predetermined price or otherwise, which may result in the recognition of income or gains. We account for dollar roll transactions as purchases and sales. The law is unclear regarding whether TBAs will be qualifying assets for the 75% asset test and whether income and gains from dispositions of TBAs will be qualifying income for the 75% gross income test.

Until such time as we seek and receive a favorable private letter ruling from the IRS, or we are advised by counsel that TBAs should be treated as qualifying assets for purposes of the 75% asset test, we will limit our investment in TBAs and any non-qualifying assets to no more than 25% of our assets at the end of any calendar quarter. Further, until such time as we seek and receive a favorable private letter ruling from the IRS or we are advised by counsel that income and gains from the disposition of TBAs should be treated as qualifying income for purposes of the 75% gross income test, we will limit our gains from dispositions of TBAs and any non-qualifying income to no more than 25% of our gross income for each calendar year. Accordingly, our ability to purchase Agency RMBS through TBAs and to dispose of TBAs, through dollar roll transactions or otherwise, could be limited.

Moreover, even if we are advised by counsel that TBAs should be treated as qualifying assets or that income and gains from dispositions of TBAs should be treated as qualifying income, it is possible that the IRS could successfully take the position that such assets are not qualifying assets and such income is not qualifying income. In that event, we could be subject to a penalty tax or we could fail to qualify as a REIT if (i) the value of our TBAs, together with our non-qualifying assets for the 75% asset test, exceeded 25% of our gross assets at the end of any calendar quarter or (ii) our income and gains from the disposition of TBAs, together with our non-qualifying income for the 75% gross income test, exceeded 25% of our gross income for any taxable 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 federal income tax purposes and 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 federal, state and local corporate income tax and may incur a significant tax liability as a result of those sales.

We may fail to qualify as a REIT as a result of our investment in another REIT.
We may acquire a significant equity ownership interest in RMI, which intends to make an election to be taxed as a REIT. If RMI were to fail to qualify as a REIT, we would likely fail to satisfy one or more of the REIT gross income and asset tests. If we failed to satisfy a REIT gross income or asset test as a result of an investment in RMI, we would fail to continue to qualify as a REIT unless we are able to qualify for a statutory REIT "savings" provisions, which may require us to pay a significant penalty tax to maintain our REIT qualification.

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Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company does not own any materially important physical properties; however, it does have residential homes (or real estate owned) that it acquires, from time to time, through or in lieu of foreclosures on mortgage loans. As of December 31, 2015, our principal executive and administrative offices are located in leased space at 275 Madison Avenue, Suite 3200, New York, New York 10016.

Item 3. LEGAL PROCEEDINGS

We are at times subject to various legal proceedings arising in the ordinary course of our business. As of the date of this report, we do not believe that any of our current legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations, financial condition or cash flows.

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 Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the NASDAQ Global Select Market under the trading symbol "NYMT". As of December 31, 2015, we had 109,401,721 shares of common stock outstanding and as of December 31, 2015, there were approximately 30 holders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

The following table sets forth, for the periods indicated, the high, low and quarter end closing sales prices per share of our common stock and the cash dividends paid or payable on our common stock on a per share basis:

	Common Stock Prices			Cash Dividends		
	High	Low	Quarter End	Declaration Date	Payment Date	Amount Per Share
Year Ended December 31, 2015						
Fourth quarter	$6.01	$4.99	$5.33	12/16/2015	1/25/2016	$0.24
Third quarter	7.80	5.49	5.49	9/18/2015	10/26/2015	0.24
Second quarter	8.04	7.48	7.48	6/18/2015	7/27/2015	0.27
First quarter	8.11	7.48	7.76	3/18/2015	4/27/2015	0.27

	Common Stock Prices			Cash Dividends		
	High	Low	Quarter End	Declaration Date	Payment Date	Amount Per Share
Year Ended December 31, 2014						
Fourth quarter	$8.20	$7.30	$7.71	12/12/2014	1/26/2015	$0.27
Third quarter	8.03	7.23	7.23	9/18/2014	10/27/2014	0.27
Second quarter	8.12	7.16	7.81	6/18/2014	7/25/2014	0.27
First quarter	8.04	6.79	7.78	3/13/2014	4/25/2014	0.27

We intend to continue to pay quarterly dividends to holders of shares of common stock. Future distributions will be at the discretion of the Board of Directors and will depend on our earnings and financial condition, maintenance of our REIT qualification, restrictions on making distributions under Maryland law and such other factors as our Board of Directors deems relevant.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2015 with respect to compensation plans under which equity securities of the Company are authorized for issuance. The Company has no such plans that were not approved by security holders.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by security holders	—	$—	551,609

Performance Graph

The following line graph sets forth, for the period from December 31, 2010 through December 31, 2015, a comparison of the percentage change in the cumulative total stockholder return on the Company's common stock compared to the cumulative total return of the Russell 2000 Index and the FTSE National Association of Real Estate Investment Trusts Mortgage REIT ("FTSE NAREIT Mortgage REITs") Index. The graph assumes that the value of the investment in the Company's common stock and each of the indices were $100 as of December 31, 2010.

The foregoing graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act or under the Exchange Act, except to the extent we specifically incorporate this information by reference, and shall not otherwise by deemed filed under those acts.

Item 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical operating and financial data. The selected historical operating and financial data for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 have been derived from our historical financial statements.

The information presented below is only a summary and does not provide all of the information contained in our historical financial statements, including the related notes. You should read the information below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical financial statements, including the related notes, (amounts in thousands, except per share data):

Selected Statement of Operations Data:

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
Interest income	$336,838	$378,847	$291,727	$137,348	$24,291
Interest expense	260,651	301,010	231,178	105,926	4,837
Net interest income	76,187	77,837	60,549	31,422	19,454
Other income (loss)	45,841	105,208	29,062	9,105	(3,693)
General, administrative and other expenses	(39,480)	(40,459)	(19,917)	(11,427)	(10,518)
Net income attributable to common stockholders	$67,023	$130,379	$65,387	$28,279	$4,776
Per share basic income	$0.62	$1.48	$1.11	$1.08	$0.46
Per share diluted income	$0.62	$1.48	$1.11	$1.08	$0.46
Dividends declared per common share	$1.02	$1.08	$1.08	$1.06	$1.00
Weighted average shares outstanding-basic	108,399	87,867	59,102	26,067	10,495
Weighted average shares outstanding-diluted	108,399	87,867	59,102	26,067	10,495

Selected Balance Sheet Data:

	As of December 31,				
	2015	2014	2013	2012	2011
Investment securities, available for sale, at fair value	$724,720	$816,647	$912,443	$1,034,711	$200,342
Investment securities, available for sale, at fair value held in securitization trusts	40,734	38,594	92,578	71,159	—
Residential mortgage loans held in securitization trusts (net)	119,921	149,614	163,237	187,229	206,920
Distressed residential mortgage loans held in securitization trusts (net)	114,214	221,591	254,721	60,459	—
Distressed residential mortgage loans (net)	444,775	361,106	9,713	—	—
Multi-family loans held in securitization trusts, at fair value	7,105,336	8,365,514	8,111,022	5,442,906	—
Total assets [(1)]	9,059,564	10,540,005	9,898,675	7,160,401	682,705
Financing arrangements, portfolio investments	577,413	651,965	791,125	889,134	112,674
Financing arrangements, residential mortgage loans	214,490	238,949	—	—	—
Residential collateralized debt obligations	116,710	145,542	158,410	180,979	199,762
Multi-family collateralized debt obligations, at fair value	6,818,901	8,048,053	7,871,020	5,319,573	—
Securitized debt	117,528	232,877	304,964	117,591	—
Subordinated debentures	45,000	45,000	45,000	45,000	45,000

Total liabilities [1]	8,179,038	9,722,078	9,418,009	6,838,395	596,398
Total stockholders’ equity	$880,526	$817,927	$480,666	$322,006	$85,278

(1) Our consolidated balance sheets include assets and liabilities of Consolidated VIEs, as the Company is the primary beneficiary of these VIEs. As of December 31, 2015, December 31, 2014 and December 31, 2013, assets of the Company's Consolidated VIEs totaled $7,413,082, $8,847,078, and $8,665,829, respectively, and the liabilities of these Consolidated VIEs totaled $7,078,162, $8,457,034, and $8,365,345, respectively. See Note 7 of our consolidated financial statements included in this Annual Report for further discussion.

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

General

We are a REIT, for federal income tax purposes, in the business of acquiring, investing in, financing and managing primarily mortgage-related assets and financial assets. Our objective is to deliver long-term stable distributions to our stockholders over changing economic conditions through a combination of net interest margin and net realized capital gains from a diversified investment portfolio. Our portfolio includes certain credit sensitive assets and investments sourced from distressed markets in recent years that create the potential for capital gains, as well as more traditional types of mortgage-related investments that generate interest income.

Our investment portfolio includes residential mortgage loans, including second mortgages and loans sourced from distressed markets, multi-family CMBS, mezzanine loans to and preferred equity investments in owners of multi-family properties, equity and debt securities issued by entities that invest in residential and commercial real estate and commercial real estate-related debt investments and Agency RMBS. Subject to maintaining our qualification as a REIT, we also may opportunistically acquire and manage various other types of mortgage-related and financial assets that we believe will compensate us appropriately for the risks associated with them, including, without limitation, non-Agency RMBS (which may include IOs and POs), collateralized mortgage obligations and securities issued by newly originated residential securitizations, including credit sensitive securities from these securitizations.

We seek to achieve a balanced and diverse funding mix to finance our assets and operations. We currently rely primarily on a combination of short-term borrowings, such as repurchase agreements with terms typically of 30 days , longer term repurchase agreement borrowing with terms between one year and 18 months and longer term structured financings, such as securitizations, with terms longer than one year.

We internally manage a certain portion of our portfolio, including Agency ARMs, fixed-rate Agency RMBS, non-Agency RMBS, CLOs, residential securitized loans and second mortgage loans. In addition, as part of our investment strategy, we also contract with certain external investment managers to manage specific asset types targeted by us. We are a party to separate investment management agreements with Headlands, Midway, and RiverBanc, with Headlands providing investment management services with respect to our investments in certain distressed residential mortgage loans, Midway providing investment management services with respect to our investments in Agency IOs, and RiverBanc providing investment management services with respect to our investments in multi-family CMBS and certain commercial real estate-related investments.

Significant Events in 2015

- We generated net income attributable to common stockholders in 2015 of $67.0 million, or $0.62 per share.

- We declared aggregate 2015 dividends of $1.02 per common share.

- We issued and sold 4,116,115 shares of common stock under our at-the-market offering programs, resulting in net proceeds to us of $31.9 million.

- We closed on an underwritten public offering of 3,600,000 shares of our 7.875% Series C Preferred Stock. The issue and sale of the Series C Preferred Stock resulted in total net proceeds to us of $86.9 million, after deductions of underwriting discounts and commissions and offering expenses.

- We completed the sale of a first loss tranche PO security issued by a single Freddie Mac-sponsored securitization, realizing an aggregate gain of approximately $1.5 million.

- We completed the sale of certain CLO securities, realizing a gain of approximately $3.2 million.
- We sold residential mortgage loans, including distressed residential mortgage loans, with a carrying value of approximately $146.1 million for aggregate proceeds of approximately $175.3 million, which resulted in a net realized gain, before income taxes, of approximately $29.1 million.
- We acquired residential mortgage loans, including distressed residential mortgage loans, for an aggregate purchase cost of approximately $156.0 million.

Key Fourth Quarter 2015 Developments

Repayment of Outstanding Notes from Distressed Residential Mortgage Loan Securitization Transaction

In December 2015, we repaid the outstanding notes from our distressed residential mortgage loan securitization transaction completed in December 2012 with an outstanding principal balance of $5.5 million at the time of repayment. The notes were issued in December 2012 in an original principal amount of $38.7 million.

Acquisition of Pools of Distressed Residential Mortgage Loans

During the fourth quarter of 2015, we closed on the acquisition of two pools of distressed residential mortgage loans for an aggregate purchase price, including accrued interest, of approximately $58.4 million. The pools are comprised of re-performing modified first lien mortgage loans that had an aggregate unpaid principal balance of approximately $70.4 million at the time of acquisition.

Completion of Financing Transactions

On November 25, 2015, we entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch that provides for borrowings in an aggregate principal amount of up to $100 million that may be used to fund the future purchase of residential mortgage loans, which loans will serve as collateral for borrowing thereunder. This master repurchase agreement has a term that will expire on May 25, 2017. The outstanding balance on this master repurchase agreement will bear interest at one-month LIBOR plus 4.0% and expires on May 25, 2017. There was no outstanding balance on this master repurchase agreement as of December 31, 2015.

On December 14, 2015, we amended a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch, which was previously entered into in December 2014. The amended master repurchase agreement provides for borrowings in an aggregate principal amount of up to $250 million collateralized by distressed residential mortgage loans. The amended master repurchase agreement has a term that will expire on December 15, 2016.

Fourth Quarter 2015 Common Stock and Preferred Stock Dividends

On December 16, 2015, our Board of Directors declared a regular quarterly cash dividend of $0.24 per common share for the quarter ended December 31, 2015. The dividend was paid on January 25, 2016 to our common stockholders of record as of December 28, 2015.

On December 16, 2015, our Board of Directors declared a Series B Preferred Stock quarterly cash dividend of $0.484375 per share of Series B Preferred Stock. The dividend was paid on January 15, 2016 to our preferred stockholders of record as of January 1, 2016.

On December 16, 2015, our Board of Directors declared a Series C Preferred Stock quarterly cash dividend of $0.4921875 per share of Series C Preferred Stock. The dividend was paid on January 15, 2016 to our preferred stockholders of record as of January 1, 2016.

Subsequent Events

FHLBI Membership and Advances

On February 20, 2015, our wholly-owned captive insurance subsidiary, Great Lakes Insurance Holdings LLC ("GLIH") was granted membership to the Federal Home Loan Bank of Indianapolis ("FHLBI"). On January 12, 2016, the regulator of the Federal Home Loan Bank ("FHLB") system, the Federal Housing Finance Agency, released a final rule that amends regulations governing FHLB membership, including preventing captive insurance companies from being eligible for FHLB membership. Under the terms of the final rule, our captive insurance subsidiary is required to terminate its membership and repay its existing advances within one year following the effective date of the final rule. In addition, our captive insurance subsidiary is prohibited from taking new advances or renewing existing maturing advances during the one-year transition period. The final rule became effective on February 19, 2016. As of December 31, 2015, the our captive insurance subsidiary had $121 million of outstanding secured advances from the FHLBI. During January 2016, we repaid all of our outstanding FHLBI advances, which repayment was funded primarily through repurchase agreement financing.

Current Market Conditions and Commentary

The housing market, credit conditions and the interest rate environment each have a significant impact on our business. While the U.S. economy grew at a moderate pace throughout 2015 and the U.S. labor market continued its steady, if moderate, advance, the uncertainty surrounding commodity prices, monetary policy and the global economic outlook greatly impacted the volatility in U.S. credit and financial markets. These uncertainties resulted in pricing pressures across many asset classes, including the CMBS market, in the second half of 2015. In light of these conditions, we elected to remain defensive throughout most of the second half of 2015, maintaining a higher than optimal cash position and lower leverage. We limited our investments in the second half of 2015 to primarily originations of loans, both in multi-family mezzanine loan and second lien residential mortgages, as well as purchases of reperforming residential loans. The market conditions discussed below weighed heavily on our strategy and performance in 2015.

