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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 001-13709

ANWORTH MORTGAGE ASSET CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

MARYLAND	**52-2059785**
(State or Other Jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1299 OCEAN AVENUE, 2ND FLOOR SANTA MONICA, CALIFORNIA	**90401**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's telephone number, including area code: (310) 255-4493
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $0.01 Par Value	ANH	New York Stock Exchange
Series A Cumulative Preferred Stock, $0.01 Par Value	ANHPRA	New York Stock Exchange
Series B Cumulative Convertible Preferred Stock, $0.01 Par Value	ANHPRB	New York Stock Exchange
Series C Cumulative Redeemable Preferred Stock, $0.01 Par Value	ANHPRC	New York Stock Exchange

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

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

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 ☒

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on the New York Stock Exchange, as of June 30, 2020 was approximately $165,192,735.

As of February 24, 2021, the registrant had 99,303,982 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain portions of the registrant's proxy statement for its 2021 annual meeting of stockholders to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this report.

ANWORTH MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

FORM 10-K ANNUAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2020

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PART I

Item 1. BUSINESS

Overview

Our Company

We were incorporated in Maryland on October 20, 1997 and commenced operations on March 17, 1998. Our principal business is to invest in, finance and manage a leveraged portfolio of residential mortgage-backed securities, or MBS, and residential mortgage loans, which presently includes the following types of investments:

- *Agency mortgage-backed securities*, or Agency MBS, which include residential mortgage pass-through certificates and collateralized mortgage obligations, or CMOs, which are securities representing interests in pools of mortgage loans secured by residential property in which the principal and interest payments are guaranteed by a government-sponsored enterprise, or GSE, such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac;

- *Non-agency mortgage-backed securities*, or Non-Agency MBS, which are securities issued by companies that are not guaranteed by federally sponsored enterprises and that are secured primarily by first-lien residential mortgage loans; and

- *Residential mortgage loans.* We acquire non-Qualified Mortgage, or Non-QM, residential mortgage loans (which are described further on page 86) from independent loan originators with the intent of holding these loans for securitization. These loans are financed by a warehouse line of credit until securitization. We also hold residential mortgage loans through consolidated securitization trusts. We finance these loans through asset-backed securities, or ABS, issued by the consolidated securitization trusts. The ABS, which are held by unaffiliated third parties, are non-recourse financing. The difference in the amount of the loans in the trusts and the amount of the ABS represents our retained net interest in the securitization trusts.

Our principal business objective is to generate net income for distribution to our stockholders primarily based upon the spread between the interest income on our mortgage assets and our borrowing costs to finance our acquisition of those assets.

We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code. As long as we retain our REIT status, we generally will not be subject to federal or state income taxes to the extent that we distribute our taxable net income to our stockholders, and we routinely distribute to our stockholders substantially all of the taxable net income generated from our operations. In order to qualify as a REIT, we must meet various ongoing requirements under the tax law, including requirements relating to the composition of our assets, the nature of our gross income, minimum distribution requirements and requirements relating to the ownership of our stock.

Proposed Merger with Ready Capital Corporation

On December 6, 2020, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Ready Capital Corporation, a Maryland corporation (“Ready Capital”), and RC Merger Subsidiary, LLC, a Delaware limited liability company and a wholly owned subsidiary of Ready Capital (“Merger Sub”), pursuant to which, subject to the terms and conditions therein, our Company will be merged with and into Merger Sub, with Merger Sub remaining as a wholly owned subsidiary of Ready Capital (such transaction, the “Merger”).

Under the terms of the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of our common stock, par value $0.01 per share (“Anworth Common Stock”), issued and outstanding immediately prior to the Effective Time (excluding any shares held by Ready Capital, Merger Sub or any of their respective subsidiaries) will automatically be converted into the right to receive from Ready Capital (i) 0.1688 shares of common stock, par value $0.0001, of Ready Capital ("Ready Capital Common Stock"), plus (ii) $0.61 in cash minus the Per Share Excess Amount, in each case, subject to adjustment as provided in the Merger Agreement. The Per Share Excess Amount means an amount, if any, per share by which our termination expenses and transaction expenses exceed $32.5 million. Cash will be paid in lieu of any fractional shares of Ready Capital Common Stock that would have been received as a result of the Merger.

Additionally, at the Effective Time, each share of our 8.625% Series A Cumulative Preferred Stock, $0.01 par value per share, will be converted into the right to receive one share of a newly designated series of Ready Capital preferred stock, par value $0.0001 per share, which Ready Capital expects will be classified and designed as Ready Capital's Series B Preferred Stock ("Ready Capital Series B Preferred Stock"); each share of our 6.25% Series B Cumulative Convertible Preferred Stock, $0.01 par value per share, will be converted into the right to receive one share of a newly designated series of Ready Capital preferred stock, par value $0.0001 per share, which Ready Capital expects will be classified and designed as Ready Capital's Series C Preferred Stock ("Ready Capital Series C Preferred Stock"); and each share of our 7.625% Series C Cumulative Redeemable Preferred Stock, $0.01 par value per share, will be converted into the right to receive one share of a newly designated series of Ready Capital preferred stock, par value $0.0001 per share, which Ready Capital expects will be classified and designed as Ready Capital's Series D Preferred Stock ("Ready Capital Series D Preferred Stock").

The obligation of each party to consummate the Merger is subject to a number of conditions, including, among others, (a) the approval of the issuance of the Ready Capital Common Stock in connection with the Merger by the affirmative vote of a majority of the votes cast at a meeting of Ready Capital stockholders, (b) the approval of the Merger and the other transactions contemplated by the Merger Agreement by the affirmative vote of the holders of at least a majority of the outstanding shares of Anworth Common Stock entitled to vote on the Merger, (c) the registration and listing on the New York Stock Exchange of the shares of Ready Capital Common Stock, Ready Capital Series B Preferred Stock, Ready Capital Series C Preferred Stock, and Ready Capital Series D Preferred Stock that will be issued in connection with the Merger, (d) the respective representations and warranties of the parties being true and correct, subject to the materiality standards contained in the Merger Agreement, (e) each party's compliance in all material respects with their respective covenants and agreements set forth in the Merger Agreement, (f) the absence of a material adverse effect with respect to either our Company or Ready Capital, (g) the effectiveness of an amendment to our management agreement between us and our external manager pertaining to the termination of our management agreement effective as of the Effective Time, (h) the effectiveness of an amendment to the management agreement between Ready Capital and its external manager pertaining to the reduction in the base management fee payable to Ready Capital's external manager by $1,000,000 per quarter for each of the first four full quarters following the Effective Time, and (i) the delivery of certain documents and certificates.

The Merger Agreement contains customary representations, warranties and covenants by each party. The respective representations and warranties of the parties are subject to certain important qualifications and limitations set forth in confidential disclosure letters delivered by us, on the one hand, and Ready Capital, on the other hand, and were made solely for purposes of the contract among the parties. The representations and warranties are subject to a contractual standard of materiality that may be different from what may be viewed as material to stockholders, and the representations and warranties are primarily intended to establish circumstances in which either of the parties may not be obligated to consummate the Merger, rather than establishing matters as facts. In addition, the Merger Agreement provides that each of our Company and Ready Capital will, until the Effective Time, operate their respective businesses in all material respects in the ordinary course and consistent with practice, and preserve substantially intact its current business organization and preserve key business relationships. Each of our Company and Ready Capital are subject to restrictions as specified in the Merger Agreement on certain actions each company may take prior to the Effective Time, including, among other things, actions related to amending organizational documents, declaring dividends, issuing or repurchasing capital stock, engaging in certain business transactions and incurring indebtedness.

The combined company will operate under the name Ready Capital and its shares are expected to continue trading on the New York Stock Exchange under the existing ticker symbol "RC".

Upon completion of the merger, Ready Capital's Chairman and Chief Executive Officer Thomas Capasse will lead the combined company and Ready Capital executives Jack Ross, Thomas Buttacavoli, Andrew Ahlborn and Gary

Taylor will remain in their current roles. The combined company will be headquartered in New York, New York. The board of directors of the combined company is expected to have eight directors, consisting of Ready Capital's existing seven directors and one independent director from our current board of directors.

In connection with the Merger, Ready Capital has filed with the Securities and Exchange Commission (the "SEC") a registration statement on Form S-4, containing a joint proxy statement/prospectus. The joint proxy/prospectus contains important information about the Merger and related matters.

The foregoing description of the Merger Agreement, the Merger and the related transactions does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, a copy of which is filed as Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on December 8, 2020.

Our Manager

We are externally managed and advised by Anworth Management, LLC, or our Manager. Our Manager is supervised and directed by our board of directors, or our Board. Our day-to-day operations are being conducted by our Manager through the authority delegated to it under the Management Agreement between us and our Manager (which we refer to as the "Management Agreement") and pursuant to the policies established by our Board.

Our Manager will also perform such other services and activities relating to our assets and operations as described in the Management Agreement. In exchange for services provided, our Manager receives a management fee paid monthly in arrears in an amount equal to one-twelfth of 1.20% of our Equity (as defined in the Management Agreement).

In connection with the execution of the Merger Agreement, we, our Manager, and Ready Capital entered into an amendment to the Management Agreement (the "Management Agreement Amendment"). The Management Agreement Amendment provides that upon the completion of the transactions contemplated by the Merger Agreement, the Management Agreement will terminate, and as a result of the completion of the transactions contemplated by the Merger Agreement and the termination of the Management Agreement, we will pay our Manager a termination fee of $20.3 million, and Ready Capital or Merger Sub (as the surviving company following the Merger) will reimburse our Manager for certain unpaid expenses and pay to our Manager all accrued and unpaid management fees then owed under the Management Agreement, as and when specified in the Management Agreement Amendment. The foregoing description of the Management Agreement Amendment does not purport to be complete and is qualified in its entirety by reference to the Management Agreement Amendment, a copy of which is filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on December 8, 2020.

The COVID-19 coronavirus pandemic has generally not affected our Manager's ability to manage our day-to-day operations and provide other services to us under the Management Agreement, as the Manager's key employees and personnel who manage our operations are able to effectively work from home and provide such services to us under applicable local and state shelter-in-place orders.

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains, or incorporates by reference, not only historical information but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are subject to the safe harbors created by such sections. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as "anticipate," "estimate," "will," "should," "expect," "believe," "assume," "intend," "seek," "plan," "target," "goals," "future," "likely," "may," and similar expressions or their negative forms, or by reference to strategy, plans, or intentions. These forward-looking statements, including statements regarding the proposed Merger with Ready Capital, are subject to risks and uncertainties including, among other things, those described in this Annual Report on Form 10-K under the caption "Risk Factors." Other risks, uncertainties, and factors that could cause our actual results to differ materially and adversely from those projected are described below and may be described from time to time in reports we file with the U.S. Securities and Exchange Commission, or the SEC, including our Current Reports on Form 8-K. Forward-looking statements speak only as of the date they are made and we undertake no obligation to update or revise any such forward-looking statements, whether as a result of new information, future events, or otherwise.

Statements regarding the following subjects, among others, that may affect our actual results may be forward-looking: risks associated with investing in mortgage-backed securities, or MBS, and other mortgage-related assets; changes in interest rates and the market value of our target investments; changes in prepayment rates of the mortgage loans securing our mortgage-related investments; changes in the yield curve; the credit performance of our Non-Agency MBS, residential mortgage loans held-for-securitization, and residential mortgage loans held-for-investment through consolidated securitization trusts; the concentration of the credit risks we are exposed to; the state of the credit markets and other general economic conditions, particularly as they affect the price of earning assets and the credit status of borrowers; the availability of our target investments for purchase at attractive prices; the availability of financing for our target investments, including the availability of repurchase agreement financing and warehouse lines of credit; the scope and duration of the COVID-19 coronavirus pandemic, including actions taken by governmental authorities to contain the spread of the virus, and the impact on our business and the general economy; declines in home prices; increases in payment delinquencies and defaults on the mortgages comprising and underlying our target investments; changes in liquidity in the market for MBS, the re-pricing of credit risk in the capital markets, inaccurate ratings of securities by rating agencies, rating agency downgrades of securities, and changes in the supply of mortgage-related assets available-for-sale; changes in the values of the MBS and other mortgage-related investments in our portfolio and the impact of adjustments reflecting those changes on our financial statements; our ability to generate the amount of cash flow we expect from our target investments; changes in our investment and financial strategies and the new risks that those changes may expose us to; changes in the competitive environment within our industry; changes that may affect our Manager’s ability to attract and retain personnel; our ability to successfully diversify our business into new investments and manage the new risks they may expose us to; our ability to manage various operational and regulatory risks associated with our business; our ability to establish, adjust and maintain appropriate hedges for the risks to our portfolio; legislative and regulatory actions affecting the mortgage and derivatives industries or our business; implementation of or changes in government regulations or programs affecting our business; changes due to the consequences of actions by the U.S. government and other foreign governments to address various financial and economic issues and our ability to respond to and comply with such actions and changes; our ability to maintain our qualification as a REIT for federal income tax purposes; our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended; limitations imposed on our business due to our REIT status as exempt from registration under the Investment Company Act of 1940, as amended; and our ability to manage our growth. All forward-looking statements speak only as of the date 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 do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

As used in this Annual Report on Form 10-K, “Company,” “we,” “us,” “our” and “Anworth” refer to Anworth Mortgage Asset Corporation.

Our Investment Strategy

Our investment objective is to provide attractive risk-adjusted total returns to our stockholders over the long-term primarily through dividends and secondarily through capital appreciation. Our strategy is to invest in residential MBS (both Agency MBS and Non-Agency MBS), residential mortgage loans, and residential rental properties.

We seek to acquire assets that will produce competitive returns after considering the amount and nature of the investment’s anticipated returns, our ability to pledge the investment to secure collateralized borrowings and the costs associated with financing, managing and reserving for these investments.

Financing Strategy

Our primary financing source for our Agency MBS and Non-Agency MBS portfolios is repurchase agreements.

We have acquired residential mortgage loans that are being held-for-securitization. These loans are financed by a warehouse line of credit, which is a short-term revolving credit facility extended by a financial institution for loans that are being held pending securitization.

We also invest in the subordinate classes of newly-formed securitization trusts, which allows us to consolidate all of the loans of these trusts. These residential mortgage loans are financed through ABS issued by the securitization trusts. The ABS which are held by unaffiliated third parties are non-recourse financing. The difference in the amount of the loans and the amount of the ABS represents our retained net interest in the loans held in the securitization trusts.

We employ short-term borrowing to attempt to increase potential returns to our stockholders. Pursuant to our Capital and Leverage Policy, we seek to strike a balance between the under-utilization of leverage, which reduces potential returns to stockholders, and the over-utilization of leverage, which could reduce our ability to meet our obligations during adverse market conditions.

The amount of leverage we deploy for particular investments in our target investments depends upon an assessment of a variety of factors, which may include: the anticipated liquidity and price volatility of our assets; the gap between the duration of our assets and liabilities, including hedges; the availability and cost of financing our assets; our opinion of the credit worthiness of financing counterparties; the health of the U.S. economy and residential mortgage and housing markets; our outlook for the level, slope and volatility of interest rates; the credit quality of the loans we acquire and the loans underlying our MBS; and our outlook for asset spreads relative to the London Interbank Offered Rate, or LIBOR, curve.