General. The U.S. economy grew at a moderate pace in 2015 as evidenced by the 2.4% expansion of real gross domestic product (“GDP”), which was below Federal Reserve policymakers’ forecast at the outset of the 2015 fiscal year. Data for 2015 suggests that economic activity slowed during the second half of the year with GDP only increasing by 0.7% in the fourth quarter 2015 and 2.0% in the third quarter of 2015, compared to an increase of 4.1% in the first half of 2015. According to the minutes of the Federal Reserve’s December 2015 meeting, Federal Reserve policymakers expect slightly lower GDP growth in 2016 and 2017, with the central tendency projections for GDP growth ranging from 2.3% to 2.5% for 2016 and 2.0% to 2.3% for 2017, with slower growth projected in 2018 and beyond.

The labor market continued to display signs of improvement in 2015. According to the U.S. Department of Labor, the U.S. unemployment rate fell from 5.6% as of the end of December 2014 to 5.0% as of the end of December 2015, while total nonfarm payroll employment posted an average monthly increase of 221,000 jobs in 2015, down modestly from an average monthly increase of 246,000 jobs in 2014. Data from the U.S. Department of Labor in January 2016 indicated that the U.S. unemployment rate showed little change from 2015 at 4.9%, while the nonfarm payroll exhibited a slightly slower increase, posting a monthly average increase of only 151,000 jobs for the month.

Global market volatility in equity markets as well as the collapse in oil prices has weighed heavily on the outlook for many global economies. It remains unclear how great an impact these conditions will have on the U.S. economy in the coming months and quarters. Foreign and domestic banks that have lending exposure to the oil industry have experienced significant equity pricing pressure which has been reflected in overall credit spreads across many fixed income sectors, including many that we invest in or to which we are currently exposed.

Federal Reserve and Monetary Policy. In December 2015, given indications that the U.S. economy had improved sufficiently, the Federal Reserve announced that it would raise the target range for the federal funds rate by 25 basis points and has indicated its expectations for additional rate hikes in 2016, although the Federal Reserve opted not to increase the rate at its January 2016 meeting. The Federal Reserve indicated that in determining the size and timing of future adjustments to the target range for the federal funds rate, it will assess progress, both realized and expected, towards and economic conditions relative to its objectives of maximum employment and 2% inflation. Significant uncertainty with respect to the speed at which the Federal Reserve will tighten its monetary policy continues to persist and has resulted in substantial market volatility in recent months. We anticipate further uncertainty as the recent economic data suggests a slowing U.S. economy which may cause the Federal Reserve to leave rates lower for an extended period. Greater uncertainty frequently leads to wider asset spreads or lower prices and higher hedging costs.

Single-Family Homes and Residential Mortgage Market. The residential real estate market showed signs of growth during 2015 after decelerating throughout much of 2014. Data released by S&P Indices for its S&P/Case-Shiller Home Price Indices for November 2015 showed that, on average, home prices increased 5.8% for the 20-City Composite over November 2014. In addition, according to data provided by the U.S. Department of Commerce, privately-owned housing starts for single family homes averaged a seasonally adjusted annual rate of 768,000 during the fourth quarter of 2015, which was 6.1% above the December 2014 rate of 724,000. We expect the single-family residential real estate market to continue to improve modestly in the near term. We expect that improving single family housing fundamentals will have a positive impact on the overall credit profile of our existing portfolio of distressed residential loans.

Multi-family Housing. Apartments and other residential rental properties remain one of the better performing segments of the commercial real estate market. According to data provided by the U.S. Department of Commerce, starts on multi-family homes containing five units or more averaged a seasonally adjusted annual rate of 365,000 during the fourth quarter of 2015 and 409,917 for the full year 2015, as compared to 370,333 for the full year 2014. Moreover, even with the recent growth in supply, vacancy trends in the multi-family sector appear to remain stable. According to the third quarter of 2015 Multifamily Vacancy Index ("MVI"), which is produced by the National Association of Home Builders and surveys the multifamily housing industry's perception of vacancies, the MVI was at 39 for the third quarter of 2015, equal to the level reported for the fourth quarter of 2014. Strength in the multi-family housing sector has contributed to valuation improvements for multi-family properties and, in turn, many of the multi-family CMBS that we own. We expect the multi-family sector to continue to be a strong performer in the near term given the current favorable conditions for multi-family housing in the U.S; however, widening credit spreads in the second half of 2015 has caused valuations in this space to pull back from recent highs.

Credit Spreads. During the first six months of 2015, we saw continued tightening of credit spreads, which had a positive impact on the value of many of our credit sensitive assets while also resulting in a more challenging current return environment for new investment in many of these asset classes. However, during the second half of 2015 and into the beginning of 2016, credit spreads on many of the credit sensitive assets in which we invest widened, which has negatively impacted the valuation of certain of these assets, particularly our multi-family CMBS investments. In the event credit spreads continue to widen, these assets may experience a further decline in valuation.

Financing markets. During 2015, the bond market experienced a significant amount of volatility with the closing yield of the ten-year U.S. Treasury Note trading between 1.68% and 2.50%, settling at 2.27% at December 31, 2015. Although stabilizing somewhat at the end of 2015, the bond has market continued to experience significant fluctuations, largely as a result of market reaction to uncertain monetary policy and conditions in the global economy.

Developments at Fannie Mae and Freddie Mac. Payments on the Agency ARMs and fixed-rate Agency RMBS in which we invest are guaranteed by Fannie Mae and Freddie Mac. In addition, although not guaranteed by Freddie Mac, all of our multi-family CMBS has been issued by securitization vehicles sponsored by Freddie Mac and the Agency IOs we invest in are issued by Fannie Mae, Freddie Mac or Ginnie Mae. As broadly publicized, Fannie Mae and Freddie Mac are presently under federal conservatorship as the U.S. Government continues to evaluate the future of these entities and what role the U.S. Government should continue to play in the housing markets in the future. Since being placed under federal conservatorship, there have been a number of proposals introduced, both from industry groups and by the U.S. Congress, relating to changing the role of the U.S. government in the mortgage market and reforming or eliminating Fannie Mae and Freddie Mac. It remains unclear how the U.S. Congress will move forward on such reform at this time and what impact, if any, this reform will have on mortgage REITs. See "Item 1A. Risk Factors-Risks Related to Our Business and Our Company-Changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. government may adversely affect our business."

Significant Estimates and Critical Accounting Policies

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires the use of estimates, judgments and assumptions that affect reported amounts. These estimates are based, in part, on our judgment and assumptions regarding various economic conditions that we believe are reasonable based on facts and circumstances existing at the time of reporting. The results of these estimates affect reported amounts of assets, liabilities and accumulated other comprehensive income at the date of the consolidated financial statements and the reported amounts of income, expenses and other comprehensive income during the periods presented.

Changes in the estimates and assumptions could have a material effect on these financial statements. Accounting policies and estimates related to specific components of our consolidated financial statements are disclosed in the notes to our consolidated financial statements. In accordance with SEC guidance, those material accounting policies and estimates that we believe are most critical to an investor's understanding of our financial results and condition and which require complex management judgment are discussed below.

Revenue Recognition. Interest income on our investment securities is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with investment securities at the time of purchase or origination are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Interest income on our credit sensitive securities, such as our CMBS that were purchased at a discount to par value, is recognized based on the security's effective interest rate. The effective interest rate on these securities is based on management's estimate from each security of the projected cash flows, which are estimated based on assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, management reviews and, if appropriate, adjusts its cash flow projections based on input and analysis received from external sources, internal models, and its own judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on these securities.

A portion of the purchase discount on the Company's first loss tranche PO multi-family CMBS is designated as non-accretable purchase discount or credit reserve, which partially mitigates the Company's risk of loss on the mortgages collateralizing such multi-family CMBS, and is not expected to be accreted into interest income. The amount designated as a credit reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a credit reserve is more favorable than forecasted, a portion of the amount designated as credit reserve may be accreted into interest income over time. Conversely, if the performance of a security with a credit reserve is less favorable than forecasted, the amount designated as credit reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could be required.

With respect to interest rate swaps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps will be recognized in current earnings.

Fair Value. The Company has established and documented processes for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, then fair value is based upon internally developed models that primarily use inputs that are market-based or independently-sourced market parameters, including interest rate yield curves. Such inputs to the valuation methodology are unobservable and significant to the fair value measurement. The Company's interest-only CMBS, principal-only CMBS, multi-family loans held in securitization trusts and multi-family CDOs are considered to be the most significant of its fair value estimates.

The Company's valuation methodologies are described in "Note 14 – Fair Value of Financial Instruments" included in Item 8 of this Annual Report on Form 10-K.

Residential Mortgage Loans Held in Securitization Trusts – Impaired Loans (net) – Impaired residential mortgage loans held in securitization trusts are recorded at amortized cost less specific loan loss reserves. Impaired loan value is based on management's estimate of the net realizable value taking into consideration local market conditions of the distressed property, updated appraisal values of the property and estimated expenses required to remediate the impaired loan.

Variable Interest Entities – A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. A VIE is defined as an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company consolidates a VIE when it is the primary beneficiary of such VIE. As primary beneficiary, it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

Loan Consolidation Reporting Requirement for Certain Multi-Family K-Series Securitizations – As of December 31, 2015, we owned 100% of the first loss tranche securities of the "Consolidated K-Series." The Consolidated K-Series collectively represents, as of December 31, 2015 and December 31, 2014, five and six, respectively, separate Freddie Mac sponsored multi-family loan K-Series securitizations, of which we, or one of our special purpose entities, or SPEs, own the first loss tranche PO securities and certain IO securities. We determined that the Consolidated K-Series were VIEs and that we are the primary beneficiary of the Consolidated K-Series. As a result, we are required to consolidate the Consolidated K-Series' underlying multi-family loans including their liabilities, income and expenses in our consolidated financial statements. We have elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series will be reflected in our consolidated statement of operations.

Fair Value Option – The fair value option provides an election that allows companies to irrevocably elect fair value for financial assets and liabilities on an instrument-by-instrument basis at initial recognition. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur. The Company elected the fair value option for its Agency IO strategy, certain of its investments in unconsolidated entities and the Consolidated K-Series (as defined in Note 2 to our consolidated financial statements included in this report).

Acquired Distressed Residential Mortgage Loans – Acquired distressed residential mortgage loans that have evidence of deteriorated credit quality at acquisition are accounted for under ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC 310-30"). Management evaluates whether there is evidence of credit quality deterioration as of the acquisition date using indicators such as past due or modified status, risk ratings, recent borrower credit scores and recent loan-to-value percentages. Acquired distressed residential mortgage loans are recorded at fair value at the date of acquisition, with no allowance for loan losses. Under ASC 310-30, the acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an expectation of aggregate cash flows. Once a pool is assembled, it is treated as if it was one loan for purposes of applying the accounting guidance.

Under ASC 310-30, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the “accretable yield,” is accreted into interest income over the life of the loans in each pool or individually using a level yield methodology. Accordingly, our acquired distressed residential mortgage loans accounted for under ASC 310-30 are not subject to classification as nonaccrual classification in the same manner as our residential mortgage loans that were not distressed when acquired by us. Rather, interest income on acquired distressed residential mortgage loans relates to the accretable yield recognized at the pool level or on an individual loan basis, and not to contractual interest payments received at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the “nonaccretable difference,” includes estimates of both the impact of prepayments and expected credit losses over the life of the individual loan, or the pool (for loans grouped into a pool).

Management monitors actual cash collections against its expectations, and revised cash flow expectations are prepared as necessary. A decrease in expected cash flows in subsequent periods may indicate that the loan pool or individual loan, as applicable, is impaired, thus requiring the establishment of an allowance for loan losses by a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield for the loan pool. The adjustment of accretable yield due to a significant increase in expected cash flows is accounted for prospectively as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool or individual loan, as applicable. The impacts of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income.

Recent Accounting Pronouncements

A discussion of recent accounting pronouncements and the possible effects on our financial statements is included in “Note 2 — Summary of Significant Accounting Policies” included in Item 8 of this Annual Report on Form 10-K.

Capital Allocation

The following tables set forth our allocated capital by investment type at December 31, 2015 and December 31, 2014, respectively (dollar amounts in thousands):

At December 31, 2015:

	Agency RMBS(1)	Agency IOs	Multi-Family(2)	Distressed Residential Loans(3)	Residential Securitized Loans(4)	Other(5)	Total
Carrying value	$547,745	$175,408	$450,228	$562,303	$119,921	$15,184	$1,870,789
Liabilities:							
Callable(6)	(489,253)	(88,160)	—	(214,490)	—	—	(791,903)
Non-callable	—	—	(83,871)	(33,657)	(116,710)	(45,000)	(279,238)
Hedges (Net)(7)	2,997	2,623	—	—	—	—	5,620
Cash(8)	5,477	13,663	525	551	—	56,213	76,429
Other	9,311	4,799	(2,185)	13,330	1,187	(27,613)	(1,171)
Net capital allocated	$76,277	$108,333	$364,697	$328,037	$4,398	$(1,216)	$880,526

(1) Includes both Agency ARMs and Agency fixed rate RMBS.

(2) The Company determined it is the primary beneficiary of the Consolidated K-Series and has consolidated the Consolidated K-Series into the Company's financial statements. A reconciliation to our financial statements as of December 31, 2015 follows:

Multi-Family loans held in securitization trusts, at fair value	$7,105,336
Multi-Family CDOs, at fair value	(6,818,901)
Net carrying value	286,435
Investment securities available for sale, at fair value held in securitization trusts	40,734
Total CMBS, at fair value	327,169
Mezzanine loan, preferred equity investments and investments in unconsolidated entities	123,059
Securitized debt	(83,871)
Other	(1,660)
Net Capital in Multi-Family	$364,697

(3) Includes mortgage loans held for sale with a carrying value of $3.3 million that is included in the Company's accompanying consolidated balance sheet in receivables and other assets.

(4) Represents our residential mortgage loans held in securitization trusts. We securitized these loans in 2005.

(5) Other includes non-Agency RMBS and mortgage loans held for sale and mortgage loans held for investment. Other non-callable liabilities consist of $45 million in subordinated debentures.

(6) Includes repurchase agreements and FHLBI advances.

(7) Includes derivative assets, derivative liabilities, payable for securities purchased and restricted cash posted as margin.

(8) Includes $11.6 million held in overnight deposits in our Agency IO portfolio to be used for trading purposes. These deposits are included in the Company's accompanying consolidated balance sheet in receivables and other assets.

At December 31, 2014:

	Agency RMBS[1]	Agency IOs	Multi-Family[2]	Distressed Residential Loans[3]	Residential Securitized Loans[4]	Other[5]	Total
Carrying value	$660,374	$119,131	$430,789	$587,860	$149,614	$41,383	$1,989,151
Liabilities:							
Callable[6]	(585,051)	(66,914)	—	(238,949)	—	—	(890,914)
Non-callable	—	—	(83,513)	(149,364)	(145,542)	(45,000)	(423,419)
Hedges (Net)[7]	3,501	11,415	—	—	—	—	14,916
Cash[8]	2,781	40,572	—	—	—	72,809	116,162
Other	2,731	3,329	(5,569)	39,759	1,531	(29,750)	12,031
Net capital allocated	$84,336	$107,533	$341,707	$239,306	$5,603	$39,442	$817,927

(1) Includes both Agency ARMs and Agency fixed rate RMBS.