Repurchase agreements are financings pursuant to which one party, the seller or borrower, sells assets to the repurchase agreement counterparty, the buyer or lender, for an agreed price with the obligation to repurchase the assets from the buyer at a future date and at a price higher than the original purchase price. The amount of financing available under a repurchase agreement is limited to a specified percentage of the estimated market value of the assets. The difference between the sale price and repurchase price is the interest expense of financing under a repurchase agreement. Under repurchase agreement financing arrangements, if the value of the collateral decreases, the buyer could require the seller to provide additional cash or other collateral to re-establish the ratio of value of the collateral to the amount of borrowing. In the current financing climate, lenders using repurchase agreements generally advance approximately 95% of the market value of the Agency MBS financed (meaning a 5% haircut) and 65% to 80% of the market value of the Non-Agency MBS financed (meaning a 20% to 35% haircut). A significant decrease in advance rate or an increase in the haircut could result in our having to sell securities in order to meet additional margin requirements by the lender. We expect to mitigate our risk of margin calls under repurchase agreements by deploying a prudent amount of leverage.

In order to reduce our exposure to counterparty-related risk, we generally seek to diversify our exposure by entering into repurchase agreements with multiple counterparties. At December 31, 2020, we had approximately $1.47 billion of outstanding balances under repurchase agreements with 15 different counterparties, with a maximum net exposure (the difference between the amount loaned to us and the value of the assets pledged by us as collateral) to any single lender of approximately $22.1 million, or approximately 5.4% of our equity.

Growth Strategy

It is our long-term objective to grow our earnings and our dividends per common share by increasing our paid-in capital and book value per share.

Our Target Investments

Our investment portfolio is focused on two different strategies that embody our hybrid investment approach. The target investments that fall under these strategies are:

Agency MBS

This strategy includes investing in Agency MBS and the related derivative transactions. The performance of this strategy is most affected by changes in interest rates, prepayments and mortgage spreads relative to U.S. Treasury securities. These assets have minimal exposure to the underlying credit of the investments. Agency MBS are collateralized by fixed-rate mortgage loans, adjustable-rate mortgage loans, hybrid mortgage loans, or any derivatives thereof, including:

- mortgage pass-through certificates issued by a GSE such as Fannie Mae and Freddie Mac; and
- "to-be-announced" forward contracts, or TBAs, which are pools of mortgages with specific investment terms to be issued by government-sponsored enterprises at a future date.

Mortgage Credit Investments

These assets include investing in Non-Agency MBS, residential mortgage loans, and related derivative transactions. Examples of Non-Agency MBS include MBS collateralized by prime mortgage loans, Alt-A mortgage loans and subprime mortgage loans, which may have fixed-rate, adjustable-rate or hybrid-rate terms.

Non-Agency MBS

Non-Agency MBS includes both senior and mezzanine MBS. Senior MBS refers to Non-Agency MBS that represent the senior-most tranches – that is, tranches which have the highest priority claim to cash flows from the related collateral pool within the MBS structure. Mezzanine MBS refers to subordinated tranches within the collateral pool. The Non-Agency MBS we purchase may include investment grade and non-investment grade classes including non-rated securities.

We believe the performance of our Non-Agency MBS and residential mortgage loans are most affected by changes in credit performance of the underlying collateral. These assets also have interest rate and mortgage spread exposure, but we do not believe these exposures to be the main drivers of performance.

Residential Mortgage Loans Held-for-Securitization

Residential mortgage loans held for securitization are held at our wholly-owned subsidiary, Anworth Mortgage Loans, Inc. (incorporated August 2017), with the intent to sponsor our own securitizations. The residential mortgage loans held-for-securitization are financed by a warehouse line of credit.

Residential Mortgage Loans Held-for-Investment Through Consolidated Securitization Trusts

We invest in residential mortgage loans held-for-investment through consolidated securitization trusts. We finance our residential mortgage loans through ABS issued by the consolidated securitization trusts. The ABS which are held by unaffiliated third parties are non-recourse financing. The difference in the amount of the loans and the amount of the ABS represents our retained net interest in the loans held in the securitization trusts.

Residential Real Estate

These assets consist primarily of single-family residential properties which, after renovation, we lease to tenants. Our focus is on properties that produce high occupancy and attractive rental rates and generate long-term property appreciation.

Our Operating Policies and Programs

We have established the following four primary operating policies to implement our business strategies:

- our Asset Acquisition Policy;
- our Capital and Leverage Policy;

- our Credit Risk Management Policy; and
- our Asset/Liability Management Policy.

Asset Acquisition Policy

Our Asset Acquisition Policy provides guidelines for acquiring investments and contemplates that we will acquire a portfolio of investments that can be grouped into specific categories. Each category and our respective investment guidelines are as follows:

- *Category I* — At least 60% of our total assets will generally be high-quality MBS, unsecuritized prime residential mortgage loans, and short-term investments. MBS in this category will be rated within one of the three highest rating categories (A- rated or better) by at least one nationally recognized statistical rating organization or, if not rated, will be obligations guaranteed by a GSE, such as Fannie Mae or Freddie Mac. Also included in Category I are the portion of mortgage loans that have been deposited into a trust and have received a rating within one of the three highest rating categories by at least one nationally recognized statistical rating organization.

- *Category II* — At least 90% of our total assets will generally consist of Category I investments plus other mortgage-related assets. Included in this category are mortgage securities not rated within one of the three highest rating categories by at least one nationally recognized statistical rating organization, mortgage derivative securities, mortgage servicing rights, unsecuritized non-prime residential mortgage loans, shares of other REITs or mortgage-related companies and the portion of real estate mortgage loans that have been deposited into a trust and have not received a rating within one of the three highest rating categories by at least one nationally recognized statistical rating organization.

- *Category III* — Assets not meeting any of the above criteria will be less than 10% of our total assets. Included in this category is the ownership of real estate.

Capital and Leverage Policy

We employ a leverage strategy to increase our investment assets by borrowing against existing mortgage-related assets and using the proceeds to acquire additional mortgage-related assets. Our borrowings may vary from time to time depending on market conditions and other factors deemed relevant by our management and our Board. We believe that this will leave an adequate capital base to protect against interest rate environments in which our borrowing costs might exceed our interest income from mortgage-related assets. At December 31, 2020, our leverage on capital (including common stockholders' equity, all preferred stock, and junior subordinated notes) was 3.4x.

Our mortgage-related assets are financed primarily at short-term borrowing rates through repurchase agreements. We also employ borrowings under a warehouse line of credit that we established with an institutional lender.

Credit Risk Management Policy

Subject to the constraints of our Asset Acquisition Policy, we are allowed to own both investment grade and non-investment grade Non-Agency MBS and other mortgage-related assets. Prior to purchase, we review credit risk and other risks of loss associated with each of our potential investments. To lessen our overall credit risk, we may diversify our portfolio of mortgage-related assets relative to geographic, insurer, industry and certain other types of concentrations. With respect to loans acquired for securitization, we employ an independent due diligence firm to ensure that the loans are in accordance with our established credit lending guidelines and policies.

If there is a decline in the credit quality of any of our Non-Agency MBS holdings or in our loans, we may, after evaluation, maintain or increase our holdings or liquidate all or a portion of the position. We are not required to sell a security when it is moved to a lower Category in our Asset Acquisition Policy.

Asset/Liability Management Policy

Interest Rate Risk Management. To the extent consistent with our election to qualify as a REIT, we follow an interest rate risk management program intended to protect our portfolio of mortgage-related assets and related debt against the effects of major interest rate changes. Specifically, our interest rate management program is formulated with the intent to offset, to some extent, the potential adverse effects resulting from rate adjustment limitations on our mortgage-related assets and the differences between interest rate adjustment indices and interest rate adjustment periods of our adjustable-rate mortgage-related assets and related borrowings.

Our interest rate risk management program encompasses a number of procedures including the following:

- monitoring and adjusting, if necessary, the interest rate sensitivity of our mortgage-related assets compared with the interest rate sensitivities of our borrowings;

- attempting to structure our borrowing agreements relating to adjustable-rate mortgage-related assets to have a range of different maturities and interest rate adjustment periods (although substantially all will be less than one year); and

- actively managing, on an aggregate basis, the interest rate indices and interest rate adjustment periods of our mortgage-related assets compared to the interest rate indices and adjustment periods of our borrowings.

We expect to be able to adjust the average maturity/adjustment period of our borrowings on an ongoing basis by changing the mix of maturities and interest rate adjustment periods as borrowings come due or are renewed. Through the use of these procedures, we attempt to reduce the risk of differences between interest rate adjustment periods of our adjustable-rate mortgage-related assets and our related borrowings.

Depending on market conditions and the cost of the transactions, we may conduct certain hedging activities in connection with the management of our portfolio. To the extent consistent with our election to qualify as a REIT, we may adopt a hedging strategy intended to lessen the effects of interest rate changes and to enable us to earn net interest income in periods of generally rising, as well as declining or static, interest rates. Specifically, hedging programs are formulated with the intent to offset some of the potential adverse effects of changes in interest rate levels relative to the interest rates on the mortgage-related assets held in our investment portfolio and differences between the interest rate adjustment indices and periods of our mortgage-related assets and our borrowings. We monitor carefully, and may have to limit, our hedging activity to assure that we do not realize excessive hedging income or hold hedges having excess value in relation to our mortgage-related assets, which could result in our disqualification as a REIT or, in the case of excess hedging income, if the excess is due to reasonable cause and not willful neglect, the payment of a penalty tax for failure to satisfy certain REIT income tests under the Code. In addition, hedging activity involves transaction costs that increase dramatically as the period covered by hedging protection increases and that may increase during periods of fluctuating interest rates.

Prepayment Risk Management. We also seek to lessen the effects of prepayment of mortgage loans underlying our investments at a faster or slower rate than anticipated. We accomplish this by structuring a diversified portfolio with a variety of prepayment characteristics, investing in mortgage-related assets whose underlying loans have attractive prepayment characteristics, and purchasing mortgage-related assets at a premium or at a discount.

We believe that we have developed cost-effective asset/liability management policies to mitigate prepayment risks. However, no strategy can completely insulate us from prepayment risks. Further, as noted above, certain of the federal income tax requirements that we must satisfy to qualify as a REIT limit our ability to fully hedge our prepayment risks. Therefore, we could be prevented from effectively hedging our prepayment risks.

Our Investment Portfolio

Agency MBS

Residential Mortgage Pass-Through Certificates. We principally invest in pass-through certificates, which are securities representing interests in "pools" of mortgage loans secured by residential real property in which payments of both interest and principal on the securities are generally made monthly to holders of the security, in effect "passing through" monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer/guarantor and servicers of the securities. In general, mortgage pass-through certificates distribute cash flows from underlying collateral on a pro rata basis among certificate holders. The payment of principal and interest on these securities is guaranteed by Ginnie Mae or a GSE, such as Fannie Mae or Freddie Mac.

Early repayment of principal on some MBS, arising from prepayments of principal due to sale of the underlying property, refinancing or foreclosure, net of fees and costs which may be incurred, may expose us to a lower rate of return upon reinvestment of principal. This is generally referred to as "prepayment risk." Additionally, if a security subject to prepayment has been purchased at a premium, the unamortized value of the premium would be lost in the event of prepayment.

Like other fixed-income securities, when interest rates rise, the value of a mortgage-backed security generally will decline. When interest rates are declining, however, the value of MBS with prepayment features may not increase as much as other fixed-income securities. The rate of prepayments on underlying mortgages will affect the price and volatility of MBS and may have the effect of shortening or extending the effective maturity of the security beyond what was anticipated at the time of purchase. When interest rates rise, our holdings of MBS may experience reduced returns if the owners of the underlying mortgages pay off their mortgages later than anticipated. This is generally referred to as "extension risk."

Payment of principal and interest on some mortgage pass-through securities, though not the market value of the securities themselves, may be guaranteed by the full faith and credit of the federal government, including securities backed by Ginnie Mae, by agencies or instrumentalities of the federal government, or by GSEs such as Fannie Mae and Freddie Mac. MBS created by non-governmental issuers, including commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers, may be supported by various forms of insurance or guarantees including individual loan, title, pool and hazard insurance and letters of credit which may be issued by governmental entities, private insurers or the mortgage poolers.

General Information About Agency MBS

The Agency MBS that we acquire provide funds for mortgage loans made to residential homeowners. These securities generally represent interests in pools of mortgage loans made by mortgage bankers, commercial banks, savings and loan institutions and other mortgage lenders. These pools of mortgage loans are assembled for sale to investors, such as us, by various government-related or private organizations.

Agency MBS differ from other forms of traditional debt securities, which normally provide for periodic payments of interest in fixed amounts with principal payments at maturity or on specified call dates. Instead, Agency MBS provide for a monthly payment, which may consist of both interest and principal. In effect, these payments are a "pass-through" of the monthly interest and scheduled and unscheduled principal payments (referred to as "prepayments") made by the individual borrower on the mortgage loans, net of any fees paid to the issuer, servicer, or guarantor of the securities.

The investment characteristics of Agency MBS differ from those of traditional fixed-income securities. Major differences include the payment of interest and principal on the securities on a more frequent schedule (as described above) and the possibility that principal may be prepaid, without penalty, at par at any time due to prepayments on the underlying mortgage loans. These differences can result in significantly greater price and yield volatility than is the case with traditional fixed-income securities.

Various factors affect the rate at which mortgage prepayments occur, including changes in the level of and directional trends in housing prices, interest rates, general economic conditions, defaults on the underlying mortgages, the age of the mortgage loan, the size of the loan, the loan-to-value ratio of the mortgage, the location of the property, and social and demographic conditions. Additionally, changes to GSE underwriting practices or other governmental programs could also significantly impact prepayment rates or expectations. Also, the pace at which the loans underlying our securities become seriously delinquent or are modified, and the timing of GSE repurchases of loans from our securities, can materially impact the rate of prepayments. Generally, prepayments on Agency MBS increase during periods of falling mortgage interest rates and decrease during periods of rising mortgage interest rates; however, this may not always be the case. We may reinvest principal repayments at a yield that is higher or lower than the yield on the repaid investment, thus affecting our net interest income by altering the average yield on our assets.

Payments of principal and interest on Agency MBS, although not the market value of the securities themselves, are guaranteed either by the full faith and credit of the United States, such as those issued by Ginnie Mae, or by a GSE, such as those issued by Fannie Mae or Freddie Mac.

Agency MBS are collateralized by pools of fixed-rate mortgage loans, or FRMs, adjustable-rate mortgage loans, or ARMs, and hybrid ARMs. Hybrid ARMs are mortgage loans that have interest rates that are fixed for an initial period (typically ranging from one to ten years) and, thereafter, reset at regular intervals, subject to interest rate caps. Our allocation of investments among securities collateralized by FRMs, ARMs, or hybrid ARMs depends upon our Manager's assessment of the relative value of the securities, which is based upon numerous factors including, but not limited to, expected future prepayment trends, supply and demand, costs of financing, costs of hedging, expected future interest rate volatility, and the overall shape of the U.S. Treasury and interest rate swap yield curves.