(2) The Company determined it is the primary beneficiary of the Consolidated K-Series and has consolidated the Consolidated K-Series into the Company's financial statements. A reconciliation to our financial statements as of December 31, 2014 follows:

Multi-Family loans held in securitization trusts, at fair value	$8,365,514
Multi-Family CDOs, at fair value	(8,048,053)
Net carrying value	317,461
Investment securities available for sale, at fair value held in securitization trusts	38,594
Total CMBS, at fair value	356,055
Mezzanine loan, preferred equity investments and investments in unconsolidated entities	74,734
Securitized debt	(83,513)
Other	(5,569)
Net Capital in Multi-Family	$341,707

(3) Includes mortgage loans held for sale with a carrying value of $5.2 million that is included in the Company's accompanying consolidated balance sheet in receivables and other assets.

(4) Represents our residential mortgage loans held in securitization trusts. We securitized these loans in 2005.

(5) Other includes CLOs having a carrying value of $35.2 million. Other non-callable liabilities consist of $45 million in subordinated debentures.

(6) Includes repurchase agreements.

(7) Includes derivative assets, derivative liabilities, payable for securities purchased and restricted cash posted as margin.

(8) Includes $40.6 million held in overnight deposits in our Agency IO portfolio to be used for trading purposes. These deposits are included in the Company's accompanying consolidated balance sheet in receivables and other assets.

Results of Operations

Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014

For the year ended December 31, 2015, we reported net income attributable to common stockholders of $67.0 million, as compared to net income attributable to common stockholders of $130.4 million for the prior year. The main components of the change in net income for the year ended December 31, 2015 as compared to the prior year are detailed in the following table (amounts in thousands, except per share data):

	For the Years Ended December 31,		
	2015	2014	$ Change
Net interest income	$76,187	$77,837	$(1,650)
Total other income	$45,841	$105,208	$(59,367)
Total general, administrative and other expenses	$(39,480)	$(40,459)	$979
Income from operations before income taxes	$82,548	$142,586	$(60,038)
Income tax expense	$(4,535)	$(6,395)	$1,860
Net income	$78,013	$136,191	$(58,178)
Preferred stock dividends	$(10,990)	$(5,812)	$(5,178)
Net income attributable to common stockholders	$67,023	$130,379	$(63,356)
Basic income per common share	$0.62	$1.48	$(0.86)
Diluted income per common share	$0.62	$1.48	$(0.86)

Net Interest Income

The decrease in net interest income of approximately $1.7 million for the year ended December 31, 2015 as compared to the corresponding period in 2014 was driven by:

- A decrease in net interest income of approximately $7.8 million and $3.4 million in our Agency IO and Agency RMBS portfolios, respectively, in 2015 due to a decrease in average interest earning assets in these portfolios and higher prepayment experience on these assets in 2015.

- A decrease in net interest income of approximately $2.6 million in our multi-family portfolio in 2015 due to a reduction in this portfolio’s average interest earning assets. We sold two multi-family CMBS PO and two IO securities in the third and fourth quarter of 2014 and one multi-family CMBS PO security in the first quarter of 2015 and multiple multi-family CMBS IO securities in the third quarter of 2015.

- A decrease in net interest income of approximately $3.2 million in 2015 due to the sale of CLO securities in the second quarter of 2015.

- A decrease in net interest income of approximately $0.6 million in our residential securitized loan portfolio due to a decrease in average interest earning assets in this portfolio.

- An increase in net interest income of approximately $16.0 million in our distressed residential loan portfolio due to an increase in average interest earning assets in this portfolio. Average interest earning assets in this portfolio increased to $572.8 million for the year ended December 31, 2015 as compared to $249.0 million for the corresponding period in 2014.

Other Income

Total other income decreased by $59.4 million for the year ended December 31, 2015 as compared to the prior year. The change was primarily driven by:

- A decrease in realized gain on investment securities and related hedges of $46.7 million in 2015. Realized gains in our multi-family portfolio decreased by $39.0 million due to the sale of certain multi-family CMBS investments in the third and fourth quarter of 2014 that resulted in a realized gain amounting to $39.1 million. In addition, our Agency IO portfolio generated a $10.9 million increase in realized losses on its derivative instruments for the year ended December 31, 2015. These changes were partially offset by realized gains recognized on the sale of the Company's CLO securities in 2015 amounting to $3.2 million.

- A decrease in net unrealized loss on investment securities and related hedges of $5.0 million for the year ended December 31, 2015, primarily related to our Agency IO portfolio.

- An decline in net unrealized gains on multi-family loans and debt held in securitization trusts of $44.6 million in 2015 due to widening credit spreads in 2015.

- An increase in realized gains on distressed residential mortgage loans of $16.9 million in 2015 due primarily to the sale of two pools of distressed residential mortgage loans in September 2015 with a carrying value of $120.3 million for aggregate proceeds of approximately $144.2 million. Because each loan buyer’s diligence requirements differ, income generation from the workout or resale of these loans remains challenging to predict and is expected to be uneven from quarter to quarter.

- An increase in gain on de-consolidation of $1.5 million in 2015 due to the sale of a first loss PO security issued by a single Freddie Mac-sponsored securitization included in the Consolidated K-Series in the first quarter of 2015.

- An increase in other income of $4.6 million in 2015, which is primarily due to an increase in income from our common and preferred equity ownership interests in RBMI, an entity that invests in commercial real estate and commercial real estate-related debt investments.

Comparative General, Administrative and Other Expenses (dollar amounts in thousands)

	For the Years Ended December 31,		
General, Administrative and Other Expenses:	2015	2014	$ Change
Salaries, benefits and directors’ compensation	$4,661	$4,281	$380
Professional fees	2,542	2,618	(76)
Base management and incentive fees	19,188	24,530	(5,342)
Expenses on distressed residential mortgage loans	10,364	6,429	3,935
Other	2,725	2,601	124
Total	$39,480	$40,459	$(979)

The decrease in base management and incentive fees for the year ended December 31, 2015 as compared to the same period in 2014 was primarily driven by a decrease in incentive compensation earned by RiverBanc. In the third and fourth quarter of 2014, RiverBanc earned incentive compensation from the sale of certain multi-family CMBS investments that generated $39.1 million in realized gains.

The increase in expenses related to distressed residential mortgage loans for the year ended December 31, 2015 as compared to the same period in 2014 is due to a higher average balance of loans outstanding, thereby resulting in higher servicing costs, work-out costs and due diligence costs.

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Comparison of the Year Ended December 31, 2014 to the Year Ended December 31, 2013

For the year ended December 31, 2014, we reported net income attributable to common stockholders of $130.4 million, as compared to net income attributable to common stockholders of $65.4 million for the prior year. The main components of the change in net income for the year ended December 31, 2014 as compared to the prior year are detailed in the following table (dollar amounts in thousands, except per share data):

	For the Years Ended December 31,		
	2014	2013	$ Change
Net interest income	$77,837	$60,549	$17,288
Total other income	$105,208	$29,062	$76,146
Total general, administrative and other expenses	$(40,459)	$(19,917)	$(20,542)
Income from continuing operations before income taxes	$142,586	$69,694	$72,892
Income tax expense	$(6,395)	$(739)	$(5,656)
Net income	$136,191	$68,955	$67,236
Preferred stock dividends	$(5,812)	$(3,568)	$(2,244)
Net income attributable to common stockholders	$130,379	$65,387	$64,992
Basic income per common share	$1.48	$1.11	$0.37
Diluted income per common share	$1.48	$1.11	$0.37

Net Interest Income

The increase in net interest income of approximately $17.3 million for the year ended December 31, 2014 as compared to the prior year was driven by:

- A increase in net interest income of approximately $7.9 million in our multi-family portfolio in 2014 due to an increase in this portfolio’s average interest earning assets. Average interest earning assets in this portfolio increased to $302.0 million for the year ended December 31, 2014 as compared to $233.5 million for the corresponding period in 2013.

- An increase net interest income of approximately $4.8 million in our Agency IO portfolio in 2014 due to an increase in average interest earning assets in this portfolio and lower prepayment experience on these assets in 2014 as compared to 2013.

- An increase in net interest income of approximately $3.3 million in our distressed residential loan portfolio in 2014 due to an increase in this portfolio's average interest earning assets. Average interest earning assets in this portfolio increased to $249.0 million for the year ended December 31, 2014 as compared to $158.2 million for the corresponding period in 2013.

- An increase in net interest income of approximately $2.6 million in 2014 due to our higher yielding CLO securities.

- A decrease in net interest income of approximately $0.6 million in our residential securitized loan portfolio and approximately $1.0 million in our Agency RMBS portfolio in 2014 due to declines in average interest earning assets in these portfolios.

Other Income

Total other income increased by $76.1 million for the year ended December 31, 2014 as compared to the prior year. The change was primarily driven by:

- An increase in realized gain on investment securities and related hedges of $52.8 million in 2014 as compared to the prior year. We sold certain multi-family CMBS securities in the third and fourth quarters of 2014 resulting in a realized gain amounting to $39.1 million for the year ended December 31, 2014. This realized gain was partially offset by $3.4 million of loss on extinguishment of debt related to the early termination of a recourse financing that was collateralized by certain of our multi-family CMBS, including the security we sold in the third quarter of 2014. In addition, realized gains from our Agency IO portfolio hedging activities increased by $13.7 million for the year ended December 31, 2014 as compared to the prior year.

- An increase in unrealized loss on investment securities and related hedges of $13.1 million for the year ended December 31, 2014, as compared to the same periods in 2013, which change was primarily related to our Agency IO strategy. The Agency IO portfolio is an actively managed strategy resulting in both unrealized and realized activity. Over time we expect the unrealized and realized activity of our Agency IO strategy to offset and result in no material income or loss.

- An increase in realized gains on distressed residential mortgage loans of $12.8 million for the year ended December 31, 2014, as compared to the prior year. The realized gains were derived from loan refinancings, workouts and resales, with the majority of the realized gains on these assets being attributable to loan resales during the first and fourth quarters of 2014.

- An increase in net unrealized gains on multi-family loans and debt held in securitization trusts of $25.4 million for the year ended December 31, 2014, as compared to the prior year, which was primarily due to improved pricing on our multi-family CMBS investments that was driven, in part, by greater market demand for this product.

- An increase in other income of $2.1 million for the year ended December 31, 2014, as compared to the prior year, which was primarily a function of an increase in income related to our 20% ownership interest in RiverBanc.

Comparative General, Administrative and Other Expenses (dollar amounts in thousands)

	For the Years Ended December 31,		
General, Administrative and Other Expenses:	2014	2013	$ Change
Salaries, benefits and directors' compensation	$4,281	$2,786	$1,495
Professional fees	2,618	2,721	(103)
Management fees	24,530	8,133	16,397
Expenses on distressed residential mortgage loans	6,429	3,868	2,561
Other	2,601	2,409	192
Total	$40,459	$19,917	$20,542

The increase in salaries, benefits and directors' compensation in 2014 as compared to the prior year is due to an increase in performance-based compensation paid to our employees.

The increase in base management and incentive fees for the year ended December 31, 2014, as compared to the prior year is primarily due to incentive fees earned by RiverBanc from the sale of the multi-family CMBS securities during the third and fourth quarters of 2014. Base management and incentive fees for the year ended December 31, 2014 were also driven higher by the increase in capital allocated to assets managed by our external managers and the improved performance of the assets they manage for us in 2014, which resulted in incentive fees earned.

The increase in expenses related to distressed residential mortgage loans is related to the upfront due diligence costs related to our purchase of a large pool of distressed residential loans in December 2014 and to a higher average balance of loans outstanding, thereby resulting in higher servicing costs, work-out costs and due diligence costs.

Income Tax Expense

The increase in income tax expense for the year ended December 31, 2014 as compared to the prior year was primarily due to the increase in realized gains resulting from loan sales in our distressed residential loan portfolio. A gain on sale from loan activity is transacted in a taxable REIT subsidiary for REIT compliance purposes and is subject to local, state and federal taxes.

Quarterly Comparative Net Interest Spread

Our results of operations for our investment portfolio during a given period typically reflects the net interest income earned on our investment portfolio of RMBS, CMBS (including CMBS held in securitization trusts), residential securitized loans, distressed residential loans (including distressed residential loans held in securitization trusts), loans held for investment, mezzanine loans and preferred equity investments, where the risks and payment characteristics are equivalent to and accounted for as loans, loans held for sale and CLOs (collectively, our "Interest Earning Assets"). The net interest spread is impacted by factors such as our cost of financing, the interest rate that our investments bear and our interest rate hedging strategies. Furthermore, the amount of premium or discount paid on purchased portfolio investments and the prepayment rates on portfolio investments will impact the net interest spread as such factors will be amortized over the expected term of such investments. Realized and unrealized gains and losses on TBAs, Eurodollar and Treasury futures and other derivatives associated with our Agency IO investments, which do not utilize hedge accounting for financial reporting purposes, are included in other income (loss) in our statement of operations, and therefore, not reflected in the data set forth below.

The following table sets forth certain information about our portfolio by investment type and their related interest income, interest expense, weighted average yield, average cost of funds and net interest spread for the twelve months ended December 31, 2015, 2014 and 2013 (dollar amounts in thousands):

Twelve Months Ended December 31, 2015

	Agency RMBS	Agency IOs	Multi-Family (1)(2)	Distressed Residential Loans	Residential Securitized Loans	Other	Total
Interest Income	$11,039	$11,412	$32,311	$39,739	$3,285	$6,081	$103,867
Interest Expense	(4,693)	(892)	(6,006)	(13,125)	(936)	(147)	(25,799)
Net Interest Income (3)	$6,346	$10,520	$26,305	$26,614	$2,349	$5,934	$78,068
Average Interest Earning Assets (2) (4)	$624,111	$132,468	$268,726	$572,796	$143,200	$17,108	$1,758,409
Weighted Average Yield on Interest Earning Assets(5)	1.77 %	8.61 %	12.02 %	6.94 %	2.29 %	35.54 %	5.91 %
Average Cost of Funds (6)	(0.87)%	(1.28)%	(7.11)%	(4.03)%	(0.69)%	— %	(2.23)%
Net interest spread(7)	0.90 %	7.33 %	4.91 %	2.91 %	1.60 %	35.54 %	3.68 %

Twelve Months Ended December 31, 2014

	Agency RMBS	Agency IOs	Multi-Family (1)(2)	Distressed Residential Loans	Residential Securitized Loans	Other	Total

Interest Income	$14,360	$19,068	$37,668	$18,681	$3,895	$9,259	$102,931
Interest Expense	(4,588)	(797)	(8,784)	(8,075)	(904)	(87)	(23,235)
Net Interest Income (3)	$9,772	$18,271	$28,884	$10,606	$2,991	$9,172	$79,696
Average Interest Earning Assets (2) (4)	$724,769	$146,001	$302,009	$248,970	$161,596	$24,828	$1,608,173
Weighted Average Yield on Interest Earning Assets(5)	1.98 %	13.06 %	12.47 %	7.50 %	2.41 %	37.29 %	6.40 %
Average Cost of Funds (6)	(0.74)%	(0.92)%	(7.17)%	(4.82)%	(0.58)%	(1.59)%	(2.00)%
Net interest spread(7)	1.24 %	12.14 %	5.30 %	2.68 %	1.83 %	35.70 %	4.40 %

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Twelve Months Ended December 31, 2013

	Agency RMBS	Agency IOs	Multi-Family [1][2]	Distressed Residential Loans	Residential Securitized Loans	Other	Total
Interest Income	$16,135	$14,305	$28,007	$11,752	$4,701	$6,598	$81,498
Interest Expense	(5,395)	(860)	(7,045)	(4,457)	(1,123)	(191)	(19,071)
Net Interest Income [3]	$10,740	$13,445	$20,962	$7,295	$3,578	$6,407	$62,427
Average Interest Earning Assets [2][4]	$833,263	$135,380	$233,477	$158,190	$172,468	$17,702	$1,550,480
Weighted Average Yield on Interest Earning Assets[5]	1.94 %	10.57 %	12.00 %	7.43 %	2.73 %	37.27 %	5.26 %
Average Cost of Funds [6]	(0.72)%	(0.95)%	(7.90)%	(4.88)%	(0.64)%	(2.15)%	(1.58)%
Net interest spread[7]	1.22 %	9.62 %	4.10 %	2.55 %	2.09 %	35.12 %	3.68 %

(1) The Company, through its ownership of certain securities has determined it is the primary beneficiary of the Consolidated K-Series and has consolidated the Consolidated K-Series into the Company's financial statements. Average Interest Earning Assets for the periods indicated exclude all Consolidated K-Series assets other than those securities actually owned by the Company. Interest income amounts represent interest income earned by securities that are actually owned the Company. A reconciliation of our interest income from, multi-family investments to our consolidated financial statements for the twelve months ended months ended December 31, 2015, 2014 and 2013 is set forth below (dollar amounts in thousands):

	Twelve Months Ended December 31,		
	2015	2014	2013
Interest income, multi-family loans held in securitization trusts	$257,417	$301,877	$228,631
Interest income, investment securities, available for sale [a]	3,516	9,167	9,090
Interest expense, multi-family collateralized obligation	232,971	275,916	210,229
Interest income, multi-family CMBS	27,962	35,128	27,492
Interest income mezzanine loan and preferred equity investments [a]	4,349	2,540	515
Interest income in Multi-Family	$32,311	$37,668	$28,007

(a) Included in the Company's accompanying consolidated statements of operations in interest income, investment securities and other.