The types of residential pass-through certificates in which we invest, or which may comprise the CMOs in which we may invest, are described below.

Freddie Mac and Fannie Mae

We invest in Agency MBS issued by Fannie Mae and Freddie Mac, which are stockholder-owned corporations chartered by Congress with a public mission to provide liquidity, stability and affordability to the U.S. housing market. Fannie Mae and Freddie Mac are currently regulated by the Federal Housing Finance Agency, or the FHFA, the U.S. Department of Housing and Urban Development, the SEC, and the U.S. Department of the Treasury, or the U.S. Treasury, and are currently operating under the conservatorship of the FHFA. The U.S. Treasury has agreed to support the continuing operations of Fannie Mae and Freddie Mac with any necessary capital contributions while in conservatorship. However, the U.S. Government does not guarantee the securities, or other obligations, of Fannie Mae or Freddie Mac.

Fannie Mae and Freddie Mac operate in the secondary mortgage market. They purchase residential mortgage loans and mortgage-related securities from primary mortgage market institutions, such as commercial banks, savings and loan associations, mortgage banking companies, seller/servicers, securities dealers and other investors. Through the mortgage securitization process, they package the purchased mortgage loans into guaranteed MBS for sale to investors, such as us, in the form of pass-through certificates and guarantee the payment of principal and interest on the securities or, on the underlying loans held within the securitization trust, in exchange for guarantee fees. The underlying loans must meet certain underwriting standards established by Fannie Mae and Freddie Mac (referred to as "conforming loans") and may be fixed- or adjustable-rate loans with original terms to maturity of up to 40 years.

TBA Agency MBS

We also enter into TBA Agency MBS as either a means of investing in and financing Agency MBS or as a means of disposing of or reducing our exposure to agency securities. Pursuant to TBA contracts, we agree to purchase or sell, for future delivery, Agency MBS with certain principal and interest terms and certain types of collateral, but the particular Agency MBS to be delivered are not identified until shortly before the TBA settlement date. We also may choose, prior to settlement, to move the settlement of these MBS out to a later date by entering into an offsetting short or long position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing a similar TBA contract for a later settlement date. This transaction is commonly referred to as a "dollar roll." The Agency MBS purchased or sold for a forward settlement date are typically priced at a discount to agency securities for settlement in the current month. This difference (or discount) is referred to as the "price drop." The price drop represents compensation to us for foregoing net interest margin (interest income less repurchase agreement financing cost). TBA Agency MBS are accounted for as derivative instruments since they do not meet the exemption allowed for a "regular way" security trade under ASC 815, as either the TBA contracts do not settle in the shortest period of time possible or we cannot assess that it is probable at inception that we will take physical delivery of the security or that we will not settle on a net basis.

Mortgage Credit Investments

Non-Agency MBS

Non-Agency MBS are securities backed by residential mortgages for which the payment of principal and interest is not guaranteed by a GSE or government agency. Instead, a private institution such as a commercial bank will package residential mortgage loans and securitize them through the issuance of MBS. Non-Agency MBS are often referred to as "private label MBS." Non-Agency MBS may benefit from credit enhancement derived from structural elements, such as subordination, overcollateralization or insurance, and they may also be bought at significant discounts. Non-Agency MBS can carry a significantly higher level of credit exposure relative to the credit exposure of Agency MBS. We may also purchase highly-rated instruments that benefit from credit enhancement or non-investment grade instruments that absorb credit risk. We focus primarily on Non-Agency MBS where the underlying mortgages are secured by residential properties within the United States. Non-Agency MBS also include securitized non-performing loans where resolution of the loans may come from loan modifications, short sales, or foreclosures. While there is a high expectation of losses on these loans, the bonds benefit from credit enhancement and over-collateralization.

Non-Agency MBS are backed by residential mortgages that can be comprised of prime mortgage or non-prime mortgage loans, which are described below:

Prime mortgage loans. Prime mortgage loans are residential mortgage loans that generally conform to the underwriting guidelines of a U.S. Government agency or a GSE but that do not carry any credit guarantee from either a U.S. Government agency or a GSE. Jumbo prime mortgage loans are prime mortgage loans that conform to such underwriting guidelines except as to loan size.

Non-prime mortgage loans. Non-prime mortgage loans are residential mortgage loans that do not meet all of the underwriting guidelines of a U.S. Government agency or a GSE. Consequently, these loans may carry higher credit risk than prime mortgage loans. Non-prime mortgage loans may allow borrowers to qualify for a mortgage loan with reduced or alternative forms of documentation. This category includes loans commonly referred to as alternative A- paper, or Alt-A, or as subprime. Alt-A mortgage loans are considered riskier than prime mortgage loans but less risky than subprime mortgage loans. They are typically characterized by borrowers with less than full documentation, lower credit scores and higher loan-to-value ratios and include a higher percentage of investment properties. Subprime mortgage loans are considered to be of the lowest credit quality. These loans may also include option-ARM loans, which contain a feature providing the borrower the option, within certain constraints, to make lesser payments than otherwise required by the stated interest rate for a number of years, leading to negative amortization and increased loan balances.

Residential Mortgage Loans Held-for-Securitization

We acquire and accumulate mortgage loans through our wholly-owned subsidiary, Anworth Mortgage Loans, Inc., as part of our investment strategy until a sufficient quantity has been accumulated for securitization. We anticipate that any mortgage loans that we would acquire and do not securitize will not constitute more than 40% of our total mortgage-related assets at any time. Despite our intentions, however, we may not be successful in securitizing these mortgage loans. As part of our due diligence process, we review and validate all appraisals.

Mortgage loans and other mortgage-related assets may be purchased from various suppliers of mortgage-related assets throughout the United States including savings and loans associations, banks, mortgage bankers and other mortgage lenders.

Residential Mortgage Loans Held-for-Investment Through Consolidated Securitization Trusts

We invest in residential mortgage loans held-for-investment through consolidated securitization trusts. We finance residential mortgage loans through ABS issued by the consolidated securitization trusts. The ABS which are held by unaffiliated third parties are non-recourse financing. The difference in the amount of the loans and the amount of the ABS represents our retained net interest in the loans held in the securitization trusts.

Other Mortgage-Related Investments

Mortgage Derivative Securities. We may acquire mortgage derivative securities in an amount not to exceed 10% of our total assets. Mortgage derivative securities provide for the holder to receive interest-only, principal-only or interest and principal in amounts that are disproportionate to those payable on the underlying mortgage loans. Payments on mortgage derivative securities are highly sensitive to the rate of prepayments on the underlying mortgage loans. In the event of faster or slower than anticipated prepayments on these mortgage loans, the rates of return on interests in mortgage derivative securities, representing the right to receive interest-only or a disproportionately large amount of interest or interest-only derivatives, would be likely to decline or increase, respectively. Conversely, the rates of return on mortgage derivative securities, representing the right to receive principal-only or a disproportionate amount of principal or principal-only derivatives, would be likely to increase or decrease in the event of faster or slower prepayments, respectively. We may invest in inverse floaters, a class of CMOs with a coupon rate that resets in the opposite direction from the market rate of interest to which it is indexed. Any rise in the index rate, which can be caused by an increase in interest rates, causes a drop in the coupon rate of an inverse floater, while any drop in the index rate causes an increase in the coupon of an inverse floater. An inverse floater may behave like a leveraged security since its interest rate usually varies by a magnitude much greater than the magnitude of the index rate of interest. The leverage-like characteristics inherent in inverse floaters result in a greater volatility of their market prices.

We may also invest in other mortgage derivative securities, including other types that may be developed in the future.

Subordinated Interests. We may acquire subordinated interests, which are classes of MBS that are junior to other classes of the same series of MBS in the right to receive payments from the underlying mortgage loans. The subordination may be for all payment failures on the mortgage loans securing or underlying such series of mortgage securities. The subordination will not be limited to those resulting from particular types of risks, including those resulting from war, earthquake or flood, or the bankruptcy of a borrower. The subordination may be for the entire amount of the series of mortgage-related securities or may be limited in amount.

Other Mortgage-Related Assets

Other Investments. We may acquire other investments that include equity and debt securities issued by other primarily mortgage-related finance companies, interests in mortgage-related collateralized bond obligations, other subordinated interests in pools of mortgage-related assets, commercial mortgage loans and securities and residential mortgage loans other than high-credit quality mortgage loans. Although we expect that our other investments will be limited to less than 10% of total assets, we have no limit on how much of our stockholders’ equity will be allocated to other investments. There may be periods in which other investments represent a large portion of our stockholders’ equity.

Residential Real Estate

These assets consist of residential properties which we lease to tenants. Our focus is on properties in those areas that produce high occupancy and rental rates and generate long-term property appreciation.

Corporate Governance

We strive to maintain an ethical workplace in which the highest standards of professional conduct are practiced.

- Our Board is composed of a majority of independent directors. Our Audit, Compensation, and Nominating and Corporate Governance Committees are comprised exclusively of independent directors.

- In order to foster the highest standards of ethics and conduct in all of our business relationships, we have adopted a Code of Ethics and Business Conduct and Corporate Governance Guidelines, which cover a wide range of business practices and procedures that apply to all of our directors and officers and the officers and employees of our Manager. In addition, we have implemented a Whistle-Blower Hotline and procedures by which any officer or employee may raise, on a confidential basis, concerns regarding any questionable or unethical accounting, internal accounting controls or auditing matters with our Audit Committee.

- We have an Insider Trading Policy, which is incorporated into our Code of Ethics and Business Conduct, which prohibits any of our directors and officers and the officers and employees of our Manager from buying or selling our securities on the basis of material non-public information and prohibits communicating material non-public information about our Company to others.

- We have a formal internal audit function, through the current use of an independent CPA firm, to further the effective functioning of our internal controls and procedures. Our internal auditors report directly to our Audit Committee and the internal audit function is intended to provide management and our Audit Committee with an effective tool to identify and address areas of financial or operational concerns and to ensure that appropriate controls and procedures are in place. We have implemented Section 404 of the Sarbanes-Oxley Act of 2002, as amended, which requires an evaluation of internal control over financial reporting in association with our accompanying consolidated financial statements as of December 31, 2020 (see Item 9A, "Controls and Procedures," included in this Annual Report on Form 10-K).

Competition

When we invest in MBS and other mortgage-related assets, we compete with a variety of institutional investors including other REITs, insurance companies, mutual funds, pension funds, investment banking firms, banks and other financial institutions that invest in the same or similar types of assets. Many of these investors have greater financial resources and access to lower costs of capital than we do.

Employees

Effective December 31, 2011, in accordance with the Management Agreement, all of our employees at the Company were terminated and were employed by our Manager.

Company Information

We were incorporated in Maryland on October 20, 1997 and commenced our operations on March 17, 1998. Our principal executive offices are located at 1299 Ocean Avenue, 2nd Floor, Santa Monica, California, 90401. Our telephone number is (310) 255-4493 and our fax number is (310) 434-0100.

Filings with the SEC

We file annual, quarterly, and special reports, proxy statements, and other information with the SEC. Our SEC filings are available to the public from the SEC's website at *https://www.sec.gov*. This site contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Information on our Company Website

The Company maintains a website, *http://www.anworth.com*. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, available, free of charge, on our website as soon as reasonably practicable after we file or furnish these reports with the SEC. In addition, we post the following information on our website (we do not intend to and does not hereby incorporate by reference the information on our website as a part of this Annual Report on Form 10-K):

- our corporate code of conduct, which qualifies as a “code of ethics” as defined by Item 406 of Regulation S-K of the Exchange Act;
- our corporate governance guidelines; and
- charters for our Audit Committee, Nominating and Corporate Governance Committee, and Compensation Committee.

All of the above information is also available in print upon request to our Corporate Secretary at the address listed under the heading “Company Information” above.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes particular U.S. federal income tax considerations regarding our qualification and taxation as a REIT and particular U.S. federal income tax consequences resulting from the acquisition, ownership and disposition of our capital stock. This discussion is based on current law and assumes that we have qualified at all times throughout our existence, and will continue to qualify, as a REIT for U.S. federal income tax purposes. The tax law upon which this discussion is based could be changed and any such change could have a retroactive effect. The following discussion is not exhaustive of all possible tax considerations. This summary neither gives a detailed discussion of any state, local or foreign tax considerations nor discusses all of the aspects of U.S. federal income taxation that may be relevant to you in light of your particular circumstances or to particular types of stockholders which are subject to special tax rules, such as insurance companies, tax-exempt entities, financial institutions or broker-dealers, foreign corporations or partnerships and persons who are not citizens or residents of the U.S., stockholders that hold our stock as a hedge, part of a straddle, conversion transaction or other arrangement involving more than one position, or stockholders whose functional currency is not the U.S. dollar. This discussion assumes that you will hold our capital stock as a “capital asset” under the Code, which generally is property held for investment.

We urge you to consult with your own tax advisor regarding the specific consequences to you of the acquisition, ownership and disposition of stock in an entity electing to be taxed as a REIT, including the federal, state, local, foreign and other tax considerations of such acquisition, ownership, and disposition, and the potential changes in applicable tax laws.

General

Our qualification and taxation as a REIT depend upon our ability to meet, on an ongoing basis, various requirements imposed under the Code as discussed below, which relate to the nature of our gross income, the composition of our assets, distribution levels, and diversity of stock ownership. Accordingly, the actual results of our operations for any particular taxable year may not satisfy these requirements.

We have made an election to be taxed as a REIT under the Code commencing with our taxable year ended December 31, 1998. We currently expect to continue operating in a manner that will permit us to maintain our qualification as a REIT. All qualification requirements for maintaining our REIT status, however, may not have been, or might not continue to be, met.

So long as we qualify for taxation as a REIT, we generally will be permitted a deduction for dividends that we pay to our stockholders. As a result, we generally will not be required to pay federal corporate income taxes on our net income that is distributed to our stockholders on a current basis. This treatment substantially eliminates the “double taxation” that ordinarily results from investment in a corporation. Double taxation means taxation once at the corporate level when income is earned and once again at the stockholder level when this income is distributed. We will be required to pay federal income tax, however, as follows:

- we will be required to pay tax at regular corporate rates on any undistributed “real estate investment trust taxable income,” including undistributed net capital gains;

- we may be required to pay the “alternative minimum tax” on our items of tax preference; and

- if we have (a) net income from the sale or other disposition of “foreclosure property” which is held primarily for sale to customers in the ordinary course of business, or (b) other non-qualifying income from foreclosure property, we will be required to pay tax at the highest corporate rate on this income. Foreclosure property is generally defined as property acquired through foreclosure or after a default on a loan secured by the property or on a lease of the property.

To the extent that distributions exceed current and accumulated earnings and profits, they will constitute a return of capital, rather than dividend or capital gain income, and will reduce the stockholder’s tax basis in the stock with respect to which the distributions are paid and, to the extent that they exceed such basis, will be taxed in the same manner as gain from the sale of that stock. For purposes of determining whether distributions are out of current or accumulated earnings and profits, our earnings and profits will be allocated first to our preferred stock (rather than to our common stock) with the result that distributions with respect to our preferred stock are more likely to be treated as dividends than as return of capital or a distribution in excess of basis. Calculations of corporate earnings and profits are complex and it is possible that distributions expected to be a return of capital may subsequently be determined to be taxable distributions of earnings and profits.

Currently, dividends paid by regular C corporations to stockholders other than corporations are generally taxed at the rate applicable to long-term capital gains, which is currently a maximum of 20%, subject to certain limitations. Because we are a REIT, however, our dividends, including dividends paid on our stock, including shares of our preferred stock, generally will continue to be taxed at regular ordinary income tax rates, except in limited circumstances, including dividend distributions allocable to distributions we have received from a taxable REIT subsidiary or other taxable corporation; provided, however, that all such distributions, other than distributions which are taxable as capital gain dividends or traceable to distributions from a taxable REIT subsidiary, as are received by a pass-through entity or an individual, became eligible for a 20% deduction from gross income starting in 2018 under the tax laws. This eligibility for a 20% deduction will expire in 2025.

We will be required to pay a 100% tax on any net income from prohibited transactions. Prohibited transactions are, in general, sales or other taxable dispositions of property other than foreclosure property held primarily for sale to customers in the ordinary course of business. While the Code contains certain safe harbor provisions to avoid the application of this 100% tax, outside of the safe harbor, the determination of whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business depends on all the facts and circumstances surrounding the particular transaction. No assurance can be given that any particular property in which we hold a direct or indirect interest will not be treated as property held for sale to customers, or that we can comply with certain safe harbor provisions of the Code that would prevent such treatment. The 100% tax will not apply to gains from the sale of property that is held through a taxable REIT subsidiary or other taxable corporation, although such income will be taxed to the corporation at regular corporate tax rates.

If we fail to satisfy the 75% gross income test or the 95% gross income test discussed below but nonetheless maintain our qualification as a REIT because certain other requirements are met, we will be subject to a tax equal to the greater of (i) the amount by which 75% of our gross income exceeds the amount qualifying under the 75% gross income test described below, and (ii) the amount by which 95% of our gross income exceeds the amount qualifying under the 95% gross income test described below, multiplied by a fraction intended to reflect our profitability.

In the event a more than de minimis failure of any of the asset tests occurs in a taxable year, as long as the failure was due to reasonable cause and not willful neglect and we dispose of the assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure, we may pay a tax equal to the greater of $50 thousand or 35% of the net income from the non-qualifying assets during the period in which we failed to satisfy any of the asset tests in lieu of having our qualification as a REIT terminated.

In the event of a failure to satisfy one or more requirements for REIT qualification occurring in a taxable year, other than the gross income tests and the asset tests, as long as such failure was due to reasonable cause and not to willful neglect, we will be required to pay a penalty of $50 thousand for each such failure in order to maintain our REIT qualification.

We will be required to pay a nondeductible 4% excise tax on the excess of the required distribution over the amounts actually distributed if we fail to distribute during each calendar year at least the sum of:

- 85% of our real estate investment trust ordinary income for the year;
- 95% of our real estate investment trust capital gain net income for the year; and
- any undistributed taxable income from prior periods.

This distribution requirement is in addition to, and different from, the distribution requirements discussed below in the section entitled “Annual Distribution Requirements.”

We may elect to retain and pay income tax on our net long-term capital gain. In that case, if we so elect, a U.S. stockholder would be taxed on its proportionate share of our undistributed long-term capital gain (to the extent that we make a timely designation of such gain to the stockholder) and would receive a credit or refund of its proportionate share of the tax we paid. The basis of the stockholder’s shares is increased by the amount of the undistributed long-term capital gain (less the amount of capital gains tax paid by the REIT) includable by the stockholder.

If we own a residual interest in a real estate mortgage investment conduit (which we refer to as a “REMIC”), we will be taxable at the highest corporate rate on the portion of any excess inclusion income that we derive from the REMIC residual interests equal to the percentage of our stock that is held by “disqualified” organizations. Although the law is unclear, similar rules may apply if we own an equity interest in a taxable mortgage pool. To the extent that we own a REMIC residual interest or an interest in a taxable mortgage pool through a taxable REIT subsidiary, we will not be subject to this tax, although our taxable REIT subsidiary will be subject to corporate income tax on all of its income, including any income derived from a residual interest in a REMIC or an interest in a taxable mortgage pool. A “disqualified organization” includes:

- the United States of America;
- any state or political subdivision of the United States of America;
- any foreign government;
- any international organization;
- any agency or instrumentality of any of the foregoing;
- any other tax-exempt organization other than a farmers’ cooperative described in Section 521 of the Code that is exempt both from income taxation and from taxation under the unrelated business taxable income provisions of the Code; and
- any rural electrical or telephone cooperative.

If we acquire any asset from a corporation which is or has been taxed as a C corporation under the Code in a transaction in which the basis of the asset in our hands is determined by reference to the basis of the asset in the hands of the C corporation and we subsequently recognize gain on the disposition of the asset during the five-year period beginning on the date on which we acquired the asset, then we will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of:

- the fair market value of the asset, over
- our adjusted basis in the asset,
- in each case determined as of the date on which we acquired the asset.

We may be subject to a 100% excise tax on certain transactions with any taxable REIT subsidiaries (defined below) to the extent that such transactions are not conducted on a basis that is consistent with arm's length terms.

In addition, notwithstanding our REIT status, we may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner as they are treated for federal income tax purposes.

Requirements for Qualification as a REIT

The Code defines a REIT as a corporation, trust or association:

1. that is managed by one or more trustees or directors;
2. that issues transferable shares or transferable certificates to evidence beneficial ownership;
3. that would be taxable as a domestic corporation but for Code Sections 856 through 859;
4. that is not a financial institution or an insurance company within the meaning of the Code;
5. that is beneficially owned by 100 or more persons;
6. not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals, including specified entities, at all times during the last half of each taxable year;
7. that meets other tests, described below, regarding the nature of its income and assets and the amount of its distributions; and
8. that 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 Internal Revenue Service, or the IRS, that must be met in order to elect and retain REIT status.

The Code provides that all of the first four conditions stated above must be met during the entire taxable year and that the fifth condition must be met during at least 335 days of a taxable year of twelve months, or during a proportionate part of a taxable year of less than twelve months. The fifth and sixth conditions do not apply until after the first taxable year for which an election is made to be taxed as a REIT.

For purposes of the sixth condition, certain specified types of trusts and tax-exempt entities are treated as individuals, except that a "look-through" exception generally applies with respect to pension funds.

Stock Ownership Tests

As noted above, our stock must be beneficially held by at least 100 persons (which we refer to as the "100 Stockholder Rule"), and no more than 50% of the value of our stock may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of the taxable year (which we refer to as the "5/50 Rule"). We are required to solicit information from certain of our record stockholders to verify actual stock ownership levels and our charter provides for restrictions regarding the transfer of our stock in order to aid in meeting the stock ownership requirements. If we were to fail either of the stock ownership tests, we would generally be disqualified from our REIT status. However, if we comply with regulatory rules pursuant to which we are required to send annual letters to holders of our stock requesting information regarding the actual ownership of our stock, and we do not know, or exercising reasonable diligence would not have known, whether we failed to meet the 5/50 Rule, then we will be treated as having met the 5/50 Rule.

Income Tests

We must satisfy two gross income requirements annually to maintain our qualification as a REIT:

- We must derive, directly or indirectly, at least 75% of our gross income, excluding gross income from prohibited transactions, from specified real estate sources, including rental income, interest on obligations (including certain MBS) that are secured by mortgages on real property or on interests in real property, gain from the disposition of "qualified real estate assets" (i.e., interests in real property, mortgages secured by real property or interests in real property, and certain other assets), income from certain types of temporary investments, amounts, such as commitment fees, received in consideration for entering into an agreement to make a loan secured by real property, and income derived from a REMIC in proportion to the real estate assets held by the REMIC, unless at least 95% of the REMIC's assets are real estate assets (in which case, all of the income derived from the REMIC) (which we refer to as the "75% gross income test"); and

- We must derive at least 95% of our gross income, excluding gross income from prohibited transactions, from (a) the sources of income that satisfy the 75% gross income test, (b) dividends, interest and gain from the sale or disposition of stock or securities, or (c) any combination of the foregoing (which we refer to as the "95% gross income test").

Gross income from servicing loans for third parties is not qualifying income for purposes of either gross income test. Any gross income from our sale of property held primarily for sale to customers in the ordinary course of business is excluded from both the numerator and the denominator in both income tests (but is subject to a 100% tax as a prohibited transaction unless certain safe harbor provisions are satisfied). Income and gain from certain transactions that we enter into to hedge indebtedness incurred or to be incurred to acquire or carry real estate assets, and that are clearly and timely identified as such, are excluded from both the numerator and denominator for purposes of both gross income tests.

For purposes of the 75% and 95% gross income tests, a REIT is deemed to have earned a proportionate share of the income earned by any partnership, or any limited liability company treated as a partnership for federal income tax purposes, in which it owns an interest, which share is determined by reference to the REIT's capital interest in such entity, and is deemed to have earned all of the income earned by any qualified REIT subsidiary (in general, a 100%-owned corporate subsidiary of a REIT) or any other entity that is disregarded as separated from the parent REIT for U.S. federal income tax purposes. Interest earned by a REIT ordinarily does not qualify as income meeting the 75% or 95% gross income tests if the determination of all or some of the amount of interest depends on the income or profits of any person. Interest will not be disqualified from meeting such tests, however, solely by reason of being based on a fixed percentage or percentages of receipts or sales.

The following paragraphs discuss in more detail the specific application of the gross income tests to us.

Interest. The term "interest," as defined for purposes of both gross income tests, generally excludes any amount that is based in whole or in part on the income or profits of any person. However, interest generally includes the following:

- an amount that is based on a fixed percentage or percentages of receipts or sales; and

- an amount that is based on the income or profits of a debtor as long as the debtor derives substantially all of its income from the real property securing the debt from leasing substantially all of its interest in the property and only to the extent that the amounts received by the debtor would be qualifying "rents from real property" if received directly by a REIT.

If a loan contains a provision that entitles a REIT to a percentage of the borrower's gain upon the sale of the real property securing the loan or a percentage of the appreciation in the property's value as of a specific date, income attributable to that loan provision will generally be treated as gain from the sale of the property securing the loan, which normally constitutes qualifying income for purposes of both gross income tests.

Interest on debt secured by a mortgage on real property or on interests in real property, including, for this purpose, discount points, prepayment penalties, loan assumption fees and late payment charges that are not compensation for services, generally is qualifying income for purposes of the 75% gross income test. However, if the highest principal amount of a loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of the date the REIT agreed to originate or acquire the loan, a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the portion of the principal amount of the loan that is not secured by real property—that is, the amount by which the loan exceeds the value of the real estate that is security for the loan. For purposes of these rules, ancillary personal property that secures a mortgage loan and has a value not in excess of 15% of the total value of the collateral (i.e., of the real property together with the personal property) is treated as real property.

The interest, original issue discount and market discount income that we receive from our mortgage loans and certain MBS (including Agency MBS and interests in REMICs) generally will be qualifying income for purposes of both gross income tests. However, as discussed above, if the fair market value of the real estate securing any of our loans is less than the principal amount of the loan, a portion of the income from that loan will be qualifying income for purposes of the 95% gross income test but not the 75% gross income test.

Fee Income. We may receive various fees in connection with originating mortgage loans. The fees will be qualifying income for purposes of both the 75% and 95% income tests if they are received in consideration for entering into an agreement to make a loan secured by real property and the fees are not determined based on the borrower's income or profits. Therefore, commitment fees will generally be qualifying income for purposes of the income tests. Other fees, such as fees received for servicing loans for third parties, are not qualifying income for purposes of either income test.

Dividends. Our share of any dividends received from any corporation (including any of our taxable REIT subsidiaries, but excluding any REIT) in which we own an equity interest will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Our share of any dividends received from any other REIT in which we own an equity interest will be qualifying income for purposes of both gross income tests.

Rents from Real Property. Rents that we receive with respect to real property will qualify as "rents from real property" in satisfying the gross income requirements for a REIT described above provided that the following conditions are met:

- First, the amount of rent must not be based, in whole or in part, on the income or profits of any person. However, an amount received or accrued generally will not be excluded from rents from real property solely by reason of being based on fixed percentages of receipts or sales;

- Second, rents we receive from a "related party tenant" will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a taxable REIT subsidiary, at least 90% of the property is leased to unrelated tenants and the rent paid by the taxable REIT subsidiary is substantially comparable to the rent paid by the unrelated tenants for comparable space. A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant;

- Third, if rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property; and
- Fourth, we generally must not operate or manage our real property or furnish or render services to our tenants, other than through an "independent contractor" who is adequately compensated and from whom we do not derive revenue. However, we may provide services directly to tenants if the services are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not considered to be provided for the tenants' convenience. In addition, we may provide a minimal amount of "non-customary" services to the tenants of a property, other than through an independent contractor, as long as our income from the services does not exceed 1% of our income from the related property. Furthermore, we may own up to 100% of the stock of a taxable REIT subsidiary, which may provide customary and non-customary services to tenants without tainting our rental income from the related properties.

Hedging Transactions. From time to time, we may enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swap agreements, caps and floors, options to purchase these items and futures and forward contracts. Income and gain from certain "hedging transactions" will be excluded from gross income for purposes of both the 95% gross income test and the 75% gross income test. A "hedging transaction" includes any transaction entered into in the normal course of our trade or business primarily to manage the risk of interest rate, changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets. We will be required to clearly identify any such hedging transaction before the close of the day on which it was acquired, originated or entered into, and to meet certain other requirements. To the extent that any of our hedging transactions do not meet these requirements, or if we hedge for other purposes, or to the extent that a portion of our mortgage loans is not secured by "real estate assets" (as described below under "Asset Tests"), or in other situations, the income from those transactions could be treated as income that does not qualify for purposes of one or both of the gross income tests. We intend to structure any hedging transactions in a manner that does not jeopardize our status as a REIT.

Prohibited Transactions. As discussed above, a REIT will incur a 100% tax on the net income derived from any sale or other disposition of property other than foreclosure property that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. We believe that our assets generally will not be held primarily for sale to customers and that sales of our assets will not be considered to be in the ordinary course of our business. Whether a REIT holds an asset "primarily for sale to customers in the ordinary course of a trade or business" depends, however, on the facts and circumstances in effect from time to time, including those related to a particular asset. When practicable, we will attempt to comply with the terms of safe-harbor provisions in the federal income tax laws prescribing when an asset sale will not be characterized as a prohibited transaction or otherwise structure our sale transactions so as to minimize this risk.