(2) Average Interest Earning Assets for the quarter excludes all Consolidated K-Series assets other than those securities issued by the securitizations comprising the Consolidated K-Series that are actually owned by the Company.

(3) Net Interest Income excludes interest expense on our subordinated debentures.

(4) Our Average Interest Earning Assets is calculated based on daily average amortized cost for the respective periods.

(5) Our Weighted Average Yield on Interest Earning Assets was calculated by dividing our annualized interest incomeby our average Interest Earning Assets for the respective periods.

(6) Our Average Cost of Funds was calculated by dividing our annualized interest expense by our average interest bearing liabilities, excluding subordinated debentures for the respective periods. Our Average Cost of funds includes interest expense on our interest rate swaps.

(7) Net Interest Spread is the difference between our Weighted Average Yield on Interest Earning Assets and our Average Cost of Funds, excluding the Weighted Average Cost of subordinated debentures.

Prepayment History

The following table sets forth the actual constant prepayment rates ("CPR") for selected asset classes, by quarter, for the periods indicated:

Quarter Ended	Agency ARMs	Agency Fixed Rate	Agency IOs	Non-Agency RMBS	Residential Securitizations	Total Weighted Average
December 31, 2015	16.9 %	8.5 %	14.6 %	15.3 %	31.2 %	14.7 %
September 30, 2015	18.6 %	10.5 %	18.0 %	12.5 %	8.9 %	15.1 %
June 30, 2015	9.2 %	10.6 %	16.3 %	12.5 %	11.1 %	13.3 %
March 31, 2015	9.1 %	6.5 %	14.7 %	15.5 %	13.7 %	11.5 %
December 31, 2014	12.3 %	6.5 %	14.6 %	13.7 %	5.4 %	11.1 %
September 30, 2014	20.5 %	9.2 %	15.2 %	18.7 %	5.4 %	13.1 %
June 30, 2014	9.9 %	6.7 %	12.7 %	10.5 %	7.0 %	10.1 %
March 31, 2014	8.8 %	5.2 %	11.3 %	9.7 %	7.5 %	8.8 %
December 31, 2013	6.7 %	5.3 %	13.5 %	16.8 %	12.6 %	10.0 %
September 30, 2013	16.8 %	8.5 %	20.4 %	23.6 %	12.0 %	15.3 %
June 30, 2013	22.2 %	6.4 %	21.9 %	18.3 %	6.5 %	15.4 %
March 31, 2013	20.8 %	3.8 %	21.6 %	15.9 %	10.2 %	12.9 %

When prepayment expectations over the remaining life of assets increase, we have to amortize premiums over a shorter time period resulting in a reduced yield to maturity on our investment assets. Conversely, if prepayment expectations decrease, the premium would be amortized over a longer period resulting in a higher yield to maturity. In addition, the market values and cash flows from our Agency IOs can be materially adversely affected during periods of elevated prepayments. We monitor our prepayment experience on a monthly basis and adjust the amortization rate to reflect current market conditions.

Financial Condition

As of December 31, 2015, we had approximately $9.1 billion of total assets, as compared to approximately $10.5 billion of total assets as of December 31, 2014. A significant portion of our assets represents the assets comprising the Consolidated K-Series, which we consolidate under the accounting rules. The Consolidated K-Series assets as of December 31, 2015 and December 31, 2014 amount to approximately $7.1 billion and $8.4 billion, respectively. In February 2015, the Company sold a first loss tranche PO security issued by one of the Consolidated K-Series securitizations that resulted in a de-consolidation of $1.1 billion in Multi-Family loans held in a securitization trust. See "Significant Estimates and Critical Accounting Policies - Loan Consolidation Reporting Requirement for Certain Multi-Family K-Series Securitizations."

Balance Sheet Analysis

Investment Securities Available for Sale. At December 31, 2015, our securities portfolio includes Agency RMBS, including Agency fixed-rate and ARM pass-through certificates, Agency IOs, and non-Agency RMBS, which are classified as investment securities available for sale. At December 31, 2015, we had no investment securities in a single issuer or entity that had an aggregate book value in excess of 10% of our total assets. The decrease in carrying value of investment securities available for sale as of December 31, 2015 as compared to December 31, 2014 is primarily a result of principal paydowns and the sale of our CLO securities.

The following tables set forth the balances of our investment securities available for sale by vintage (i.e., by issue year) as of December 31, 2015 and December 31, 2014, respectively (dollar amounts in thousands):

	December 31, 2015		December 31, 2014	
	Par Value	Carrying Value	Par Value	Carrying Value
Agency RMBS				
ARMs				
Prior to 2012	$47,463	$49,670	$38,537	$40,710
2012	116,517	120,379	135,885	140,983
2013	1,282	1,313	—	—
2014	1,203	1,233	—	—
2015	401	418	—	—
Total ARMs	166,866	173,013	174,422	181,693
Fixed				
Prior to 2012	21,947	24,947	1,899	1,973
2012	386,293	397,541	458,871	476,708
2013	309	335	—	—
2015	1,668	1,890	—	—
Total Fixed	410,217	424,713	460,770	478,681
IO				
Prior to 2012	230,329	33,714	335,507	49,170
2012	254,354	40,938	278,332	46,262
2013	113,845	19,214	125,176	21,822
2014	65,295	7,976	16,577	1,877
2015	91,837	13,548	—	—
Total IOs	755,660	115,390	755,592	119,131
Total Agency RMBS	1,332,743	713,116	1,390,784	779,505
US Treasury Securities				
Prior to 2012	10,000	10,037	—	—
Non Agency RMBS				
2006	2,088	1,567	2,533	1,939
CLOs				
2007	—	—	35,550	35,203
Total	$1,344,831	$724,720	$1,428,867	$816,647

Investment Securities Available for Sale Held in Securitization Trusts. At December 31, 2015, our securities portfolio includes multi-family CMBS classified as investment securities available for sale held in securitization trusts, which are multi-family CMBS transferred to Consolidated VIEs that have been securitized into beneficial interests. The decrease in carrying value of investment securities available for sale held in securitization trusts as of December 31, 2015 as compared to December 31, 2014 is due to widening of credit spreads in 2015.

The following table sets forth the balances of our investment securities available for sale held in securitization trusts by vintage (i.e., by issue year) as of December 31, 2015 and December 31, 2014 (dollar amounts in thousands):

	December 31, 2015		December 31, 2014	
	Par Value	Carrying Value	Par Value	Carrying Value
CMBS:				
2011	$853,408	$40,734	$886,117	$38,594
Total	$853,408	$40,734	$886,117	$38,594

Residential Mortgage Loans Held in Securitization Trusts (net). Included in our portfolio are prime ARM loans that we originated or purchased in bulk from third parties that met our investment criteria and portfolio requirements and that we subsequently securitized in 2005.

At December 31, 2015, residential mortgage loans held in securitization trusts totaled approximately $119.9 million. The Company’s net investment in the residential securitization trusts, which is the maximum amount of the Company’s investment that is at risk to loss and represents the difference between the carrying amount of (i) the ARM mortgage loans and real estate owned held in residential securitization trusts and (ii) the amount of Residential CDOs outstanding, was $4.4 million. Of the residential mortgage loans held in securitized trusts, 100% are traditional ARMs or hybrid ARMs, 82.7% of which are ARM loans that are interest only, at the time of origination. With respect to the hybrid ARMs included in these securitizations, interest rate reset periods were predominately five years or less and the interest-only period is typically 9 years at the time of origination, which mitigates the “payment shock” at the time of interest rate reset. None of the residential mortgage loans held in securitization trusts are pay option-ARMs or ARMs with negative amortization. At December 31, 2015, the interest only ARM loans included in these securitizations are out their interest only period.

The following table details our residential mortgage loans held in securitization trusts at December 31, 2015 and December 31, 2014, respectively (dollar amounts in thousands):

	Number of Loans	Unpaid Principal	Carrying Value
December 31, 2015	331	$122,545	$119,921
December 31, 2014	395	$152,277	$149,614

Characteristics of Our Residential Mortgage Loans Held in Securitization Trusts:

The following table sets forth the composition of our residential mortgage loans held in securitization trusts as of December 31, 2015 and December 31, 2014, respectively (dollar amounts in thousands):

	December 31, 2015			December 31, 2014		
	Average	High	Low	Average	High	Low
General Loan Characteristics:						
Original Loan Balance	$432	$2,850	$48	$441	$2,950	$48
Current Coupon Rate	2.82 %	4.63 %	1.38 %	2.75 %	7.25 %	1.25 %
Gross Margin	2.37 %	4.13 %	1.13 %	2.38 %	4.13 %	1.13 %
Lifetime Cap	11.3 %	13.25 %	9.38 %	11.34 %	13.25 %	9.38 %
Original Term (Months)	360	360	360	360	360	360
Remaining Term (Months)	233	240	199	245	252	211
Average Months to Reset	5	11	1	5	11	1
Original FICO Score	724	818	593	726	818	593
Original LTV	69.77 %	95.00 %	13.94 %	70.38 %	95.00 %	13.94 %

The following tables detail the activity for the residential mortgage loans held in securitization trusts (net) for the years ended December 31, 2015 and 2014, respectively (dollar amounts in thousands):

	Principal	Premium	Allowance for Loan Losses	Net Carrying Value
Balance, January 1, 2015	$152,277	$968	$(3,631)	$149,614
Principal repayments	(30,684)	—	—	(30,684)
Provision for loan loss	—	—	(1,161)	(1,161)
Transfer to real estate owned	(75)	—	—	(75)
Charge-Offs	1,027	—	1,393	2,420
Amortization of premium	—	(193)	—	(193)
Balance, December 31, 2015	$122,545	$775	$(3,399)	$119,921

	Principal	Premium	Allowance for Loan Losses	Net Carrying Value
Balance, January 1, 2014	$165,173	$1,053	$(2,989)	$163,237
Principal repayments	(13,178)	—	—	(13,178)
Provision for loan loss	—	—	(998)	(998)
Transfer to real estate owned	(830)	—	356	(474)
Charge-Offs	1,112	—	—	1,112
Amortization of premium	—	(85)	—	(85)
Balance, December 31, 2014	$152,277	$968	$(3,631)	$149,614

Acquired Distressed Residential Mortgage Loans. Distressed residential mortgage loans are comprised of pools of fixed and adjustable rate residential mortgage loans acquired by the Company at a discount, with evidence of credit deterioration since their origination and where it is probable that the Company will not collect all contractually required principal payments. Management evaluates whether there is evidence of credit quality deterioration as of the acquisition date using indicators such as past due or modified status, risk ratings, recent borrower credit scores and recent loan-to-value percentages. Distressed residential mortgage loans held in securitization trusts are distressed residential mortgage loans transferred to Consolidated VIEs that have been securitized into beneficial interests.

The following table details our portfolio of distressed residential mortgage loans, including those distressed residential mortgage loans held in securitization trusts, at December 31, 2015 and December 31, 2014, respectively (dollar amounts in thousands):

	Number of Loans	Unpaid principal	Carrying Value
December 31, 2015	5,877	$640,570	$558,989
December 31, 2014	6,291	$684,508	$582,697

The Company’s distressed residential mortgage loans held in securitization trusts with a carrying value of approximately $114.2 million and $221.6 million at December 31, 2015 and December 31, 2014, respectively, are pledged as collateral for certain of the securitized debt issued by the Company. The Company’s net investment in the securitization trusts, which is the maximum amount of the Company’s investment that is at risk to loss and represents the difference between the carrying amount of the net assets and liabilities associated with the distressed residential mortgage loans held in securitization trusts, was $86.3 million and $110.3 million at December 31, 2015 and 2014, respectively.

In addition, distressed residential mortgage loans with a carrying value of approximately $307.0 million and $327.4 million at December 31, 2015 and December 31, 2014, respectively, are pledged as collateral for a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch.

Characteristics of our Distressed Residential Mortgage Loans, including Distressed Residential Mortgage Loans Held in Securitization Trusts:

The following tables detail the characteristics of our distressed residential mortgage loans, including distressed residential mortgage loans held in securitization trusts, as of December 31, 2015 and December 31, 2014:

Loan to Value at Purchase	December 31, 2015		December 31, 2014	
50.00% or less	3.3	%	3.6	%
50.01% - 60.00%	3.6	%	3.7	%
60.01% - 70.00%	6.7	%	6.6	%
70.01% - 80.00%	10.0	%	9.0	%
80.01% - 90.00%	11.9	%	11.9	%
90.01% - 100.00%	13.1	%	12.4	%
100.01% and over	51.4	%	52.8	%
Total	100.0	%	100.0	%

FICO Scores at Purchase	December 31, 2015		December 31, 2014	
550 or less	17.7	%	13.8	%
551 to 600	30.3	%	26.3	%
601 to 650	28.2	%	29.0	%
651 to 700	15.4	%	18.4	%
701 to 750	6.5	%	8.9	%

751 to 800	1.7	%	3.0	%
801 and over	0.2	%	0.6	%
Total	100.0	%	100.0	%

Current Coupon	December 31, 2015		December 31, 2014	
3.00% or less	14.9	%	17.1	%
3.01% - 4.00%	9.3	%	7.0	%
4.01 to 5.00%	21.3	%	15.2	%
5.01 - 6.00%	11.5	%	12.7	%
6.01% and over	43.0	%	48.0	%
Total	100.0	%	100.0	%

Delinquency Status	December 31, 2015		December 31, 2014	
Current	68.1	%	88.2	%
31- 60 days	11.0	%	5.5	%
61 - 90 days	9.0	%	2.3	%
90+ days	11.9	%	4.0	%
Total	100.0	%	100.0	%

Origination Year	December 31, 2015		December 31, 2014	
2005 or earlier	27.1	%	25.6	%
2006	19.0	%	19.8	%
2007	34.2	%	36.5	%
2008 or later	19.7	%	18.1	%
Total	100.0	%	100.0	%

Consolidated K-Series. As of December 31, 2015 and December 31, 2014, we owned 100% of the first loss securities of the Consolidated K-Series. The Consolidated K-Series are comprised of multi-family mortgage loans held in five and six Freddie Mac-sponsored multi-family K-Series securitizations as of December 31, 2015 and December 31, 2014, respectively, of which we, or one of our SPEs, own the first loss securities and certain IOs. We determined that the securitizations comprising the Consolidated K-Series were VIEs and that we are the primary beneficiary of these securitizations. Accordingly, we are required to consolidate the Consolidated K-Series' underlying multi-family loans and related debt, income and expense in our financial statements.