Foreclosure Property. We will be subject to tax at the maximum corporate rate on any income from foreclosure property other than income that otherwise would be qualifying income for purposes of the 75% gross income test, less expenses directly connected with the production of that income. However, gross income from foreclosure property will qualify under the 75% and 95% gross income tests. Foreclosure property is any real property, including interests in real property, and any personal property incident to such real property:

- that is acquired by a REIT as the result of the REIT having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or default was imminent on a lease of such property or on indebtedness that such property secured;
- for which the related loan or lease was acquired by the REIT at a time when the default was not imminent or anticipated; and
- for which the REIT makes a proper election to treat the property as foreclosure property.

Permitted foreclosure property income also includes foreign currency gain that is attributable to otherwise permitted income from foreclosure property. Such foreign currency gain also is included as foreclosure property income for purposes of any tax on such income.

However, a REIT will not be considered to have foreclosed on a property where the REIT takes control of the property as a mortgagee-in-possession and cannot receive any profit or sustain any loss except as a creditor of the mortgagor. Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property or longer if an extension is granted by the Secretary of the Treasury. This grace period terminates and foreclosure property ceases to be foreclosure property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test;

- on which any construction takes place on the property, other than completion of a building or any other improvement, where more than 10% of the construction was completed before default became imminent; or

- which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business which is conducted by the REIT other than through an independent contractor from whom the REIT itself does not derive or receive any income.

Failure to Satisfy Gross Income Tests. If we fail to satisfy one or both of the gross income tests for any taxable year, we nevertheless may qualify as a REIT for that year if we qualify for relief under certain provisions of the federal income tax laws. Those relief provisions will be available if:

- our failure to meet those tests is due to reasonable cause and not to willful neglect, and

- following such failure for any taxable year, a schedule of the sources of our income is filed in accordance with regulations prescribed by the Secretary of the Treasury.

We cannot predict, however, whether in all circumstances we would qualify for the relief provisions. In addition, as discussed above, even if the relief provisions apply, we would incur a tax equal to the amount that our gross income fails to satisfy the 75% gross income test or the 95% gross income test, as applicable, multiplied by a fraction intended to reflect our profitability.

Foreign Investment and Exchange Gains

A REIT must be a U.S. domestic entity, but it is permitted to hold foreign real estate or other foreign-based assets, provided that the 75% and 95% income tests and other requirements for REIT qualification are met. A REIT that holds foreign real estate or other foreign-based assets may have foreign currency exchange gain under the foreign currency transaction tax rules. Foreign currency exchange gain originally was not explicitly included in the statutory definitions of qualifying income for purposes of the 75% and 95% income tests until a statutory change, although the IRS issued guidance that allowed foreign currency gain to be treated as qualified income in certain circumstances. The statutory change excludes certain foreign currency gain from the computation of qualifying income for purposes of the 75% income test or the 95% income test, respectively. The exclusion is solely for purposes of the computations under these tests.

The statutory change defines two new categories of income for purposes of the exclusion rules: “real estate foreign exchange gain” and “passive foreign exchange gain.” Real estate foreign exchange gain is excluded from gross income for purposes of both the 75% and the 95% income tests. Passive foreign exchange gain is excluded for purposes of the 95% income test but is included in gross income and treated as non-qualifying income, to the extent that it is not real estate foreign exchange gain, for purposes of the 75% income test.

Real estate foreign exchange gain is foreign currency gain which is attributable to: (i) any item of income qualifying for the numerator for the 75% income test; (ii) the acquisition or ownership of obligations secured by mortgages on real property or interests in real property; or (iii) becoming or being the obligor under obligations secured by mortgages on real property or interests in real property. Real estate foreign exchange gain also includes certain foreign currency gains attributable to certain "qualified business units" of the REIT.

Passive foreign exchange gain includes all real estate foreign exchange and, in addition, includes foreign currency gain which is attributable to: (i) any item of income or gain included in the numerator for the 95% income test, (ii) acquisition or ownership of obligations other than described in the preceding paragraph; (iii) becoming the obligor under obligations other than described in the preceding paragraph; and (iv) any other foreign currency gain to be determined by the IRS.

Notwithstanding the foregoing rules, except in the case of certain income excluded under the hedging rules, foreign currency exchange gain derived from engaging in dealing, or substantial and regular trading, in certain securities constitutes gross income that does not qualify under either the 75% or 95% income test.

Asset Tests

To qualify as a REIT, we also must satisfy the following asset tests at the end of each quarter of each taxable year:

First, at least 75% of the value of our total assets must consist of:

- cash or cash items, including certain receivables;
- government securities;
- interests in real property, including leaseholds and options to acquire real property and leaseholds;
- interests in mortgage loans secured by real property (together with ancillary personal property that does not exceed 15% of the total collateral value), including, in general, our Agency MBS and almost all of our Non-Agency MBS;
- stock in other REITs;
- debt instruments issued by publicly offered REITs;
- investments in stock or debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or public offerings of debt with at least a five-year term; and
- regular or residual interests in a REMIC. However, if less than 95% of the assets of a REMIC consist of assets that are qualifying real estate-related assets under the federal income tax laws, determined as if we held such assets, we will be treated as holding directly our proportionate share of the assets of such REMIC.

The term "cash" for purposes of the REIT asset qualification rules is defined to include foreign currency if the REIT or its "qualified business unit" uses such foreign currency as its functional currency, but only to the extent such foreign currency is held for use in the normal course of the activities of the REIT or the "qualified business unit" giving rise to income in the numerator for the 75% or 95% income tests, or directly related to acquiring or holding assets qualifying for the numerator in the 75% assets test, and is not held in connection with a trade or business of trading or dealing in certain securities.

Second, not more than 25% of the value of our total assets may be represented by securities (other than those included in the preceding category).

Third, not more than 20% of the value of our total assets may be represented by securities of one or more taxable REIT subsidiaries.

Fourth, except with respect to a taxable REIT subsidiary and securities that qualify for purposes of the 75% test described above, (a) not more than 5% of the value of our total assets may be represented by securities of any one issuer, (b) we may not hold securities possessing more than 10% of the total voting power of the outstanding securities of any one issuer and (c) we may not hold securities having a value of more than 10% of the total value of the outstanding securities of any one issuer.

For purposes of the second and third asset tests, the term “securities” does not include stock in another REIT, equity or debt securities of a qualified REIT subsidiary or taxable REIT subsidiary, mortgage loans that constitute real estate assets, or equity interests in a partnership.

For purposes of the 10% value test, the term “securities” does not include:

- “Straight debt” securities, which is defined as a written unconditional promise to pay on demand or on a specified date a sum certain in money if (i) the debt is not convertible, directly or indirectly, into stock, and (ii) the interest rate and interest payment dates are not contingent on profits, the borrower’s discretion, or similar factors. “Straight debt” securities do not include any securities issued by a partnership or a corporation in which we or any controlled taxable REIT subsidiary (i.e., a taxable REIT subsidiary in which we own directly or indirectly more than 50% of the voting power or value of the stock) hold non-“straight debt” securities that have aggregate value of more than 1% of the issuer’s outstanding securities. However, “straight debt” securities include debt subject to the following contingencies:

    - a contingency relating to the time of payment of interest or principal, as long as either (i) there is no change to the effective yield of the debt obligation other than a change to the annual yield that does not exceed the greater of 0.25% or 5% of the annual yield, or (ii) neither the aggregate issue price nor the aggregate face amount of the issuer’s debt obligations held by us exceeds $1 million and no more than 12 months of unaccrued interest on the debt obligations can be required to be prepaid; and

    - a contingency relating to the time or amount of payment upon a default or prepayment of a debt obligation, as long as the contingency is consistent with customary commercial practice.

- Any loan to an individual or an estate;

- Any “section 467 rental agreement” other than an agreement with a related party tenant;

- Any obligation to pay “rents from real property”;

- Certain securities issued by governmental entities;

- Any security issued by a REIT;

- Any debt instrument of an entity treated as a partnership for federal income tax purposes to the extent of our interest as a partner in the partnership; and

- Any debt instrument of an entity treated as a partnership for federal income tax purposes not described in the preceding bullet points if at least 75% of the partnership’s gross income, excluding income from prohibited transaction, is qualifying income for purposes of the 75% gross income test described above in “Income Tests.”

The asset tests described above are based on our gross assets. For federal income tax purposes, we will be treated as owning both the loans we hold directly and, in general, any loans that we would securitize through non-REMIC debt securitizations. Although we will have a partially offsetting obligation with respect to the securities issued pursuant to securitizations, these offsetting obligations will generally not reduce the gross assets we are considered to own for purposes of the asset tests.

We believe that a substantial majority of the mortgage loans and MBS that we will own will be qualifying assets for purposes of the 75% asset test. However, certain of our investments, such as certain non-agency MBS that are not interests in REMICs, and certain derivative positions in MBS such as interests in “to be announced” Agency MBS and dollar roll transactions, may not qualify for purposes of the asset tests. Moreover, for purposes of these rules, if the outstanding principal balance of a mortgage loan exceeds the fair market value of the real property securing the loan (together with that of any ancillary personal property which serves as collateral), a portion of such loan likely will not be a qualifying real estate asset under the federal income tax laws.

Revenue Procedures 2011-16 and 2014-51 discuss the modification of a mortgage loan (or an interest therein) that is held by a REIT in which the modification was occasioned by either a default on the loan or a modification that satisfies both of the following conditions: (a) based on all the facts and circumstances, the REIT or servicer of the loan (the “pre-modified loan”) reasonably believes that there is a significant risk of default of the pre-modified loan upon maturity of the loan or at an earlier date, and (b) based on all the facts and circumstances, the REIT or servicer reasonably believes that the modified loan presents a substantially reduced risk of default, as compared with the pre-modified loan. Revenue Procedures 2011-16 and 2014-51 provide that a REIT may treat a modification of a mortgage loan described therein as not being a new commitment to make or purchase a loan for purposes of apportioning interest on that loan between interest with respect to real property or other interest. The modification will also not be treated as a prohibited transaction. Further, with respect to the REIT asset test, the IRS will not challenge the REIT’s treatment of a loan as being in part a “real estate asset” if the REIT treats the loan as being a real estate asset in an amount equal to the lesser of (a) the value of the loan as determined under Treasury Regulations Section 1.856-3(a), or (b) the loan value of the real property securing the loan as determined under Treasury Regulations Section 1.856-5(c) and Revenue Procedures 2011-16 and 2014-51.

We will monitor the status of our assets for purposes of the various asset tests and will seek to manage our investment portfolio to comply at all times with such tests. There can be no assurance, however, that we will be successful in this effort. In this regard, to determine our compliance with these requirements, we will need to estimate the value of the real estate securing our mortgage loans at various times. Although we will seek to be prudent in making these estimates, there can be no assurances that the IRS might not disagree with these determinations and assert that a lower value is applicable. If we fail to satisfy the asset tests at the end of a calendar quarter, we will not lose our REIT status if:

- we satisfied the asset tests at the end of the preceding calendar quarter; and
- the discrepancy between the value of our assets and the asset test requirements arose from changes in the market values of our assets and was not wholly or partly caused by the acquisition of one or more non-qualifying assets, or solely by a change in the foreign currency exchange rate used to value a foreign asset.

If we did not satisfy the condition described in the second item, above, we still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose.

In the event that, at the end of any calendar quarter, we violate the asset tests described above, we will not lose our REIT status if (i) the failure is de minimis (up to the lesser of 1% of our assets or $10 million) and (ii) we dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure. In the event of a more than de minimis failure of any of the asset tests, as long as the failure was due to reasonable cause and not to willful neglect, we will not lose our REIT status if (i) we dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter in which we identify such failure and (ii) pay a tax equal to the greater of $50 thousand or 35% of the net income from the non-qualifying assets during the period in which we failed to satisfy the asset tests.

We currently believe that the securities and other assets that we expect to hold will satisfy the foregoing asset test requirements. However, no independent appraisals will be obtained to support our conclusions as to the value of our assets and securities, or in many cases, the real estate collateral for the mortgage loans that we hold. Moreover, the values of some assets may not be susceptible to a precise determination. As a result, there can be no assurance that the IRS will not contend that our ownership of securities and other assets violates one or more of the asset tests applicable to REITs.

Annual Distribution Requirements

Each taxable year, we must distribute dividends, other than capital gain dividends and deemed distributions of retained capital gain, to our stockholders in an aggregate amount at least equal to:

- the sum of:
  - 90% of our "REIT taxable income," computed without regard to the dividends paid deduction and our net capital gain or loss, and
  - 90% of our after-tax net income, if any, from foreclosure property, minus
  - the sum of certain items of excess non-cash income.

We must pay such distributions in the taxable year to which they relate or in the following taxable year if we declare the distribution before we timely file our federal income tax return for the year and pay the distribution on or before the first regular dividend payment date after such declaration. In addition, dividends declared in October, November or December payable to stockholders of record in such month are deemed received by stockholders on December 31 and to have been paid on December 31 if actually paid in January of the following year. See below under "Distributions Generally."

We will pay the federal income tax on taxable income, including net capital gain, that we do not distribute to stockholders. Furthermore, if we fail to distribute during a calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

- 85% of our REIT ordinary income for such year;
- 95% of our REIT capital gain income for such year; and
- any undistributed taxable income from prior periods,

we will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts we actually distribute. We may elect to retain and pay income tax on the net long-term capital gain we receive in a taxable year (see the section entitled "Taxation of Taxable U.S. Stockholders"). If we so elect, we will be treated as having distributed any such retained amount for purposes of the 4% nondeductible excise tax described above. We intend to make timely distributions sufficient to satisfy the annual distribution requirements and to not incur corporate income tax and the 4% nondeductible excise tax.

It is possible that, from time to time, we may experience timing differences between the actual receipt of income and actual payment of deductible expenses and the inclusion of that income and deduction of such expenses in arriving at our REIT taxable income. Possible examples of those timing differences include the following:

- Because we may deduct capital losses only to the extent of our capital gains, we may have taxable income that exceeds our economic income;

- We will recognize taxable income in advance of the related cash flow if any of our mortgage loans or MBS are deemed to have original issue discount. We generally must accrue original issue discount based on a constant yield method that takes into account projected prepayments but that defers taking into account credit losses until they are actually incurred;

- We may recognize taxable market discount income when we receive the proceeds from the disposition of, or principal payments on, loans that have a stated redemption price at maturity that is greater than our tax basis in those loans, although such proceeds often will be used to make non-deductible principal payments on related borrowings;

- We may recognize taxable income without receiving a corresponding cash distribution if we foreclose on or make a significant modification to a loan to the extent that the fair market value of the underlying property or the principal amount of the modified loan, as applicable, exceeds our basis in the original loan; and

- We may recognize phantom taxable income from any residual interests in REMICs or from retained ownership interests in mortgage loans that are used in certain securitization structures.

Although several types of non-cash income are excluded in determining the annual distribution requirement, we will incur corporate income tax and the 4% nondeductible excise tax with respect to those non-cash income items if we do not distribute those items on a current basis. As a result of the foregoing, we may have less cash than is necessary to distribute all of our taxable income and thereby avoid corporate income tax and the excise tax imposed on certain undistributed income. In such a situation, we may need to borrow funds or issue additional common stock or preferred stock.