We have elected the fair value option on the assets and liabilities held within the Consolidated K-Series, which requires that changes in valuations in the assets and liabilities of the Consolidated K-Series be reflected in our statement of operations. As of December 31, 2015 and December 31, 2014, the Consolidated K-Series was comprised of $7.1 billion and $8.4 billion, respectively in multi-family loans held in securitization trusts and $6.8 billion and $8.0 billion, respectively, in multi-family CDOs outstanding with a weighted average interest rate of 3.98% and 4.15% respectively. In addition, as a result of the consolidation of the Consolidated K-Series, our statement of operations for the years ended December 31, 2015 and 2014 included $257.4 million and $301.9 million in interest income, respectively, and $233.0 million and $275.9 million in interest expense, respectively. Also, we recognized a $12.4 million and $56.9 million unrealized gain in the statements of operations for the years ended December 31, 2015 and 2014, respectively, as a result of the fair value accounting method election.

We do not have any claims to the assets (other than the security represented by our first loss piece) or obligations for the liabilities of the Consolidated K-Series. Our investment in the Consolidated K-Series is limited to the multi-family CMBS comprised of first loss tranche PO securities and or/certain IOs issued by these K-Series securitizations with an aggregate net carrying value of $286.4 million and $317.5 million as of December 31, 2015 and December 31, 2014, respectively.

In February 2015, the Company sold a first loss tranche PO security in one of the Company's Consolidated K-Series obtaining total proceeds of approximately $44.3 million and realizing a gain of approximately $1.5 million. The sale resulted in a de-consolidation of $1.1 billion in Multi-Family loans held in a securitization trust and $1.0 billion in Multi-Family CDOs.

Multi-Family CMBS Loan Characteristics:

The following table details the loan characteristics of the loans that back our multi-family CMBS (including the Consolidated K-Series) in our portfolio as of December 31, 2015 and December 31, 2014, respectively (dollar amounts in thousands):

	December 31, 2015		December 31, 2014	
Current balance of loans	$9,034,361		$10,189,074	
Number of loans	548		610	
Weighted average original LTV	68.8	%	68.8	%
Weighted average underwritten debt service coverage ratio	1.49x		1.48x	
Current average loan size	$16,486		$16,703	
Weighted average original loan term (in months)	120		119	
Weighted average current remaining term (in months)	79		82	
Weighted average loan rate	4.40	%	4.54	%
First mortgages	100	%	100	%
Geographic state concentration (greater than 5.0%):				
California	13.8	%	13.5	%
Texas	12.3	%	12.5	%
New York	8.0	%	7.7	%
Maryland	5.2	%	5.2	%

Financing Arrangements, Portfolio Investments. The Company finances its portfolio investments with a combination of repurchase agreements and Federal Home Loan Bank advances. The Company has entered into repurchase agreements with third party financial institutions and the Company's wholly owned subsidiary, GLIH, which is a member of the FHLBI, accessed secured advances provided by the FHLBI. These financing arrangements are short-term borrowings that bear interest rates typically based on a spread to LIBOR, and are secured by the securities which they finance.

As of December 31, 2015 and December 31, 2014, we had approximately $577.4 million and $652.0 million of borrowings under financing arrangements, including Federal Home Loan Bank advances, respectively. As of December 31, 2015 and December 31, 2014, the current weighted average borrowing rate on these financing facilities was 0.71% and 0.43%, respectively. Our repurchase agreements typically have terms of 30 days or less.

As of December 31, 2015 and December 31, 2014, we had no counterparties where the amount at risk was in excess of 5% of Stockholders' Equity. The amount at risk is defined as the fair value of securities pledged as collateral to the repurchase agreement in excess of the repurchase agreement liability.

As of December 31, 2015, the outstanding balance under our repurchase agreements was funded at an advance rate of 92.1% that implies an average haircut of 7.9%. As of December 31, 2014, the outstanding balance under our repurchase agreements was funded at an advance rate of 92.8% that implies an average haircut of 7.2%. The weighted average "haircut" related to our repurchase agreement financing for our Agency RMBS (excluding Agency IOs) and Agency IOs was approximately 5% and 25%, respectively.

The following table details the ending balance, quarterly average balance and maximum balance at any month-end during each quarter in 2015, 2014 and 2013 for repurchase agreement borrowings outstanding (dollar amounts in thousands):

Quarter Ended	Quarterly Average Balance	End of Quarter Balance	Maximum Balance at any Month-End
December 31, 2015	$574,847	$577,413	$578,136
September 30, 2015	$578,491	$586,075	$586,075
June 30, 2015	$513,254	$585,492	$585,492
March 31, 2015	$633,132	$619,741	$645,162
December 31, 2014	$658,360	$651,965	$668,901
September 30, 2014	$639,831	$627,881	$653,181
June 30, 2014	$725,761	$668,428	$758,857
March 31, 2014	$774,545	$767,827	$784,019
December 31, 2013	$796,044	$791,125	$800,193
September 30, 2013	$799,341	$794,181	$810,506
June 30, 2013	$885,942	$855,153	$924,667
March 31, 2013	$879,732	$878,824	$882,611

Financing Arrangements, Residential Mortgage Loans. On December 14, 2015, the Company amended the master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch, that funds purchases of distressed residential mortgage loans and decreased the maximum aggregate principal amount to $250.0 million and extended the expiration date of the agreement to December 15, 2016. The outstanding balance on the master repurchase agreement, as of December 31, 2015 and December 31, 2014, amounts to approximately $214.5 million and $238.9 million, respectively, and bore interest at one-month LIBOR plus 2.5% (2.92% and 2.66% at December 31, 2015 and December 31, 2014, respectively). Distressed residential mortgage loans with a carrying value of approximately

$307.0 million at December 31, 2015 are pledged as collateral for the borrowings under this master repurchase agreement.

On November 25, 2015, the Company entered into a master repurchase agreement with Deutsche Bank AG, Cayman Islands Branch in an aggregate principal amount of up to $100.0 million to fund the future purchase of residential mortgage loans, particularly second mortgage loans. The outstanding balance on the master repurchase agreement will bear interest at one-month LIBOR plus 4% and expires on May 25, 2017. There was no outstanding balance on this master repurchase agreement as of December 31, 2015.

Residential Collateralized Debt Obligations. As of December 31, 2015 and 2014, we had residential collateralized debt obligations, or Residential CDOs, of $116.7 million and $145.5 million, respectively. As of December 31, 2015 and 2014, the weighted average interest rate of these Residential CDOs was 0.80% and 0.55%, respectively. The Residential CDOs are collateralized by ARM loans with a principal balance of $122.5 million and $152.3 million at December 31, 2015 and 2014, respectively. The Company retained the owner trust certificates, or residual interest, for three securitizations, and, as of December 31, 2015 and 2014, had a net investment in the residential securitization trusts of $4.4 million and $5.6 million, respectively.

Securitized Debt. As of December 31, 2015 and 2014, we had approximately $117.5 million and $232.9 million of securitized debt, respectively. As of December 31, 2015 and 2014, the weighted average interest rate for our securitized debt was 5.28% and 4.81%, respectively. The Company's securitized debt is collateralized by multi-family CMBS and distressed residential mortgage loans. See Note 7 of our consolidated financial statements included in this report for more information on securitized debt. In December 2015, the Company repaid the outstanding notes from its distressed residential mortgage loan securitization transaction completed in December 2012 with an outstanding principal balance of $5.5 million at the time of repayment. The notes were issued in December 2012 in an original principal amount of $38.7 million.

Subordinated Debentures. As of December 31, 2015 and 2014, certain of our wholly owned subsidiaries had trust preferred securities outstanding of $45.0 million with a weighted average interest rate of 4.32% and 4.08%, respectively. The securities are fully guaranteed by us with respect to distributions and amounts payable upon liquidation, redemption or repayment. These securities are classified as subordinated debentures in the liability section of our consolidated balance sheets.

Derivative Assets and Liabilities. The Company enters into derivative instruments in connection with its risk management activities. These derivative instruments may include interest rate swaps, swaptions, futures, put and call options on futures and mortgage derivatives such as forward-settling purchases and sales of Agency RMBS where the underlying pools of mortgage loans are "To-Be-Announced," or TBAs.

In connection with our investment in Agency IOs, we utilize several types of derivative instruments such as interest rate swaps, futures, put and call options on futures and TBAs to hedge the interest rate risk and spread risk. This hedging technique is dynamic in nature and requires frequent adjustments, which accordingly makes it very difficult to qualify for hedge accounting treatment. Hedge accounting treatment requires specific identification of a risk or group of risks and then requires that we designate a particular trade to that risk with no minimal ability to adjust over the life of the transaction. Because we and Midway are frequently adjusting these derivative instruments in response to current market conditions, we have determined to account for all the derivative instruments related to our Agency IO investments as derivatives not designated as hedging instruments. Realized and unrealized gains and losses associated with derivatives in our Agency IO portfolio are recognized through earnings in the consolidated statements of operations.

We also use interest rate swaps (separately from interest rate swaps in our Agency IO portfolio) to hedge variable cash flows associated with borrowings made under our financing arrangements and Residential CDOs. We typically pay a fixed rate and receive a floating rate based on one month LIBOR, on the notional amount of the interest rate swaps. The floating rate we receive under our swap agreements has the effect of offsetting the repricing characteristics and cash flows of our financing arrangements. At December 31, 2015 and December 31, 2014, the Company had $215 million and $350 million of notional amount of interest rate swaps outstanding that qualify as cash flow hedges for financial reporting purposes. The interest rate swaps had a net fair market asset value of $0.3 million and $1.1 million at December 31, 2015 and December 31, 2014, respectively. See Note 8 to our consolidated financial statements included in this Form 10-K for more information on our derivative instruments and hedging activities.

Derivative financial instruments may contain credit risk to the extent that the institutional counterparties may be unable to meet the terms of the agreements. We minimize this risk by limiting our counterparties to major financial institutions with good credit ratings. In addition, we regularly monitor the potential risk of loss with any one party resulting from this type of credit risk. Accordingly, we do not expect any material losses as a result of default by other parties, but we cannot guarantee that we will not experience counterparty failures in the future.

Balance Sheet Analysis - Stockholders' Equity

Stockholders' equity at December 31, 2015 was $880.5 million and included $2.9 million of accumulated other comprehensive loss. The accumulated other comprehensive loss consisted of $15.2 million in unrealized losses related to our Agency RMBS and non-Agency RMBS offset by $12.0 million in net unrealized gains related to our CMBS and $0.3 million in unrealized derivative gains related to cash flow hedges. Stockholders' equity at December 31, 2014 was $817.9 million and included $10.0 million of accumulated other comprehensive income. The accumulated other comprehensive income consisted of $9.1 million in unrealized gains primarily related to our CLOs, $12.4 million in net unrealized gains related to our CMBS and $1.1 million in unrealized derivative gains related to cash flow hedges, partially offset by $12.6 million in unrealized losses related to our Agency RMBS and non-Agency RMBS.

Analysis of Changes in Book Value

The following table analyzes the changes in book value for the quarter and year ended December 31, 2015, respectively (amounts in thousands, except per share):

	Quarter Ended December 31, 2015			Year Ended December 31, 2015		
	Amount	Shares	Per Share[1]	Amount	Shares	Per Share[1]
Beginning Balance	$745,648	109,402	$6.82	$742,927	105,095	$7.07
Common stock issuance, net	230			32,782	4,307	
Preferred stock issuance, net	—			86,862		
Preferred stock liquidation preference	—			(90,000)		
Balance after share issuance activity	745,878	109,402	6.82	772,571	109,402	7.06
Dividends declared	(26,256)		(0.24)	(111,199)		(1.02)
Net change AOCI: [2]						
Hedges	1,112		0.01	(831)		(0.01)
RMBS	(5,651)		(0.05)	(2,613)		(0.02)
CMBS	(539)		(0.01)	(362)		—
CLOs	—		—	(9,063)		(0.08)
Net income attributable to common stockholders	982		0.01	67,023		0.61
Ending Balance	$715,526	109,402	$6.54	$715,526	109,402	$6.54

(1) Outstanding shares used to calculate book value per share for the quarter and year ended periods are based on outstanding shares as of December 31, 2015 of 109,401,721.
(2) Accumulated other comprehensive income ("AOCI").

The following table analyzes the changes in book value for the quarter and year ended December 31, 2014, respectively (amounts in thousands, except per share):

	Quarter Ended December 31, 2014			Year Ended December 31, 2014		
	Amount	Shares	Per Share[1]	Amount	Shares	Per Share[1]
Beginning Balance	$633,377	90,685	$6.98	$405,666	64,102	$6.33
Common stock issuance, net	111,063	14,410		297,726	40,993	
Balance after share issuance activity	744,440	105,095	7.08	703,392	105,095	6.69
Dividends declared	(28,375)		(0.27)	(97,786)		(0.93)
Net change AOCI: [2]						
Hedges	(757)		(0.01)	(906)		(0.01)
RMBS	6,785		0.07	19,378		0.19
CMBS	(17,518)		(0.17)	(5,864)		(0.06)
CLOs	(2,171)		(0.02)	(5,666)		(0.05)
Net income attributable to common stockholders	40,523		0.39	130,379		1.24
Ending Balance	$742,927	105,095	$7.07	$742,927	105,095	$7.07

(1) Outstanding shares used to calculate book value per share for the quarter and year ended periods are based on outstanding shares as of December 31, 2014 of 105,094,565.
(2) Accumulated other comprehensive income (“AOCI”).

Liquidity and Capital Resources

General

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, comply with margin requirements, fund our operations, pay management, incentive and consulting fees, pay dividends to our stockholders and other general business needs. Our investments and assets, excluding the principal only multi-family CMBS we invest in, generate liquidity on an ongoing basis through principal and interest payments, prepayments, net earnings retained prior to payment of dividends and distributions from unconsolidated investments. Our principal only multi-family CMBS are backed by balloon non-recourse mortgage loans that provide for the payment of principal at maturity date, which is typically seven to ten years from the date the underlying mortgage loans are originated, and therefore do not directly contribute to monthly cash flows. In addition, the Company will, from time to time, sell on an opportunistic basis certain securities, primarily CMBS and distressed residential mortgage loans as part of its overall investment strategy and these sales are expected to provide additional liquidity.

During the year ended December 31, 2015, net cash decreased primarily as a result of $333.9 million used in financing activities, which was partially offset by $36.3 million provided by operating activities and $284.0 million provided by investing activities. Our financing activities primarily included net payments made on financing arrangements of $99.0 million, $86.0 million in payments made on multi-family CDOs, $122.5 million in dividends paid on common stock, Series B Preferred Stock and Series C Preferred Stock, $29.0 million in payments made on Residential CDOs, and $116.1 million in payments made on securitized debt, partially offset by $118.7 million in net proceeds from common and preferred stock issuances. Our investing activities primarily included a $33.4 million increase in restricted cash, $105.8 million in principal paydowns on investment securities available for sale, $238.8 million in principal repayments and proceeds from sales and refinancing of distressed residential mortgage loans, $99.2 million of proceeds from sales of investment securities, $86.0 million in principal repayments received on multi-family loans held in securitization trusts, $28.2 million in principal repayments received on residential mortgage loans held in securitization trusts, $65.6 million in proceeds from sale of loans held in multi-family securitization trusts, $4.3 million in proceeds from sales of mezzanine loan and preferred equity investments and $1.0 million in proceeds from sale of real estate owned, partially offset by $156.0 million of purchases of residential mortgage loans and distressed residential mortgage loans, $152.9 million of purchases of investment securities, $58.2 million in the funding of mezzanine loans and preferred equity investments, $5.8 million in net payments on other derivative instruments settled during the period, and $5.4 million of purchases of FHLBI stock.