Under certain circumstances, we may be able to correct a failure to meet the distribution requirement for a year by paying “deficiency dividends” to our stockholders in a later year. We may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest to the IRS based upon the amount of any deduction we take for deficiency dividends.

Recordkeeping Requirements

We must maintain certain records in order to qualify as a REIT. In addition, to avoid a monetary penalty, we must request, on an annual basis, information from our stockholders designed to disclose the actual ownership of our outstanding stock. We intend to comply with these requirements.

Failure to Qualify

If we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, we could avoid disqualification if our failure is due to reasonable cause and not to willful neglect and we pay a penalty of $50 thousand for each such failure. In addition, there are relief provisions for a failure of the gross income tests and asset tests as described in “Income Tests” and “Asset Tests.”

If we fail to qualify as a REIT in any taxable year and no relief provision applies, we would be subject to federal income tax and any applicable alternative minimum tax on our taxable income at regular corporate rates. In calculating our taxable income in a year in which we fail to qualify as a REIT, we would not be able to deduct amounts distributed to our stockholders. In fact, we would not be required to distribute any amounts to stockholders in that year. In such event, to the extent of our current and accumulated earnings and profits, all distributions to stockholders would be taxable as ordinary income. Subject to certain limitations of the federal income tax laws, corporate stockholders might be eligible for the dividends received deduction and domestic non-corporate stockholders may be eligible for the reduced federal income tax rate of 20% on qualified dividends. Unless we qualified for relief under specific statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. We cannot predict whether, in all circumstances, we would qualify for such statutory relief.

Qualified REIT Subsidiaries

A qualified REIT subsidiary (which we refer to as a “QRS”) is any corporation in which we own 100% of the outstanding stock and for which no election has been made to classify it as a taxable REIT subsidiary. The separate existence of a QRS is disregarded for federal income tax purposes. As such, assets, liabilities and income of a QRS would generally be treated as our assets, liabilities and income for purposes of each of the above REIT qualification tests. In February 2014, we incorporated a wholly-owned QRS, Anworth Properties, Inc., which commenced operations in March 2014. In August 2017, we incorporated another wholly-owned QRS, Anworth Mortgage Loans, Inc., which commenced operations in October 2018. Our subsidiaries may own, from time to time, REIT-qualifying assets, such as certain types of mortgage assets and rental real estate assets.

Taxable REIT Subsidiaries

A taxable REIT subsidiary is any corporation in which we own stock (directly or indirectly) and that we and such corporation jointly elect to classify as a taxable REIT subsidiary. A taxable REIT subsidiary is not subject to the REIT asset, income and distribution requirements, nor is its assets, liabilities or income treated as our assets, liabilities or income for purposes of each of the above REIT qualification tests. We have incorporated Anworth Property Services, Inc., a wholly-owned subsidiary which we intend will be treated as a taxable REIT subsidiary, although it has not yet commenced operations. Our taxable REIT subsidiary will provide an entity through which we may participate in various activities that might otherwise have adverse tax consequences if conducted directly by a REIT or through a QRS. Unlike a REIT, a taxable REIT subsidiary pays standard corporate taxes on its income. Examples of activities in which a taxable REIT subsidiary might engage include: sales of assets in the ordinary course of business that would be a prohibited transaction if sold by the parent REIT; certain securitization activities; and certain service activities (including management of properties owned by third parties and non-customary services to real estate tenants). We generally intend to make a taxable REIT subsidiary election with respect to any other corporation in which we acquire securities constituting more than 10% by vote or value of such corporation and that is not a QRS. However, the aggregate value of all of our taxable REIT subsidiaries must be limited to 20% of the total value of our assets.

We may be subject to a 100% penalty tax on certain transactions with a taxable REIT subsidiary that are not on an arm’s length basis. We intend for the terms of any transactions with a taxable REIT subsidiary to be consistent with arm’s length terms.

We generally expect to derive any income from any taxable REIT subsidiaries in the form of dividends. Such dividends are not real estate source income for purposes of the 75% income test, although they will qualify for purposes of the 95% test. Therefore, when aggregated with our non-real estate source income, such dividends must not exceed 25% of our gross income in any year. We intend to monitor the value of our investment in, and the distributions from, our taxable REIT subsidiaries to ensure compliance with all applicable REIT income and asset tests in the event that we establish any taxable REIT subsidiaries.

Taxable REIT subsidiaries are generally subject to corporate level tax on their net income and will generally be able to distribute only net after-tax earnings to their stockholders, including us, as dividend distributions. Any dividends that we pay which are attributable to dividends received by us from taxable REIT subsidiaries can qualify for the 20% tax rate on qualified dividends in the hands of our stockholders that are not corporations.

Taxation of Taxable U.S. Stockholders

For purposes of the discussion in this Annual Report on Form 10-K, the term “U.S. stockholder” means a holder of our stock that is, for U.S. federal income tax purposes:

- a citizen or resident of the U.S.;
- a corporation (including an entity treated as a corporation for federal income tax purposes), partnership or other entity created or organized in or under the laws of the U.S. or of any state thereof or in the District of Columbia, unless Treasury regulations provide otherwise;

- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (i) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (ii) that has a valid election in place to be treated as a U.S. person.

Distributions Generally

Distributions out of our current or accumulated earnings and profits, other than capital gain dividends, will generally be taxable to U.S. stockholders as ordinary income; provided, however, that all such distributions, other than distributions which are taxable as capital gain dividends or traceable to distributions from a taxable REIT subsidiary, as are received by a pass-through entity or an individual, became eligible for a 20% deduction from gross income starting in 2018 under the tax laws. This eligibility for a 20% deduction will expire in 2025. Provided that we continue to qualify as a REIT, dividends paid by us will not be eligible for the dividends received deduction generally available to U.S. stockholders that are corporations. To the extent that we make distributions in excess of current and accumulated earnings and profits, the distributions will be treated as a tax-free return of capital to each U.S. stockholder and will reduce the adjusted tax basis which each U.S. stockholder has in our stock by the amount of the distribution, but not below zero. Distributions in excess of a U.S. stockholder's adjusted tax basis in its stock will be taxable as capital gain and will be taxable as long-term capital gain if the stock has been held for more than one year. If we declare a dividend in October, November, or December of any calendar year which is payable to stockholders of record on a specified date in such a month and actually pay the dividend during January of the following calendar year, the dividend is deemed to be paid by us and received by the stockholder on December 31st of the previous year, but only to the extent we have any remaining undistributed earnings and profits (as computed under the Code) as of December 31st. Any portion of this distribution in excess of our previously undistributed earnings and profits as of December 31st should be treated as a distribution to our stockholders in the following calendar year for U.S. federal income tax purposes. Stockholders may not include in their own income tax returns any of our net operating losses or capital losses. Ordinary dividends to a U.S. stockholder generally will not be eligible for the favorable tax rates (currently 20% maximum rate) for "qualified dividend income." However, the 20% tax rate for "qualified dividend income" will apply to our ordinary REIT dividends that are attributable to (i) dividends received by us from non-REIT corporations such as a taxable REIT subsidiary, and (ii) any income on which we have paid a corporate income tax.

Cost Basis Reporting

New federal income tax information reporting rules may apply to certain transactions in our shares acquired through our Dividend Reinvestment and Stock Purchase Plan. Where such rules apply, the "cost basis" calculated for the shares involved will be reported to the IRS and to you. For "cost basis" reporting purposes, you may identify by lot the shares that you transfer or that are redeemed, but if you do not timely notify us of your election, we will identify the shares that are transferred or redeemed on a "first in/first out" basis. The shares in our Dividend Reinvestment and Stock Purchase Plan are also eligible for the "average cost" basis method, should you so elect.

Brokers that are required to report the gross proceeds from a sale of shares on Form 1099-B are generally required to report the customer's adjusted basis in the shares and whether any gain or loss with respect to the shares is long-term or short-term. In some cases, there may be alternative methods of determining the basis in shares that are disposed of, in which case a broker will apply a default method of its choosing if the investor does not indicate which method it chooses to have applied.

Capital Gain Distributions

Distributions designated by us as capital gain dividends will be taxable to U.S. stockholders as capital gain income. We can designate distributions as capital gain dividends to the extent of our net capital gain for the taxable year of the distribution. This capital gain income will generally be taxable to non-corporate U.S. stockholders at a 20% or 25% rate based on the characteristics of the asset we sold that produced the gain. U.S. stockholders that are corporations may be required to treat up to 20% of certain capital gain dividends as ordinary income.

Retention of Net Capital Gains

We may elect to retain, rather than distribute as a capital gain dividend, our net capital gains. If we were to make this election, we would pay tax on such retained capital gains. In such a case, if we so elect, our stockholders would:

- include their proportionate share of our undistributed net capital gains in their taxable income;
- receive a credit for their proportionate share of the tax paid by us in respect of such net capital gain; and
- increase the adjusted basis of their stock by the difference between the amount of their share of our undistributed net capital gain and their share of the tax paid by us.

Passive Activity Losses, Investment Interest Limitations and Other Considerations of Holding Our Stock

Distributions that we make and gains arising from the sale or exchange of our stock by a U.S. stockholder will not be treated as passive activity income. As a result, U.S. stockholders will not be able to apply any "passive losses" against income or gains relating to our stock. Distributions by us, to the extent they do not constitute a return of capital, generally will be treated as investment income for purposes of computing the limitations under the Code on the deductibility of investment interest expense. Further, if we, or a portion of our assets, were to be treated as a taxable mortgage pool, or if we hold a residual interest in a REMIC, any resultant excess inclusion income that we derive which is allocated to you could not be offset by any losses or other deductions you may have.

Dispositions of Stock and Warrants

A U.S. stockholder or U.S. warrant holder that sells or disposes of our stock or warrants will recognize gain or loss for federal income tax purposes in an amount equal to the difference between the amount of cash or the fair market value of any property the stockholder or warrant holder receives on the sale or other disposition and the stockholder's or warrant holder's adjusted tax basis in the stock or warrants, as applicable. This gain or loss will be capital gain or loss and will be long-term capital gain or loss if the stockholder or warrant holder has held the stock or warrants for more than one year. In general, any loss recognized by a U.S. stockholder or warrant holder upon the sale or other disposition of our stock or warrants that the stockholder or warrant holder has held for six months or less will be treated as long-term capital loss to the extent the stockholder or warrant holder received distributions from us which were required to be treated as long-term capital gains. All or a portion of any loss that a U.S. stockholder or warrant holder realizes upon a taxable disposition of our stock or warrants may be disallowed if the stockholder purchases other stock within 30 days before or after the disposition.

Information Reporting and Backup Withholding

We report to our U.S. stockholders and the IRS the amount of dividends paid during each calendar year and the amount of any tax withheld. Under the backup withholding rules, a stockholder may be subject to backup withholding with respect to dividends paid and redemption proceeds unless the holder is a corporation or comes within other exempt categories and, when required, demonstrates this fact or provides a taxpayer identification number or social security number certifying as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. A U.S. stockholder that does not provide us with its correct taxpayer identification number or social security number may also be subject to penalties imposed by the IRS. A U.S. stockholder can meet this requirement by providing us with a correct, properly completed and executed copy of IRS Form W-9 or a substantially similar form. Backup withholding is not an additional tax. Any amount paid as backup withholding will be creditable against the stockholder's income tax liability, if any, and otherwise be refundable. In addition, we may be required to withhold a portion of capital gain distributions made to any stockholders who fail to certify their non-foreign status.

Medicare Tax

Certain U.S. stockholders who are individuals, estates or trusts and whose income exceeds certain thresholds will be required to pay a 3.8% Medicare tax on dividends, interest and certain other investment income, including capital gains from the sale or disposition of our stock.

Taxation of Tax-Exempt Stockholders

The IRS has ruled that amounts distributed as a dividend by a REIT will be excluded from the calculation of unrelated business taxable income (which we refer to as “UBTI”) when received by a tax-exempt entity. Based on that ruling, provided that a tax-exempt stockholder has not held our stock as “debt financed property” within the meaning of the Code, i.e., property, the acquisition, or holding of which is financed through a borrowing by the tax-exempt U.S. stockholder, the stock is not otherwise used in an unrelated trade or business, and we do not hold a residual interest in a REMIC that gives rise to “excess inclusion” income, as defined in Section 860E of the Code, dividend income on our stock and income from the sale of our stock should not be unrelated business taxable income to a tax-exempt stockholder. However, if we or a pool of our assets were to be treated as a “taxable mortgage pool,” a portion of the dividends paid to a tax-exempt stockholder may be subject to tax as unrelated business taxable income. Although we do not believe that we, or any portion of our assets, will be treated as a taxable mortgage pool, no assurance can be given that the IRS might not successfully maintain that such a taxable mortgage pool exists.

For tax-exempt stockholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Code, respectively, income from an investment in our stock will constitute unrelated business taxable income unless the organization is able to properly claim a deduction for amounts set aside or placed in reserve for certain purposes so as to offset the income generated by its investment in our stock. Any prospective and current investors should consult their tax advisors concerning these “set aside” and reserve requirements.

Notwithstanding the above, however, a substantial portion of the dividends that a tax-exempt stockholder receives may constitute UBTI if we are treated as a “pension-held REIT” and the stockholder is a pension trust which:

- is described in Section 401(a) of the Code; and
- holds more than 10%, by value, of the interests in the REIT.

Tax-exempt pension funds that are described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code are referred to below as “qualified trusts.”

A REIT is a “pension-held REIT” if:

- it would not have qualified as a REIT but for the fact that Section 856(h)(3) of the Code provides that stock owned by a qualified trust shall be treated, for purposes of the 5/50 Rule, described above, as owned by the beneficiaries of the trust, rather than by the trust itself; and
- either at least one qualified trust holds more than 25%, by value, of the interests in the REIT, or one or more qualified trusts, each of which owns more than 10%, by value, of the interests in the REIT, holds in the aggregate more than 50%, by value, of the interests in the REIT.

The percentage of any REIT dividend treated as unrelated business taxable income is equal to the ratio of:

- the unrelated business taxable income earned by the REIT, less directly related expenses, treating the REIT as if it were a qualified trust and therefore subject to tax on unrelated business taxable income, to
- the total gross income, less directly related expenses, of the REIT.

A de minimis exception applies where the percentage is less than 5% for any year. As a result of the limitations on the transfer and ownership of stock contained in our charter, we do not expect to be classified as a "pension-held REIT."

Taxation of Non-U.S. Stockholders

The rules governing federal income taxation of "non-U.S. stockholders" are complex and no attempt will be made herein to provide more than a summary of these rules. "Non-U.S. stockholders" means beneficial owners of shares of our stock that are not U.S. stockholders (as such term is defined in the discussion above under the heading entitled "Taxation of Taxable U.S. Stockholders").