We fund our investments and operations through a balanced and diverse funding mix, which includes proceeds from equity offerings, short-term and longer-term repurchase agreement borrowings, CDOs, securitized debt, and trust preferred debentures. The type and terms of financing used by us depends on the asset being financed. In those cases where we utilize some form of structured financing, be it through CDOs, longer-term repurchase agreements or securitized debt, the cash flow produced by the assets that serve as collateral for these structured finance instruments may be restricted in terms of its use or applied to pay principal or interest on CDOs, repurchase agreements, or notes that are senior to our interests. At December 31, 2015, we had cash and cash equivalents balances of $62.0 million, which decreased from December 31, 2014 by $13.6 million. Based on our current investment portfolio, new investment initiatives, leverage ratio and available and future possible borrowing arrangements, we believe our existing cash balances, funds available under our various financing arrangements and cash flows from operations will meet our liquidity requirements for at least the next 12 months.

Liquidity – Financing Arrangements

We rely primarily on short-term repurchase agreements to finance the more liquid assets in our investment portfolio, such as Agency RMBS. In recent years, certain repurchase agreement lenders have elected to exit the repo lending market for various reasons, including new capital requirement regulations. However, as certain lenders have exited the space, other financing counterparties that had not participated in the repo lending market historically have begun to step in to replace many of the lenders that have elected to exit.

In light of the evolving repurchase agreement lending environment, we elected to replace a portion of our repurchase agreement borrowings with secured advances from the FHLBI, of which, GLIH, one of our subsidiaries, is a member. Each advance from the FHLBI requires approval by the FHLBI and is secured by collateral in accordance with the FHLBI's credit and collateral guidelines, as may be revised from time to time by the FHLBI. Eligible collateral may include conventional one-to-four family residential mortgage loans, CMBS, Agency RMBS and Non-Agency RMBS with an A rating and above. In connection with GLIH becoming a member of the FHLBI, the Company agreed to guarantee the due and punctual payment of GLIH's obligations under its financing agreement with FHLBI. As of December 31, 2015, the Company had $121.0 million in outstanding secured advances from FHLBI. Subsequent to December 31, 2015, the federal regulator of the FHLB-system released a final rule that amends regulations governing FHLB membership, including preventing captive insurance companies, such as GLIH, from being eligible for FHLB membership. Under the terms of the final rule, GLIH is required to terminate its FHLBI membership and repay its existing advances within one year following the effective date of the final rule and is prohibited from taking new advances or renewing existing maturing advances during the one-year transition period. During January 2016, the Company repaid all of its outstanding FHLBI advances, which repayment was funded primarily through repurchase agreement financing from three counterparties, all of whom were existing repurchase agreement counterparties of the Company as of December 31, 2015.

As of December 31, 2015, we have outstanding short-term repurchase agreements, a form of collateralized short-term borrowing, with six different financial institutions, including the FHLBI. These agreements are secured by certain of our investment securities and bear interest rates that have historically moved in close relationship to LIBOR. Our borrowings under repurchase agreements are based on the fair value of our investment securities portfolio. Interest rate changes and increased prepayment activity can have a negative impact on the valuation of these securities, reducing the amount we can borrow under these agreements. Moreover, our repurchase agreements allow the counterparties to determine a new market value of the collateral to reflect current market conditions and because these lines of financing are not committed, the counterparty can call the loan at any time. Market value of the collateral represents the price of such collateral obtained from generally recognized sources or most recent closing bid quotation from such source plus accrued income. If a counterparty determines that the value of the collateral has decreased, the counterparty may initiate a margin call and require us to either post additional collateral to cover such decrease or repay a portion of the outstanding borrowing in cash, on minimal notice. Moreover, in the event an existing counterparty elected to not renew the outstanding balance at its maturity into a new repurchase agreement, we would be required to repay the outstanding balance with cash or proceeds received from a new counterparty or to surrender the securities that serve as collateral for the outstanding balance, or any combination thereof. If we are unable to secure financing from a new counterparty and had to surrender the collateral, we would expect to incur a loss. In addition, in the event one of our lenders under the repurchase agreement defaults on its obligation to “re-sell” or return to us the securities that are securing the borrowings at the end of the term of the repurchase agreement, we would incur a loss on the transaction equal to the amount of “haircut” associated with the short-term repurchase agreement, which we sometimes refer to as the “amount at risk.” As of December 31, 2015, we had an aggregate amount at risk under our repurchase agreements with six counterparties of approximately $62.3 million, with no greater than approximately $36.6 million at risk with any single counterparty. The volatility in the market place during 2015 did not have a material impact on our liquidity or our ability to finance our more liquid assets through short-term repurchase agreements. At December 31, 2015, the Company had short-term repurchase agreement borrowings on our investment securities of $577.4 million as compared to $652.0 million as of December 31, 2014.

At December 31, 2015, the Company had $62.0 million in cash and $147.2 million in unencumbered securities to meet additional haircut or market valuation requriements, including $84.0 million of RMBS, of which $82.5 million are Agency RMBS and $62.1 million are multi-family CMBS (which represents the net fair value of certain first loss tranche PO securities and/or certain IOs issued by certain K-Series securitizations included in the Consolidated K-Series). The $62.0 million of cash, the $84.0 million in RMBS, the $62.1 million in multi-family CMBS, and $11.6 million held in overnight deposits in our Agency IO portfolio included in restricted cash (that is available to meet margin calls as it relates to our Agency IO portfolio repurchase agreements), which collectively represent 38.2% of our financing arrangements, are liquid and could be monetized to pay down or collateralize the liability immediately.

At December 31, 2015, the Company also had two master repurchase agreements, with Deutsche Bank AG, Cayman Islands Branch, in aggregate principal amounts of up to $250 million and $100 million, expiring on December 15, 2016 and May 25, 2017, respectively. The outstanding balances under the master repurchase agreements amounted to approximately $214.5 million and $0, respectively, at December 31, 2015. The agreement with an aggregate principal amount of up to $250 million is collateralized by distressed residential mortgage loans with a carrying value of $307.0 million at December 31, 2015.

At December 31, 2015, we also had other longer-term debt, including Residential CDOs outstanding of $116.7 million, multi-family CDOs outstanding of $6.8 billion (which represent obligations of the Consolidated K-Series), subordinated debt of $45.0 million and securitized debt of $117.5 million. The CDOs are collateralized by residential and multi-family loans held in securitization trusts, respectively. The securitized debt as of December 31, 2015 represents the notes issued in (i) our May 2012 multi-family re-securitization transaction, (ii) our November 2013 multi-family CMBS collateralized recourse financing transaction, and (iii) our December 2012, July 2013 and September 2013 distressed residential mortgage loan securitization transactions, which are described in Note 7 in our consolidated financial statements.

As of December 31, 2015, our overall leverage ratio, including both our short-term and longer-term financing (and excluding the CDO's issued by the Consolidated K-Series and our Residential CDOs) divided by stockholders' equity, was approximately 1.1 to 1. As of December 31, 2015, our leverage ratio on our short term financings or callable debt was approximately 0.9 to 1. We monitor all at risk or short term borrowings to ensure that we have adequate liquidity to satisfy margin calls and liquidity covenant requirements.

Liquidity – Hedging and Other Factors

Certain of our hedging instruments may also impact our liquidity. We use interest rate swaps, swaptions, TBAs, futures, put and call options on to hedge interest rate and spread risk associated with our investments in Agency RMBS,including Agency IOs.

With respect to interest rate swaps, futures contracts and TBAs, initial margin deposits, which can be comprised of either cash or securities will be made upon entering into these contracts. During the period these contracts are open, changes in the value of the contract are recognized as unrealized gains or losses by marking to market on a daily basis to reflect the market value of these contracts at the end of each day's trading. We may be required to satisfy variable margin payments periodically, depending upon whether unrealized gains or losses are incurred. In addition, because delivery of TBAs extend beyond the typical settlement dates for most non-derivative investments, these transactions are more prone to market fluctuations between the trade date and the ultimate settlement date, and thereby are more vulnerable to increasing amounts at risk with the applicable counterparties. The use of TBAs associated with our Agency IO investments creates significant short term payables (and/or receivables), amounting to $228.0 million at December 31, 2015, and is included in payable for securities purchased on our consolidated balance sheet.

We also use interest rate swaps (separately from interest rate swaps in our Agency IO portfolio) to hedge variable cash flows associated with borrowings made under our financing arrangements and Residential CDOs.

For additional information regarding the Company’s derivative instruments and hedging activities for the periods covered by this report, including the fair values and notional amounts of these instruments and realized and unrealized gains and losses relating to these instruments, please see Note 8 to our consolidated financial statements included in this report. Also, please see Item 7A. Quantitative and Qualitative Disclosures about Market Risk, under the caption, “Fair Value Risk”, for a tabular presentation of the sensitivity of the market value and net duration changes of the Company’s portfolio across various changes in interest rates, which takes into account the Company’s hedging activities.

Liquidity — Equity Offerings

In addition to the financing arrangements described above under the caption "Liquidity—Financing Arrangements," we also rely on secondary equity offerings as a source of both short-term and long-term liquidity. On April 22, 2015, the Company closed on an underwritten public offering of 3,600,000 shares of the Company's Series C Preferred Stock. The issuance and sale of the 3,600,000 shares of Series C Preferred Stock resulted in total net proceeds to the Company of approximately $86.9 million after deduction of underwriting discounts and commissions and offering expenses.

We also may generate liquidity through the sale of shares of our common stock in an "at the market" offering program pursuant to an equity distribution agreement, as well as through the sale of shares of our common stock pursuant to our Dividend Reinvestment Plan, or DRIP. On January 14, 2013, we filed a registration statement on Form S-3 to enable us to issue up to $20,000,000 of shares of our common stock pursuant to our DRIP.

On March 20, 2015, the Company entered into separate equity distribution agreements (collectively, the "Equity Distribution Agreements") with each of JMP Securities LLC ("JMP") and MLV & Co. LLC ("MLV"), each an "Agent" and collectively, the "Agents", pursuant to which the Company may sell up to $75,000,000 of aggregate value of (i) shares of the Company's common stock, par value $0.01 per and (ii) shares of the Company's Series B Preferred Stock, from time to time through the Agents. Pursuant to the Equity Distribution Agreements, the shares may be offered and sold through the Agents in transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on The Nasdaq Global Select Market or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from us, in privately negotiated transactions. We have no obligation to sell any of the shares under the Equity Distribution Agreements and may at any time suspend solicitations and offers under the Equity Distribution Agreements. During the year ended December 31, 2015, the Company issued 2,789,439 shares of its common stock under the Equity Distribution Agreements, at an average sales price of $7.91 resulting in total net proceeds to the Company of $21.6 million, after deducting the placement fees. As of December 31, 2015, approximately $52.9 million of securities remains available for issuance under the Equity Distribution Agreements.

On March 20, 2015, in connection with the Company's execution of the Equity Distribution Agreements described above, the Company delivered to JMP a notice of termination of the Equity Distribution Agreement dated June 11, 2012 (the "Prior Equity Distribution Agreement"), which termination became effective March 23, 2015. The Prior Equity Distribution Agreement provided for the sale by the Company of common stock having a maximum aggregate value of up to $25,000,000 from time to time through JMP, as the Company's agent. During the year ended December 31, 2015, the Company issued 1,326,676 shares under the Prior Equity Distribution Agreement, at an average sales price of $7.89 resulting in total net proceeds to the Company of $10.3 million, after deducting the placement fees. During the term of the Prior Equity Distribution Agreement, the Company sold a total of 2,153,989 shares of its common stock at an average price of $7.63 per share pursuant to the Prior Distribution Agreement, resulting in aggregate net proceeds to the Company of approximately $16.1 million.

Management Agreements

We have investment management agreements with RiverBanc, Midway and Headlands, pursuant to which we pay these managers a base management and incentive fee quarterly in arrears. See "- Results of Operations - Comparison of the Year Ended December 31, 2015 to Year Ended December 31, 2014 - Comparative Expenses" for more information regarding the management fees paid during the year ended December 31, 2015. See also "Business—Our External Managers" for a description of these agreements.

Dividends

For information regarding the declaration and payment of dividends on our preferred stock, see "Note 15 – Stockholders' Equity" below. For information regarding the declaration and payment of dividends on our common stock, see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" above.

We expect to continue to pay quarterly cash dividends on our common stock during the near term. However, our Board of Directors will continue to evaluate our dividend policy each quarter and will make adjustments as necessary, based on a variety of factors, including, among other things, the need to maintain our REIT status, our financial condition, liquidity, earnings projections and business prospects. Our dividend policy does not constitute an obligation to pay dividends.

We intend to make distributions to our stockholders to comply with the various requirements to maintain our REIT status and to minimize or avoid corporate income tax and the nondeductible excise tax. However, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the REIT distribution requirements and to minimize or avoid corporate income tax and the nondeductible excise tax.

Exposure to European financial counterparties

We finance a significant portion of our mortgage-backed securities with repurchase agreements. In connection with these financing arrangements, we pledge our securities as collateral to secure the borrowings. The amount of collateral pledged will typically exceed the amount of the financing with the extent of over-collateralization from 5% of the amount borrowed (in the case of Agency ARM and Agency fixed rate RMBS collateral) and 25% (in the case of Agency IOs).

While our repurchase agreement financing results in us recording a liability to the counterparty in our consolidated balance sheet, we are exposed to the counterparty, if during the term of the repurchase agreement financing, a lender should default on its obligation and we are not able to recover our pledged assets. The amount of this exposure is the difference between the amount loaned to us plus interest due to the counterparty and the fair value of the collateral pledged by us to the lender (including accrued interest receivable on such collateral).

Several large European banks have experienced financial difficulty in recent years, some of whom have required a rescue or assistance from other large European banks or the European Central Bank. Some of these banks have U.S. banking subsidiaries which have provided repurchase agreement financing or interest rate swap agreements to us in connection with the acquisition of various investments, including mortgage-backed securities investments. We have outstanding repurchase agreement borrowings with Deutsche Bank AG, Cayman Islands Branch, in the amount of $214.5 million at December 31, 2015 with a net exposure of $90.1 million. In addition, certain of our U.S. based counterparties may have significant exposure to the financial and economic turmoil in Europe which could impact their future lending activities or cause them to default under agreements with us. In the event one or more of these counterparties or their affiliates experience liquidity difficulties in the future, our liquidity could be materially adversely affected.

Inflation

For the periods presented herein, inflation has been relatively low and we believe that inflation has not had a material effect on our results of operations. The impact of inflation is primarily reflected in the increased costs of our operations. Virtually all our assets and liabilities are financial in nature. Our consolidated financial statements and corresponding notes thereto have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. As a result, interest rates and other factors influence our performance far more than inflation. Inflation affects our operations primarily through its effect on interest rates, since interest rates typically increase during periods of high inflation and decrease during periods of low inflation. During periods of increasing interest rates, demand for mortgages and a borrower’s ability to qualify for mortgage financing in a purchase transaction may be adversely affected. During periods of decreasing interest rates, borrowers may prepay their mortgages, which in turn may adversely affect our yield and subsequently the value of our portfolio of mortgage assets.