PROSPECTIVE AND CURRENT NON-U.S. STOCKHOLDERS SHOULD CONSULT THEIR TAX ADVISORS TO DETERMINE THE IMPACT OF FOREIGN, FEDERAL, STATE AND LOCAL INCOME TAX LAWS WITH REGARD TO AN INVESTMENT IN OUR STOCK AND OUR ELECTION TO BE TAXED AS A REAL ESTATE INVESTMENT TRUST, INCLUDING ANY REPORTING REQUIREMENTS.

Distributions to non-U.S. stockholders that are not attributable to gain from our sale or exchange of U.S. real property interests, and that are not designated by us as capital gain dividends or retained capital gains, will be treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. These distributions will generally be subject to a withholding tax equal to 30% of the distribution unless an applicable tax treaty reduces or eliminates that tax. However, if income from an investment in our stock is treated as effectively connected with the non-U.S. stockholder's conduct of a U.S. trade or business, the non-U.S. stockholder generally will be subject to federal income tax at graduated rates on a net basis in the same manner as U.S. stockholders are taxed with respect to those distributions and also may be subject to the 30% branch profits tax in the case of a non-U.S. stockholder that is a corporation. We expect to withhold tax at the rate of 30% on the gross amount of any distributions made to a non-U.S. stockholder unless:

- a lower treaty rate applies and any required form, for example IRS Form W-8BEN, evidencing eligibility for that reduced rate is filed by the non-U.S. stockholder with us; or

- the non-U.S. stockholder files an IRS Form W-8ECI with us claiming that the distribution is effectively connected income.

Any portion of the dividends paid to non-U.S. stockholders that is treated as excess inclusion income will not be eligible for exemption from the 30% withholding tax or a reduced treaty rate.

Distributions in excess of our current and accumulated earnings and profits will not be taxable to non-U.S. stockholders to the extent that these distributions do not exceed the adjusted basis of the stockholder's stock, but rather will reduce the adjusted basis of that stock. To the extent that distributions in excess of current and accumulated earnings and profits exceed the adjusted basis of a non-U.S. stockholder's stock, these distributions will give rise to tax liability if the non-U.S. stockholder would otherwise be subject to tax on any gain from the sale or disposition of its stock, as described below. Because it generally cannot be determined at the time a distribution is made whether or not such distribution may be in excess of current and accumulated earnings and profits, the entire amount of any distribution normally will be subject to withholding at the same rate as a dividend. However, amounts so withheld are creditable against U.S. tax liability, if any, or refundable by the IRS to the extent that the distribution is subsequently determined to be in excess of our current and accumulated earnings and profits. We are also required to withhold 15% of any distribution in excess of our current and accumulated earnings and profits if our stock is a U.S. real property interest and if we are not a domestically controlled REIT, as discussed below. Consequently, although we intend to generally withhold at a rate of 30% on the entire amount of any distribution to a non-U.S. stockholder, to the extent that we do not do so, any portion of a distribution not subject to withholding at a rate of 30% may be subject to withholding at a rate of 15%.

Distributions attributable to our capital gains which are not attributable to gain from the sale or exchange of a U.S. real property interest generally will not be subject to income taxation unless (1) investment in our stock is effectively connected with the non-U.S. stockholder's U.S. trade or business (or, if an income tax treaty applies, is attributable to a U.S. permanent establishment of the non-U.S. stockholder), in which case the non-U.S. stockholder will be subject to the same treatment as U.S. stockholders with respect to such gain (except that a corporate non-U.S. stockholder may also be subject to the 30% branch profits tax), or (2) the non-U.S. stockholder is a non-resident alien individual who is present in the U.S. for 183 days or more during the taxable year and certain other conditions are satisfied, in which case the non-resident alien individual will be subject to a 30% tax on the individual's capital gains.

For any year in which we qualify as a REIT, distributions that are attributable to gain from the sale or exchange of a U.S. real property interest, which includes some interests in real property, but generally does not include an interest solely as a creditor in mortgage loans or MBS, will be taxed to a non-U.S. stockholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980 (which we refer to as "FIRPTA"). Under FIRPTA, distributions attributable to gain from sales of U.S. real property interests are taxed to a non-U.S. stockholder as if that gain were effectively connected with the stockholder's conduct of a U.S. trade or business (effectively connected income). Non-U.S. stockholders thus would be taxed on such income at the normal capital gain rates applicable to U.S. stockholders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals. Distributions that are subject to FIRPTA also may be subject to the 30% branch profits tax in the hands of a non-U.S. corporate stockholder. We are required to withhold 35% of any distribution that we designate (or, if greater, the amount that we could designate) as a capital gains dividend. The amount withheld is creditable against the non-U.S. stockholder's FIRPTA tax liability.

A capital gain distribution from a REIT to a foreign investor will not be treated by a non-U.S. stockholder as effectively connected income, provided that (i) the distribution is received with respect to a class of stock that is regularly traded on an established securities market located in the U.S. (our stock currently is so traded) and (ii) the foreign investor does not own more than 10% of the class of stock at any time during the taxable year within which the distribution is received. In that case, the foreign investor is not required to file a U.S. federal income tax return by reason of receiving such a distribution. Such a distribution is treated as an ordinary dividend that is subject to withholding and taxation as described above and is not treated as a capital gain. Also, the branch profits tax does not apply to such a distribution.

A gain recognized upon the sale of our stock by a non-U.S. stockholder could be treated as effectively connected income under FIRPTA if we are considered to be a United States Real Property Holding Corporation, or USRPHC. In general, a corporation is considered to be a USRPHC if more than 50% of its business assets at any time during a prescribed testing period (which is typically five years) consist of U.S. real property interests. Interests solely as a creditor, including most mortgage loans and MBS, are not considered to be U.S. real property interests. Although we hold certain U.S. real property interests, we do not believe that we are or have been a USRPHC, in which case FIRPTA would not apply to gain recognized upon a sale of our stock.

Even if we become a USRPHC in the future, gains recognized by a non-U.S. stockholder upon a sale of our stock generally will not be taxed under FIRPTA if we are a domestically-controlled REIT, which is a REIT in which at all times during a specified testing period less than 50% in value of the stock was held directly or indirectly by non-U.S. stockholders. Because our stock is publicly traded, we cannot assure our investors that we are or will remain a domestically-controlled REIT. Even if we are not a domestically-controlled REIT, however, a non-U.S. stockholder that owns, actually or constructively, 10% or less of our stock throughout a specified testing period will not recognize taxable gain on the sale of our stock under FIRPTA if the shares are traded on an established securities market.

If a gain from the sale of the stock were subject to taxation under FIRPTA, the non-U.S. stockholder would be subject to the same treatment as U.S. stockholders with respect to that gain, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals. The 30% branch profits tax to which non-U.S. corporations are subject would not apply to such gain. In addition, the purchaser of the stock could be required to withhold 15% of the purchase price and remit such amount to the IRS.

The Protecting Americans from Tax Hikes Act of 2015, or the PATH Act, creates new exemptions from FIRPTA for foreign pension funds that meet certain requirements and for "qualified shareholders." Qualified shareholders are certain foreign entities that are publicly traded "qualified collective investment vehicles" which are subject to exchange of information provisions pursuant to a tax treaty between the United States and their home country, maintain records identifying large shareholders and meet certain other requirements. To the extent that a non-U.S. stockholder is subject to either of these exemptions, FIRPTA will not apply either to gain recognized by the non-U.S. stockholder upon a sale of our stock or to capital gain dividend that is attributable to a sale by us of a U.S. real property interest.

A gain upon the sale of our stock by a non-U.S. stockholder that is not subject to FIRPTA will be taxable to a non-U.S. stockholder if:

- the non-U.S. stockholder's investment in the stock is effectively connected with a trade or business in the U.S., in which case the non-U.S. stockholder will be subject to the same treatment as U.S. stockholders with respect to that gain; or

- the non-U.S. stockholder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and other conditions are met, in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gains.

Information Reporting and Backup Withholding

If the proceeds of a disposition of our stock are paid by or through a U.S. office of a broker-dealer, the payment is generally subject to information reporting and to backup withholding (currently at a rate of 28%) unless the disposing non-U.S. stockholder certifies as to his name, address and non-U.S. status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding will not apply to a payment of disposition proceeds if the payment is made outside the U.S. through a foreign office of a foreign broker-dealer. If the proceeds from a disposition of our stock are paid to or through a foreign office of a U.S. broker-dealer or a non-U.S. office of a foreign broker-dealer that is (i) a "controlled foreign corporation" for federal income tax purposes, (ii) a foreign person 50% or more of whose gross income from all sources for a three-year period was effectively connected with a U.S. trade or business, (iii) a foreign partnership with one or more partners who are U.S. persons and who in the aggregate hold more than 50% of the income or capital interest in the partnership, or (iv) a foreign partnership engaged in the conduct of a trade or business in the U.S., then (a) backup withholding will not apply unless the broker-dealer has actual knowledge that the owner is not a foreign stockholder, and (b) information reporting will not apply if the non-U.S. stockholder satisfies certification requirements regarding its status as a foreign stockholder.

Foreign Accounts

Shareholders that acquire our stock through an account maintained at a non-U.S. financial institution should be aware that the Foreign Account Tax Compliance Act (which we refer to as "FATCA") provides that a 30% withholding tax will be imposed on certain payments made to a foreign entity (such as dividends that we pay and proceeds from the sale of our stock) if such entity fails to satisfy certain new disclosure and reporting rules. FATCA generally requires that (i) in the case of shareholder that is foreign financial institution (defined broadly to include a hedge fund, a private equity fund, a mutual fund, a securitization vehicle or other investment vehicle), the entity identify and provide information with respect to financial accounts with such entity held (directly or indirectly) by U.S. persons and U.S.-owned foreign entities and (ii) in the case of a shareholder that is a non-financial foreign entity, the entity identify and provide information with respect to substantial U.S. owners of such entity.

The IRS has released guidance providing that FATCA withholding with respect to gross proceeds from the disposition of stock will not be imposed on payments made prior to January 1, 2020. The U.S. Treasury has signed certain Intergovernmental Agreements with other countries to implement the exchange of information required under FATCA. Shareholders that invest in the Company through an account maintained at a non-U.S. financial institution are strongly encouraged to consult with their own tax advisors regarding the potential application and impact of FATCA and any Intergovernmental Agreement between the United States and their home jurisdiction in connection with FATCA compliance.

State, Local and Foreign Taxation

We may be required to pay state, local and foreign taxes in various state, local and foreign jurisdictions, including those in which we transact business or make investments, and our stockholders may be required to pay state, local and foreign taxes in various state, local and foreign jurisdictions, including those in which they reside. Our state, local and foreign tax treatment may not conform to the federal income tax consequences summarized above. In addition, a stockholder's state, local and foreign tax treatment may not conform to the federal income tax consequences summarized above. Consequently, prospective investors should consult their tax advisors regarding the effect of state, local and foreign tax laws on an investment in our stock.

Possible Legislative or Other Actions Affecting Tax Considerations

Prospective investors and stockholders should recognize that the present U.S. federal income tax treatment of an investment in our stock may be modified by legislative, judicial or administrative action at any time and that any such action may affect investments and commitments previously made. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in U.S. federal tax laws and interpretations thereof could adversely affect the tax consequences of an investment in our stock.

The recently enacted PATH Act contains changes to certain aspects of the U.S. federal income tax rules applicable to REITs. The Act modifies various rules that apply to a REIT's ownership of and business relationship with its taxable REIT subsidiaries and reduces (beginning in 2018) the value of a REIT's assets that may be in taxable REIT subsidiaries from 25% to 20%. The PATH Act makes permanent the reduction of the period (from ten years to five years) during which a REIT is subject to corporate-level tax on the recognition of built-in gains in assets of an acquired corporation.

The PATH Act also makes multiple changes related to FIRPTA, expands prohibited transaction safe harbors and qualifying hedges, and repeals for publicly offered REITs the rules that previously could apply to limit the deductibility of certain distributions if they were considered to be preferential dividends. Lastly, the PATH Act adjusts the way a REIT calculates earnings and profits in certain circumstances to avoid double taxation at the shareholder level, and expands the types of assets and income treated as qualifying for purposes of the REIT requirements. Investors are urged to consult their tax advisors with respect to these changes and the potential impact on an investment in our stock.

Item 1A. RISK FACTORS

Our business routinely encounters and attempts to address risks, some of which will cause our future results to differ, sometimes materially, from those originally anticipated. Below, we have described our present view of the most significant risks facing the Company. The risk factors set forth below are not the only risks that we may face or that could adversely affect us. If any of the circumstances described in the risk factors discussed in this Annual Report on Form 10-K actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the trading price of our securities could decline significantly and stockholders may lose all or part of their investment.

The following discussion of risk factors contains "forward-looking statements," which may be important to understanding any statement in this Annual Report on Form 10-K or in our other filings and public disclosures. In particular, the following information should be read in conjunction with Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 – Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

The following is a summary of the risk factors discussed in this Annual Report on Form 10-K:

Risks Related to the Proposed Merger with Ready Capital

- The Merger is subject to a number of conditions which, if not satisfied or waived in a timely manner, would delay the Merger or adversely impact Ready Capital's and our ability to complete the transaction;
- Failure to consummate the Merger as currently contemplated or at all could adversely affect the price of Anworth Common Stock or Ready Capital Common Stock and the future business and financial results of our Company and/or Ready Capital;
- The pendency of the Merger could adversely affect our and Ready Capital's business and operations;
- We and Ready Capital have incurred substantial expenses related and unrelated to the Merger;
- The Merger and related transactions are subject to our stockholder approval and Ready Capital stockholder approval;
- If the Merger is not consummated by September 30, 2021, we or Ready Capital may terminate the Merger Agreement; and
- An adverse judgment in any litigation challenging the Merger may prevent the Merger from becoming effective or from becoming effective within the expected timeframe.

Risks Related to Recent or Potential Economic, Legislative, and Regulatory Developments Affecting Our Industry

- Adverse developments in the residential mortgage market, the real estate market, and the broader financial and capital markets, as well as in the U.S. economy and the broader global economy, may adversely affect our business, results of operations, and financial condition;
- The U.S. government may make substantial changes to fiscal, tax, and other federal policies that may adversely affect our business;
- New laws may be passed affecting the relationship between Fannie Mae and Freddie Mac, on the one hand, and the federal government, on the other, which could adversely affect the price of Agency MBS;
- A failure by the U.S. government to reduce its budget deficit, resolve future debt ceiling or government funding crises or a further downgrade of U.S. sovereign debt and government-sponsored agency debt, could have a material adverse impact on our borrowings and the valuations of our mortgage-related assets and may have a material adverse impact on our stock price, financial condition and results of operations;
- The outbreak of the global COVID-19 coronavirus pandemic has caused much economic upheaval, both globally and in the United States. Despite the efforts of federal and state governments to contain the virus, and also to provide economic assistance to states, local communities, lenders, businesses, and individuals, the pandemic has had a significant negative effect on the economy, and in particular, the stock market and the mortgage market. While the longer-term effects on the economy and the stock and mortgage markets cannot be determined at this time, our Company, our stock price, our book value, our assets, and our results of operations may be materially and adversely impacted by these events;
- We are subject to the risk that domestic and international crises, despite efforts by global governments to address such crises, may affect interest rates and the availability of financing in general, which could adversely affect our financing and our operating results;

- Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, mortgage-related assets in which we invest;

- A change in the LIBOR setting process could affect the interest rates that borrowing agreement counterparties charge on borrowings in general. Any such change could affect our borrowing agreements and could have an adverse impact on our net interest income;

- Government use of eminent domain to seize underwater mortgages could materially and adversely affect the value of, and the returns on, our Non-Agency MBS and residential mortgage loans; and

- Our business is subject to complex and evolving U.S. and international laws and regulations regarding privacy and data protection. Many of these laws and regulations are subject to change and uncertain interpretation and could result in claims, changes to our business practices and penalties, or otherwise harm our business.