Contractual Obligations and Commitments

The Company had the following contractual obligations at December 31, 2015 (dollar amounts in thousands):

	Total	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Operating leases	$1,715	$207	$422	$434	$652
Financing arrangements	791,903	791,903	—	—	—
Subordinated debentures (1)	84,658	2,037	4,062	4,068	74,491
Securitized debt (1)(3)	93,364	93,364	—	—	—
Interest rate swaps (1)	2,312	1,124	1,022	166	—
Management fees (2)	11,688	11,688	—	—	—
Employment agreements	700	700	—	—	—
Total contractual obligations (3)	$986,340	$901,023	$5,506	$4,668	$75,143

(1) Amounts include projected interest payments during the period. Interest based on interest rates in effect on December 31, 2015.

(2) Amounts include the base fees for Midway, RiverBanc and Headlands based on the current invested capital. The management fees exclude incentive fees which are based on future performance.

(3) We exclude our Residential CDOs from the contractual obligations disclosed in the table above as this debt is non-recourse and not cross-collateralized and, therefore, must be satisfied exclusively from the proceeds of the residential mortgage loans and real estate owned held in the securitization trusts. See Note 11 in the Notes to Consolidated Financial Statements for further information regarding our Residential CDOs. We also exclude the securitized debt related to our May 2012 re-securitization transaction as this debt is non-recourse to the Company. See Note 7 in the Notes to Consolidated Financial Statements for further information regarding our Securitized Debt. The Company's Multi-Family CDOs, which represent the CDOs issued by the Consolidated K-Series is excluded as this debt is non-recourse to the Company.

Off-Balance Sheet Arrangements

We did not maintain any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

This section should be read in conjunction with "Item 1A. Risk Factors" in this Annual Report on Form 10-K and our subsequent periodic reports filed with the SEC.

We seek to manage risks that we believe will impact our business including, interest rates, liquidity, prepayments, credit quality and market value. When managing these risks we consider the impact on our assets, liabilities and derivative positions. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience. We seek to actively manage that risk, to generate risk-adjusted total returns that we believe compensate us appropriately for those risks and to maintain capital levels consistent with the risks we take.

The following analysis includes forward-looking statements that assume that certain market conditions occur. Actual results may differ materially from these projected results due to changes in our portfolio assets and borrowings mix and due to developments in the domestic and global financial and real estate markets. Developments in the financial markets include the likelihood of changing interest rates and the relationship of various interest rates and their impact on our portfolio yield, cost of funds and cash flows. The analytical methods that we use to assess and mitigate these market risks should not be considered projections of future events or operating performance.

Interest Rate Risk

Interest rates are sensitive to many factors, including governmental, monetary, tax policies, domestic and international economic conditions, and political or regulatory matters beyond our control. Changes in interest rates affect the value of the financial assets we manage and hold in our investment portfolio and the variable-rate borrowings we use to finance our portfolio. Changes in interest rates also affect the interest rate swaps and caps, Eurodollar and other futures, TBAs and other securities or instruments we use to hedge our portfolio. As a result, our net interest income is particularly affected by changes in interest rates.

For example, we hold RMBS, some of which may have fixed rates or interest rates that adjust on various dates that are not synchronized to the adjustment dates on our repurchase agreements. In general, the re-pricing of our repurchase agreements occurs more quickly than the re-pricing of our variable-interest assets. Thus, it is likely that our floating rate borrowings, such as our repurchase agreements, may react to interest rates before our RMBS because the weighted average next re-pricing dates on the related borrowings may have shorter time periods than that of the RMBS. In addition, the interest rates on our Agency ARMs backed by hybrid ARMs may be limited to a "periodic cap," or an increase of typically 1% or 2% per adjustment period, while our borrowings do not have comparable limitations. Moreover, changes in interest rates can directly impact prepayment speeds, thereby affecting our net return on RMBS. During a declining interest rate environment, the prepayment of RMBS may accelerate (as borrowers may opt to refinance at a lower interest rate) causing the amount of liabilities that have been extended by the use of interest rate swaps to increase relative to the amount of RMBS, possibly resulting in a decline in our net return on RMBS, as replacement RMBS may have a lower yield than those being prepaid. Conversely, during an increasing interest rate environment, RMBS may prepay more slowly than expected, requiring us to finance a higher amount of RMBS than originally forecast and at a time when interest rates may be higher, resulting in a decline in our net return on RMBS. Accordingly, each of these scenarios can negatively impact our net interest income.

We seek to manage interest rate risk in our portfolio by utilizing interest rate swaps, swaptions, caps, Eurodollar and other futures, options and U.S. Treasury securities with the goal of optimizing the earnings potential while seeking to maintain long term stable portfolio values. We continually monitor the duration of our mortgage assets and have a policy to hedge the financing of those assets such that the net duration of the assets, our borrowed funds related to such assets, and related hedging instruments, is less than one year. In addition, we utilize TBAs to mitigate the risks on our long Agency RMBS positions associated with our investments in Agency IOs.

We utilize a model-based risk analysis system to assist in projecting portfolio performances over a scenario of different interest rates. The model incorporates shifts in interest rates, changes in prepayments and other factors impacting the valuations of our financial securities and instruments, including mortgage-backed securities, repurchase agreements, interest rate swaps and interest rate caps, TBAs and Eurodollar futures.

Based on the results of the model, the instantaneous changes in interest rates specified below would have had the following effect on net interest income for the next 12 months based on our assets and liabilities as of December 31, 2015 (dollar amounts in thousands):

Changes in Net Interest Income

Changes in Interest Rates	Changes in Net Interest Income	
+200	$5,679	
+100	$5,589	
-100	$(14,070	)

Interest rate changes may also impact our net book value as our financial assets and related hedge derivatives are marked-to-market each quarter. Generally, as interest rates increase, the value of our mortgage assets, other than IOs, decreases, and conversely, as interest rates decrease, the value of such investments will increase. The value of an IO will likely be negatively affected in a declining interest rate environment due to the risk of increasing prepayment rates because the IOs' value is wholly contingent on the underlying mortgage loans having an outstanding balance. In general, we expect that, over time, decreases in the value of our portfolio attributable to interest rate changes will be offset, to the degree we are hedged, by increases in the value of our interest rate swaps or other financial instruments used for hedging purposes, and vice versa. However, the relationship between spreads on securities and spreads on our hedging instruments may vary from time to time, resulting in a net aggregate book value increase or decline. That said, unless there is a material impairment in value that would result in a payment not being received on a security or loan, changes in the book value of our portfolio will not directly affect our recurring earnings or our ability to make a distribution to our stockholders.

Liquidity Risk

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay dividends to our stockholders and other general business needs. We recognize the need to have funds available to operate our business. It is our policy to have adequate liquidity at all times. We plan to meet liquidity through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds.

Our principal sources of liquidity are the repurchase agreements on our mortgage-backed securities, the CDOs we have issued to finance our loans held in securitization trusts, securitized debt, trust preferred securities, the principal and interest payments from our assets and cash proceeds from the issuance of equity or debt securities (as market and other conditions permit). We believe our existing cash balances and cash flows from operations will be sufficient for our liquidity requirements for at least the next 12 months.

We are subject to “margin call” risk under the terms of our repurchase agreements. In the event the value of our assets pledged as collateral suddenly decreases, margin calls relating to our repurchase agreements could increase, causing an adverse change in our liquidity position. Additionally, if one or more of our repurchase agreement counterparties chooses not to provide ongoing funding, we may be unable to replace the financing through other lenders on favorable terms or at all. As such, we provide no assurance that we will be able to roll over our repurchase agreements as they mature from time to time in the future. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in this Annual Report on Form 10-K for further information about our liquidity and capital resource management.

Derivative financial instruments used to hedge interest rate risk are subject to “margin call” risk. For example, under our interest rate swaps, typically we pay a fixed rate to the counterparties while they pay us a floating rate. If interest rates drop below the fixed rate we are paying on an interest rate swap, we may be required to post cash margin.

Prepayment Risk

When borrowers repay the principal on their residential mortgage loans before maturity or faster than their scheduled amortization, the effect is to shorten the period over which interest is earned, and therefore, reduce the yield for residential mortgage assets purchased at a premium to their then current balance, as with our portfolio of Agency RMBS. Conversely, residential mortgage assets purchased for less than their then current balance, such as our distressed residential mortgage loans, exhibit higher yields due to faster prepayments. Furthermore, actual prepayment speeds may differ from our modeled prepayment speed projections impacting the effectiveness of any hedges we have in place to mitigate financing and/or fair value risk. Generally, when market interest rates decline, borrowers have a tendency to refinance their mortgages, thereby increasing prepayments. The impact of increasing prepayment rates, whether as a result of declining interest rates, government intervention in the mortgage markets or otherwise, is particularly acute with respect to our Agency IOs. Because the value of an IO security is wholly contingent on the underlying mortgage loans having an outstanding principal balance, an unexpected increase in prepayment rates on the pool of mortgage loans underlying the IOs could significantly negatively impact the performance of our Agency IOs.

Our modeled prepayments will help determine the amount of hedging we use to off-set changes in interest rates. If actual prepayment rates are higher than modeled, the yield will be less than modeled in cases where we paid a premium for the particular residential mortgage asset. Conversely, when we have paid a premium, if actual prepayment rates experienced are slower than modeled, we would amortize the premium over a longer time period, resulting in a higher yield to maturity.

In an environment of increasing prepayment speeds, the timing difference between the actual cash receipt of principal paydowns and the announcement of the principal paydown may result in additional margin requirements from our repurchase agreement counterparties.

We mitigate prepayment risk by constantly evaluating our residential mortgage assets relative to prepayment speeds observed for assets with similar structures, quantities and characteristics. Furthermore, we stress-test the portfolio as to prepayment speeds and interest rate risk in order to further develop or make modifications to our hedge balances. Historically, we have not hedged 100% of our liability costs due to prepayment risk.

Credit Risk

Credit risk is the risk that we will not fully collect the principal we have invested in our credit sensitive assets, including distressed residential and other mortgage loans, CMBS and commercial real estate-related debt investments, due to borrower defaults. In selecting the credit sensitive assets in our portfolio, we seek to identify and invest in assets with characteristics that we believe offset or limit the exposure of borrower defaults to the Company.

We seek to manage credit risk through our pre-acquisition or pre-funding due diligence process, and by factoring projected credit losses into the purchase price we pay or loan terms we negotiate for all of our credit sensitive assets. In general, we evaluate relative valuation, supply and demand trends, prepayment rates, delinquency and default rates, vintage of collateral and macroeconomic factors as part of this process. Nevertheless, these procedures do not guarantee unanticipated credit losses which would materially affect our operating results.

With respect to the $559.0 million of distressed residential mortgage loans the Company owned at December 31, 2015, the mortgage loans were purchased at a discount to par reflecting their distressed state or perceived higher risk of default, which may include higher loan to value ratios and, in certain instances, delinquent loan payments. Prior to the acquisition of distressed residential mortgage loans, the Company validates key information provided by the sellers that is necessary to determine the value of the distressed residential mortgage loans. We then seek to maximize the value of the mortgage loans that we acquire either through borrower assisted refinancing, outright loan sale or through foreclosure and resale of the underlying home. We evaluate credit quality on an ongoing basis by reviewing borrower’s payment status and current financial and economic condition. Additionally, we look at the carrying value of any delinquent loan and compare to the current value of the underlying collateral.

As of December 31, 2015, we own $317.6 million of first loss CMBS comprised primarily of first loss POs that are backed by commercial mortgage loans on multi-family properties at a weighted average amortized purchase price of approximately 35.1% of current par. Prior to the acquisition of each of our first loss CMBS securities, the Company completes an extensive review of the underlying loan collateral, including loan level cash flow re-underwriting, site inspections on selected properties, property specific cash flow and loss modeling, review of appraisals, property condition and environmental reports, and other credit risk analyses. We continue to monitor credit quality on an ongoing basis using updated property level financial reports provided by borrowers and periodic site inspection of selected properties. We also reconcile on a monthly basis the actual bond distributions received against projected distributions to assure proper allocation of cash flow generated by the underlying loan pool.

As of December 31, 2015, we owned approximately $131.2 million of first mortgage loan, mezzanine loans, preferred equity and equity investments backed by residential or multi-family properties. The performance and value of these investments depend upon the applicable operating partner’s or borrower’s ability to effectively operate the multifamily and residential properties, that serve as the underlying collateral, to produce cash flows adequate to pay distributions, interest or principal due to us. The Company monitors the performance and credit quality of the underlying assets that serve as collateral for its investments. In the case of our multi-family investments, the procedures for ongoing monitoring include financial statement analysis and regularly scheduled site inspections of portfolio properties to assess property physical condition, performance of on-site staff and competitive activity in the sub-market. We also formulate annual budgets and performance goals alongside our operating partners for use in measuring the ongoing investment performance and credit quality of our investments.

Fair Value Risk

Changes in interest rates also expose us to market value (fair value) fluctuation on our assets, liabilities and hedges. While the fair value of the majority of our assets (when excluding all Consolidated K-Series assets other than the securities we actually own) that are measured on a recurring basis are determined using Level 2 fair values, we own certain assets, such as our CMBS, for which fair values may not be readily available if there are no active trading markets for the instruments. In such cases, fair values would only be derived or estimated for these investments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. Minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values. Our fair value estimates and assumptions are indicative of the interest rate environments as of December 31, 2015, and do not take into consideration the effects of subsequent interest rate fluctuations.

We note that the values of our investments in derivative instruments will be sensitive to changes in market interest rates, interest rate spreads, credit spreads and other market factors. The value of these investments can vary and has varied materially from period to period.

The following describes the methods and assumptions we use in estimating fair values of our financial instruments:

Fair value estimates are made as of a specific point in time based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors.

Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair values, the fair values used by us should not be compared to those of other companies.

The table below presents the sensitivity of the market value and net duration changes of our portfolio as of December 31, 2015, using a discounted cash flow simulation model assuming an instantaneous interest rate shift. Application of this method results in an estimation of the fair market value change of our assets, liabilities and hedging instruments per 100 basis point ("bp") shift in interest rates.

The use of hedging instruments is a critical part of our interest rate risk management strategies, and the effects of these hedging instruments on the market value of the portfolio are reflected in the model's output. This analysis also takes into consideration the value of options embedded in our mortgage assets including constraints on the re-pricing of the interest rate of assets resulting from periodic and lifetime cap features, as well as prepayment options. Assets and liabilities that are not interest rate-sensitive such as cash, payment receivables, prepaid expenses, payables and accrued expenses are excluded.

Changes in assumptions including, but not limited to, volatility, mortgage and financing spreads, prepayment behavior, defaults, as well as the timing and level of interest rate changes will affect the results of the model. Therefore, actual results are likely to vary from modeled results.

Market Value Changes

Changes in Interest Rates	Changes in Market Value ($ amounts in thousands)		Net Duration
+200	$(101,064	)	3.63
+100	$(52,457	)	3.28
Base			2.58
-100	$36,492		1.54

It should be noted that the model is used as a tool to identify potential risk in a changing interest rate environment but does not include any changes in portfolio composition, financing strategies, market spreads or changes in overall market liquidity.

Although market value sensitivity analysis is widely accepted in identifying interest rate risk, it does not take into consideration changes that may occur such as, but not limited to, changes in investment and financing strategies, changes in market spreads and changes in business volumes. Accordingly, we make extensive use of an earnings simulation model to further analyze our level of interest rate risk.

There are a number of key assumptions in our earnings simulation model. These key assumptions include changes in market conditions that affect interest rates, the pricing of ARM products, the availability of investment assets and the availability and the cost of financing for portfolio assets. Other key assumptions made in using the simulation model include prepayment speeds and management's investment, financing and hedging strategies, and the issuance of new equity. We typically run the simulation model under a variety of hypothetical business scenarios that may include different interest rate scenarios, different investment strategies, different prepayment possibilities and other scenarios that provide us with a range of possible earnings outcomes in order to assess potential interest rate risk. The assumptions used represent our estimate of the likely effect of changes in interest rates and do not necessarily reflect actual results. The earnings simulation model takes into account periodic and lifetime caps embedded in our assets in determining the earnings at risk.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and the related notes, together with the Report of Independent Registered Public Accounting Firm thereon, as required by this Item 8, are set forth beginning on page F-1 of this Annual Report on Form 10-K and are incorporated herein by reference.

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 - We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2015. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015.

Management’s Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the reliability, preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013) (the "COSO framework") . Based on our evaluation under the COSO framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Annual Report on Form 10-K and is incorporated by reference herein.

Changes in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICER AND CORPORATE GOVERNANCE

The information required by this item is included in our Proxy Statement for our 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2015 (the “2016 Proxy Statement”) and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is included in the 2016 Proxy Statement and is incorporated herein by reference.

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

Except as set forth below, the information required by this item is included in the 2016 Proxy Statement and is incorporated herein by reference.

The information presented under the heading “Market for the Registrant’s Common Equity and Related Stockholder Matters — Securities Authorized for Issuance Under Equity Compensation Plans” in Item 5 of Part II of this Form 10-K is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is included in the 2016 Proxy Statement and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is included in the 2016 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

(b) Exhibits.
The information set forth under “Exhibit Index” below is incorporated herein by reference.

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.

NEW YORK MORTGAGE TRUST, INC.

Date: February 25, 2016	By:	/s/ Steven R. Mumma Steven R. Mumma Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)
Date: February 25, 2016	By:	/s/ Kristine R. Nario Kristine R. Nario Chief Financial Officer (Principal Financial and Accounting 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/ Steven R. Mumma Steven R. Mumma	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	February 25, 2016
/s/ Kristine R. Nario Kristine R. Nario	Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2016
/s/ Douglas E. Neal Douglas E. Neal	Director	February 25, 2016
/s/ Alan L. Hainey Alan L. Hainey	Director	February 25, 2016
/s/ Steven G. Norcutt Steven G. Norcutt	Director	February 25, 2016
/s/ David R. Bock David R. Bock	Director	February 25, 2016

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AND

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

For Inclusion in Form 10-K

Filed with

United States Securities and Exchange Commission

December 31, 2015

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
New York Mortgage Trust, Inc.

We have audited the accompanying consolidated balance sheets of New York Mortgage Trust, Inc. (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New York Mortgage Trust, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2016 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

New York, New York
February 25, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
New York Mortgage Trust, Inc.

We have audited the internal control over financial reporting of New York Mortgage Trust, Inc. (a Maryland corporation) and subsidiaries (the “Company”) as of December 31, 2015, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2015, and our report dated February 25, 2016 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

New York, New York
February 25, 2016

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands, except share data)

	December 31, 2015	December 31, 2014
ASSETS		
Investment securities, available for sale, at fair value (including pledged securities of $639,683 and $702,684, respectively)	$724,720	$816,647
Investment securities, available for sale, at fair value held in securitization trusts	40,734	38,594
Residential mortgage loans held in securitization trusts (net)	119,921	149,614
Distressed residential mortgage loans held in securitization trusts (net)	114,214	221,591
Distressed residential mortgage loans (net)	444,775	361,106
Multi-family loans held in securitization trusts, at fair value	7,105,336	8,365,514
Derivative assets	228,775	288,850
Cash and cash equivalents	61,959	75,598
Receivables and other assets	219,130	222,491
Total Assets (1)	$9,059,564	$10,540,005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Financing arrangements, portfolio investments	$577,413	$651,965
Financing arrangements, residential mortgage loans	214,490	238,949
Residential collateralized debt obligations	116,710	145,542
Multi-family collateralized debt obligations, at fair value	6,818,901	8,048,053
Securitized debt	117,528	232,877
Derivative liabilities	1,500	1,463
Payable for securities purchased	227,969	283,537
Accrued expenses and other liabilities (including $1,745 and $6,317 to related parties, respectively)	59,527	74,692
Subordinated debentures	45,000	45,000
Total liabilities (1)	$8,179,038	$9,722,078
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 7.75% Series B cumulative redeemable, $25 liquidation preference per share, 6,000,000 and 3,450,000 shares authorized as of December 31, 2015 and December 31, 2014, respectively, 3,000,000 shares issued and outstanding as of December 31, 2015 and December 31, 2014, respectively	$72,397	$72,397
Preferred stock, $0.01 par value, 7.875% Series C cumulative redeemable, $25 liquidation preference per share, 4,140,000 and 0 shares authorized as of December 31, 2015 and December 31, 2014, respectively 3,600,000 and 0 shares issued and outstanding as of December 31, 2015 and December 31, 2014, respectively	86,862	—
Common stock, $0.01 par value, 400,000,000 shares authorized, 109,401,721 and 105,094,565 shares issued and outstanding as of December 31, 2015 and December 31, 2014, respectively	1,094	1,051
Additional paid-in capital	734,610	701,871
Accumulated other comprehensive (loss) income	(2,854)	10,015
(Accumulated deficit) retained earnings	(11,583)	32,593
Total stockholders' equity	$880,526	$817,927
Total Liabilities and Stockholders' Equity	$9,059,564	$10,540,005

(1) Our consolidated balance sheets include assets and liabilities of consolidated variable interest entities ("VIEs") as the Company is the primary beneficiary of these VIEs. As of December 31, 2015 and December 31, 2014, assets of consolidated VIEs totaled $7,413,082 and $8,847,078, respectively, and the liabilities of consolidated VIEs totaled $7,078,162 and $8,457,034, respectively. See Note 7 for further discussion.

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

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

	For the Years Ended December 31,		
	2015	2014	2013
INTEREST INCOME:			
Investment securities and other	$36,390	$54,391	$46,646
Multi-family loans held in securitization trusts	257,417	301,877	228,631
Residential mortgage loans held in securitization trusts	3,728	3,755	4,709
Distressed residential mortgage loans	39,303	18,824	11,741
Total interest income	$336,838	$378,847	$291,727
INTEREST EXPENSE:			
Investment securities and other	$13,737	$5,569	$6,655
Multi-family collateralized debt obligations	232,971	275,916	210,229
Residential collateralized debt obligations	936	904	1,123
Securitized debt	11,126	16,762	11,293
Subordinated debentures	1,881	1,859	1,878
Total interest expense	$260,651	$301,010	$231,178
NET INTEREST INCOME	$76,187	$77,837	$60,549
OTHER INCOME (LOSS):			
Provision for loan losses	$(1,363)	$(1,939)	$(1,262)
Impairment loss on investment securities	—	—	(225)
Realized (loss) gain on investment securities and related hedges, net	(4,617)	42,091	(10,719)
Gain on de-consolidation of multi-family loans held in securitization trust and multi-family collateralized debt obligations	1,483	—	—
Realized gain on distressed residential mortgage loans	31,251	14,380	1,600
Unrealized (loss) gain on investment securities and related hedges, net	(2,641)	(7,667)	5,464
Unrealized gain on multi-family loans and debt held in securitization trusts, net	12,368	56,931	31,495
Loss on extinguishment of debt	—	(3,397)	—
Other income (including $6,078, $3,261 and $439 from related parties, respectively)	9,360	4,809	2,709
Total other income	$45,841	$105,208	$29,062
Base management and incentive fees (including $8,083, $14,799 and $3,360 to related parties, respectively)	$19,188	$24,530	$8,133
Expenses related to distressed residential mortgage loans	10,364	6,429	3,868
Other general and administrative expenses (including $0, $80 and $698 to related parties, respectively)	9,928	9,500	7,916
Total general, administrative and other expenses	$39,480	$40,459	$19,917
INCOME FROM OPERATIONS BEFORE INCOME TAXES	$82,548	$142,586	$69,694
Income tax expense	4,535	6,395	739
NET INCOME	78,013	136,191	68,955
Preferred stock dividends	(10,990)	(5,812)	(3,568)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$67,023	$130,379	$65,387
Basic income per common share	$0.62	$1.48	$1.11

Diluted income per common share	$0.62	$1.48	$1.11
Weighted average shares outstanding-basic	108,399	87,867	59,102
Weighted average shares outstanding-diluted	108,399	87,867	59,102

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

NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollar amounts in thousands)

	For the Years Ended December 31,		
	2015	2014	2013
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$67,023	$130,379	$65,387
OTHER COMPREHENSIVE (LOSS) INCOME			
(Decrease) increase in net unrealized gain on available for sale securities	(2,975)	20,881	(18,800)
Reclassification adjustment for net gain included in net income	(9,063)	(13,033)	—
(Decrease) increase in fair value of derivative instruments utilized for cash flow hedges	(831)	(906)	3,785
OTHER COMPREHENSIVE (LOSS) INCOME	(12,869)	6,942	(15,015)
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$54,154	$137,321	$50,372

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

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2015, 2014 and 2013
(Dollar amounts in thousands)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	$496	$—	$355,006	$(51,584)	$18,088	$322,006
Net income	—	—	—	68,955	—	68,955
Common Stock issuance, net	145	—	100,959	—	—	101,104
Preferred Stock issuance, net	—	72,397	—	—	—	72,397
Dividends declared on common stock	—	—	(51,410)	(13,803)	—	(65,213)
Dividends declared on preferred stock	—	—	—	(3,568)	—	(3,568)
Decrease in net unrealized gain on available for sale securities	—	—	—	—	(18,800)	(18,800)
Increase in fair value of derivative instruments utilized for cash flow hedges	—	—	—	—	3,785	3,785
Balance, December 31, 2013	641	72,397	404,555	—	3,073	480,666
Net income	—	—	—	136,191	—	136,191
Common Stock issuance, net	410	—	297,316	—	—	297,726
Dividends declared on common stock	—	—	—	(97,786)	—	(97,786)
Dividends declared on preferred stock	—	—	—	(5,812)	—	(5,812)
Reclassification adjustment for net gain included in net income	—	—	—	—	(13,033)	(13,033)
Increase in net unrealized gain on available for sale securities	—	—	—	—	20,881	20,881
Decrease in fair value of derivative instruments utilized for cash flow hedges	—	—	—	—	(906)	(906)
Balance, December 31, 2014	1,051	72,397	701,871	32,593	10,015	817,927
Net income	—	—	—	78,013	—	78,013
Stock issuances, net	43	86,862	32,739	—	—	119,644
Dividends declared on common stock	—	—	—	(111,199)	—	(111,199)
Dividends declared on preferred stock	—	—	—	(10,990)	—	(10,990)
Reclassification adjustment for net gain included in net income	—	—	—	—	(9,063)	(9,063)
Decrease in net unrealized gain on available for sale securities	—	—	—	—	(2,975)	(2,975)
Decrease in fair value of derivative instruments utilized	—	—	—	—	(831)	(831)

for cash flow hedges						
Balance, December 31, 2015	$1,094	$159,259	$734,610	$(11,583)	$(2,854)	$880,526

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

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)

	For the Years Ended December 31,		
	2015	2014	2013
Cash Flows from Operating Activities:			
Net income	$78,013	$136,191	$68,955
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization	542	(2,671)	13,424
Realized loss (gain) on investment securities and related hedges, net	4,617	(42,091)	10,719
Realized gain on distressed residential mortgage loans	(31,251)	(14,380)	(1,600)
Unrealized loss (gain) on investment securities and related hedges, net	2,641	7,667	(5,464)
Gain on de-consolidation of multi-family loans held in securitization trusts and multi-family collateralized debt obligations	(1,483)	—	—
Unrealized gain on loans and debt held in multi-family securitization trusts	(12,368)	(56,931)	(31,495)
Impairment loss on investment securities	—	—	225
Loss on extinguishment of debt	—	3,397	—
Net decrease in loans held for sale	323	87	341
Provision for loan losses	1,363	1,939	1,262
Income from investments in limited partnerships and limited liability companies	(12,997)	(4,562)	(2,297)
Distributions of income from investments in limited partnership and limited liability companies	9,827	2,238	1,976
Amortization of stock based compensation, net	983	1,180	897
Changes in operating assets and liabilities:			
Receivables and other assets	10,945	(3,631)	(18,097)
Accrued expenses and other liabilities and accrued expenses, related parties	(14,819)	9,118	14,457
Net cash provided by operating activities	36,336	37,551	53,303
Cash Flows from Investing Activities:			
Restricted cash	33,448	(10,150)	2,467
Proceeds from sales of investment securities	99,235	93,578	1,254
Purchases of investment securities	(152,883)	(20,273)	(72,183)
Return of capital from investments in limited partnerships and limited liability companies	—	—	3,558
Purchases of FHLBI stock	(5,445)	—	—
Purchases of other assets	(61)	(254)	(975)
Funding of first mortgage loan	—	(1,142)	(6,500)
Funding of mezzanine loan and preferred equity investments	(58,215)	(48,674)	(16,788)
Proceeds from sale of mezzanine loan and preferred equity investments	4,308	5,590	—
Net (payments) proceeds from other derivative instruments settled during the period	(5,766)	1,124	(11,011)
Principal repayments received on residential mortgage loans held in securitization trusts	28,166	12,687	22,292
Principal repayments and proceeds from sales and refinancing of distressed residential mortgage loans	238,798	64,715	15,646
Principal repayments received on multi-family loans held in securitization trusts	85,980	80,451	73,831
Principal paydowns on investment securities - available for sale	105,774	98,877	125,913
Proceeds from sale of real estate owned	1,044	3,882	—

Purchases of residential mortgage loans and distressed residential mortgage loans	(156,005)	(405,427)	(218,166)
Proceeds from sales of loans held in multi-family securitization trusts	65,587	—	—
Purchases of loans held in multi-family securitization trusts	—	—	(71,625)
Net cash provided by (used in) investing activities	283,965	(125,016)	(152,287)
Cash Flows from Financing Activities:			
(Payments made on) proceeds from financing arrangements, net of FHLBI advances	(99,011)	99,789	(98,009)
Common stock issuance, net	31,799	296,546	100,207
Preferred stock issuance, net	86,862	—	72,397
Dividends paid on common stock	(113,318)	(86,705)	(61,302)
Dividends paid on preferred stock	(9,218)	(5,812)	(2,115)
Payments made on residential collateralized debt obligations	(28,952)	(12,918)	(22,657)
Payments made on multi-family collateralized debt obligations	(85,966)	(83,839)	(73,813)
Proceeds from securitized debt	—	—	191,705
Payments made and extinguishment of securitized debt	(116,136)	(75,796)	(7,408)
Net cash (used in) provided by financing activities	(333,940)	131,265	99,005
Net (Decrease) increase in Cash and Cash Equivalents	(13,639)	43,800	21
Cash and Cash Equivalents - Beginning of Period	75,598	31,798	31,777
Cash and Cash Equivalents - End of Period	$61,959	$75,598	$31,798
Supplemental Disclosure:			
Cash paid for interest	$307,162	$352,232	$268,552
Cash paid for income taxes	$4,922	$8,295	$794

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NEW YORK MORTGAGE TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)

Non-Cash Investment Activities:			
Purchase of investment securities not yet settled	$227,969	$283,537	$191,592
Deconsolidation of multi-family loans held in securitization trusts	$1,075,529	$—	$—
Deconsolidation of multi-family collateralized debt obligations	$		