Risks Related to our Financings and Leverage

- If we are unable to negotiate favorable terms and conditions on future borrowing arrangements with one or more of our lenders, our ability to acquire investments for our portfolio, our financial condition and earnings could be negatively impacted;

- Our ability to access funding, or the terms on which funding is available, could be materially and adversely impacted in light of the ongoing market turbulence as a result of the COVID-19 coronavirus pandemic;

- Our leveraging strategy increases the risks of our operations;

- We may incur increased borrowing costs related to repurchase agreements and other borrowing facilities that would adversely affect our profitability and our book value;

- If we are unable to complete securitizations or experience delays on securitization closings, we would face a liquidity shortage in this area of our business, which would harm our operating results;

- Any borrowing arrangements that we use to finance our assets may require us to provide additional collateral or pay down debt, and if these requirements are not met, our financial condition and prospects could deteriorate rapidly;

- Our use of repurchase agreements and other credit facilities to borrow funds may give our lenders greater rights in the event that either we or a lender files for bankruptcy;

- A failure to comply with restrictive covenants in our financing arrangements would have a material adverse effect on us, and any future financings may require us to provide additional collateral or pay down debt;

- Our hedging strategies may not be successful in mitigating our risks associated with interest rates; and

- The characteristics of hedging instruments present various concerns, including illiquidity, enforceability, and counterparty risks, which could adversely affect our business and results of operations.

Risks Related to our Investments and Investment Activity

- Competition may prevent us from acquiring mortgage-related assets at favorable yields, and that would negatively impact our profitability;

- A decrease or lack of liquidity in our investments may adversely affect our business, including our ability to value and sell our assets;

- If we are unable to find suitable investments, we may not be able to achieve our investment objectives or pay dividends;
- An increase in interest rates may harm our book value, which could adversely affect the cash available for distribution to you and could cause the price of our securities to decline;
- An increase in interest rates may cause a decrease in the volume of newly issued, or investor demand for, MBS and other mortgage-related assets, which could adversely affect our ability to acquire MBS and other mortgage-related assets that satisfy our investment objectives and to generate income and pay dividends;
- A flat or inverted yield curve may negatively affect our operations, book value and profitability due to its potential impact on investment yields and the supply of adjustable-rate mortgage products;
- Interest rate mismatches between our adjustable-rate investments and our borrowings used to fund our purchases of these assets may reduce our income during periods of changing interest rates;
- We may experience reduced net interest income from holding fixed-rate investments during periods of rising interest rates;
- Interest rate caps on our adjustable-rate MBS may reduce our income or cause us to suffer a loss during periods of rising interest rates;
- New assets we acquire may not generate yields as attractive or be as accretive to book value as have been experienced historically;
- Increased levels of prepayments from Agency MBS may decrease our net interest income;
- The timing and amount of prepayments could adversely affect our liquidity and our profitability;
- A decline in the fair market value of our Non-Agency MBS could have an adverse effect on our results of operations and financial condition;
- Our investments in Non-Agency MBS and residential mortgage loans involve credit risk, which could materially adversely affect our results of operations;
- We may have significant credit risk, especially on Non-Agency MBS and residential mortgage loans in certain geographic areas and may be disproportionately affected by economic or housing downturns, natural disasters, terrorist events, adverse climate changes or other adverse events specific to those markets;
- We invest in Non-Agency MBS that are collateralized by loans of lower credit quality, such as Alt-A loans or securitized non-performing loans, which, due to lower underwriting standards, are subject to increased risk of losses;
- We may generate taxable income that differs from our GAAP income on our mortgage-related investments, which may result in significant timing differences in the recognition of income and losses;
- Generally, Non-Agency MBS have greater price sensitivity than Agency MBS, which could cause fluctuations in our net income. Such price fluctuations could cause repurchase agreement lenders to require greater amounts of collateral and higher margin requirements, which could affect our results of operations and could cause us to sell our Non-Agency MBS at potentially distressed prices in periods of significant price fluctuation. It could also cause repurchase agreement lenders to withdraw their financing from such investments;
- Our subordinated mortgage assets may be in the “first loss” position, subjecting us to greater risks of loss;

- If our Manager underestimates the collateral loss on our investments, we may experience losses;
- The servicing of the mortgage loans that are the underlying collateral of our mortgage-related assets is outside of our control, and if this servicing is not successful in limiting future delinquencies, defaults and losses, it could adversely affect our results of operations;
- We invest in securities in the developing Credit risk transfer sector that are subject to mortgage credit risk;
- We may invest in leveraged mortgage derivative securities that generally experience greater volatility in market prices, thus exposing us to greater risk with respect to their rate of return;
- We are dependent upon information systems and communication systems and their failure could significantly disrupt our business;
- We have a limited operating history in the business of acquiring and securitizing mortgage loans and we may not be successful;
- Representations and warranties made by us in loan sales and securitizations may subject us to liability that could result in loan losses, which could harm our operating results;
- We acquire, or will acquire, most of the loans from a limited number of originators and if we fail to properly manage these relationships, or if these originators experience origination problems, our ability to acquire loans from them could be harmed, which would negatively affect our operations;
- Our real estate-related assets (including mortgage loans and MBS) are subject to the risks associated with real property;
- We expect to engage in securitization transactions relating to real estate mortgage loans that we will sponsor. In addition, we have invested in, and continue to invest in, mortgage-backed securities issued in securitization transactions sponsored by other companies. These types of transactions and investments expose us to potential material risks; and
- With respect to mortgage loans we own, or which we have purchased and will subsequently securitize, we may be subject to liabilities for potential violations of CFPB’s TILA-RESPA Integrated Disclosure rule (also referred to as “TRID”) or other similar consumer protection laws and regulations, which could adversely impact our business and operating results.

Risks Related to our Management

- We have no employees and our Manager is responsible for making all of our investment decisions. The employees of our Manager are not required to devote any specific amount of time to our business;
- We are completely dependent upon our Manager, who provides services to us through the Management Agreement, and we may not find suitable replacements for our Manager if the Management Agreement is terminated or such key personnel are no longer available to us. The loss of any key personnel of our Manager could harm our operations;
- The Management Agreement was not negotiated on an arm’s-length basis and the terms, including fees payable, may not be as favorable to us as if it were negotiated with an unaffiliated third party;
- If we elect to not renew the Management Agreement without cause, we would be required to pay our Manager a substantial termination fee;

- If we do not renew the Management Agreement for any reason, we would continue to be obligated to pay the sublease on our office premises in California;
- Various corporate actions require the approval of the majority of all shareholders;
- In the event of a change of control, we will owe certain of the officers and employees of our Manager a payment as specified in their Change of Control and Arbitration Agreements between these officers/employees and the Company;
- The management fee is payable regardless of our performance;
- The fee structure of the Management Agreement may limit our Manager's ability to retain access to its key personnel;
- Some investors may not view our external management in a positive light, which may affect the market price of our common stock, and may make it more difficult for future offerings of our stock;
- Potential conflicts of interest could arise if our Manager were to take greater risk for the purpose of increasing our equity in order to earn a greater management fee;
- Our Manager's liability is limited under the Management Agreement and we have agreed to indemnify our Manager against certain liabilities;
- Our Manager has limited resources and may not be able to defend itself in litigation;
- Failure of our Manager to comply with SEC rules and regulations could cause various disciplinary actions, which could cause a disruption in services provided to us, and may impact our business operations and our profitability; and
- Our Board may change our operating policies and strategies without prior notice or stockholder approval and such changes could harm our business, results of operations and stock price.

Risks Related to Our Residential Properties Business

- We are in an industry that has significant competition, which makes this business difficult to evaluate, and may affect our ability to operate this business in a profitable manner;
- Many factors affect the single-family residential rental market, and the profitability of this business will be affected both by our assumptions about this market and this market's conditions in our target areas;
- Initially, our portfolio of properties has been geographically concentrated, and any adverse developments in local economic conditions, or the demand for single-family rental homes in these markets, or the occurrence of natural disasters, may adversely affect the operating results of this business;
- Poor resident selection and defaults by renters may adversely affect the financial performance of this business and harm our reputation; and
- Declining real estate values and impairment charges could adversely affect the earnings and financial condition of this business.

Risks Related to REIT Compliance and Other Tax Matters

- If we are disqualified as a REIT, we will be subject to tax as a regular corporation and face substantial tax liability;

- Complying with REIT requirements may cause us to forego otherwise attractive opportunities;
- Complying with REIT requirements may limit our ability to hedge effectively;
- Complying with REIT requirements may force us to liquidate otherwise attractive investments or to make investments inconsistent with our business plan;
- REIT distribution requirements could adversely affect our ability to execute our business plan and may require us to incur debt, sell assets, or take other actions to make such distributions;
- Even though we elected to be taxed as REIT, we may be required to pay certain taxes;
- Our ability to invest in and dispose of TBA contracts could be limited by our REIT status and we could lose our REIT status as a result of these investments;
- Complying with REIT requirements may force us to borrow to make distributions to stockholders;
- Dividends payable by REITs do not qualify for the reduced tax rates;
- The tax imposed on REITs engaging in "prohibited transactions" will limit our ability to engage in transactions, including certain methods of securitizing loans, which would be treated as sales for federal income tax purposes;
- We may incur excess inclusion income that would increase the tax liability of our stockholders; and
- Misplaced reliance on legal opinions or statements by issuers of mortgage-related assets could result in a failure to comply with REIT gross income or asset tests.

Additional Risk Factors

- Failure to maintain an exemption from the Investment Company Act would materially harm our results of operations;
- We presently are not, nor do we intend to be, regulated as an investment company. Fluctuations in our net income and in our book value will likely be greater than those of investment companies. This may affect investors or potential investors as to the appropriateness of our stock as compared to that of an investment company;
- The market price of our common stock may fluctuate significantly;
- We may not be able to use the money we raise from time to time to acquire investments at favorable prices;
- 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 them in the future;
- Our charter does not permit ownership of over 9.8% of our common or preferred stock and attempts to acquire our common or preferred stock in excess of the 9.8% limit are void without prior approval from our Board; and
- Because provisions contained in Maryland law, our charter and our bylaws may have an anti-takeover effect, investors may be prevented from receiving a "control premium" for their shares.

Risks Related to the Proposed Merger with Ready Capital

The Merger is subject to a number of conditions which, if not satisfied or waived in a timely manner, would delay the Merger or adversely impact Ready Capital's and our ability to complete the transaction.

The completion of the Merger is subject to the satisfaction or waiver of a number of conditions. In addition, under circumstances specified in the Merger Agreement, we or Ready Capital may terminate the Merger Agreement. In particular, completion of the Merger is subject to, among other things: (i) the approval of the issuance of the Ready Capital Common Stock in connection with the Merger (the "Ready Capital Common Stock Issuance Proposal") by the affirmative vote of a majority of the votes cast at a meeting of Ready Capital stockholders; (ii) the approval of the Merger and the other transactions contemplated by the Merger Agreement (the "Anworth Merger Proposal") by the affirmative vote of the holders of at least a majority of the outstanding shares of Anworth Common Stock entitled to vote on the Merger, (iii) the registration and listing on the New York Stock Exchange of the shares of Ready Capital Common Stock, Ready Capital Series B Preferred Stock, Ready Capital Series C Preferred Stock, and Ready Capital Series D Preferred Stock that will be issued in connection with the Merger, (iv) the respective representations and warranties of the parties being true and correct, subject to the materiality standards contained in the Merger Agreement, (v) each party's compliance in all material respects with their respective covenants and agreements set forth in the Merger Agreement, (vi) the absence of a material adverse effect with respect to either our Company or Ready Capital, (vii) the effectiveness of an amendment to the Management Agreement pertaining to the termination of the Management Agreement effective as of the Effective Time, (viii) the effectiveness of an amendment to the management agreement between Ready Capital and its external manager pertaining to the reduction in the base management fee payable to Ready Capital's external manager by $1,000,000 per quarter for each of the first four full quarters following the Effective Time, and (ix) the delivery of certain documents and certificates.

While it is currently anticipated that the Merger will be completed shortly after the later of the special meeting of our stockholders (the "Anworth Special Meeting"), which is scheduled for March 17, 2021, to approve the Anworth Merger Proposal and the special meeting of Ready Capital's stockholders to approve the Ready Capital Common Stock Issuance Proposal, there can be no assurance that the conditions to closing will be satisfied in a timely manner or at all, or that an effect, event, circumstance, occurrence, development or change will not transpire that could delay or prevent these conditions from being satisfied. Accordingly, neither we nor Ready Capital can provide any assurances with respect to the timing of the closing of the Merger, whether the Merger will be completed at all and when our stockholders would receive the consideration for the Merger, if at all.

Failure to consummate the Merger as currently contemplated or at all could adversely affect the price of Anworth Common Stock or Ready Capital Common Stock and the future business and financial results of our Company and/or Ready Capital.

The Merger may be consummated on terms different than those contemplated by the Merger Agreement, or the Merger may not be consummated at all. If the Merger is not completed, or is completed on different terms than as contemplated by the Merger Agreement, we and Ready Capital could be adversely affected and subject to a variety of risks associated with the failure to consummate the Merger, or to consummate the Merger as contemplated by the Merger Agreement, including the following:

- our stockholders and/or the Ready Capital stockholders may be prevented from realizing the anticipated benefits of the Merger;
- the market price of Anworth Common Stock or Ready Capital Common Stock could decline significantly;
- reputational harm due to the adverse perception of any failure to successfully consummate the Merger;
- we or Ready Capital being required, under certain circumstances, to pay to the other party a termination fee or expense amount;
- incurrence of substantial costs relating to the proposed Merger, such as legal, accounting, financial advisor, filing, printing and mailing fees; and

- the attention of our and Ready Capital's respective management and employees may be diverted from their day-to-day business and operational matters as a result of efforts relating to attempting to consummate the Merger.

Any delay in the consummation of the Merger or any uncertainty about the consummation of the Merger on terms other than those contemplated by the Merger Agreement, or if the Merger is not completed, could materially adversely affect the business, financial results and stock price of our Company and/or Ready Capital.

The pendency of the Merger could adversely affect our and Ready Capital's business and operations.

In connection with the pending Merger, some of the parties with whom we do or Ready Capital does business may delay or defer decisions, which could negatively impact our or Ready Capital's revenues, earnings, cash flows and expenses, regardless of whether the Merger is completed. In addition, under the Merger Agreement, we and Ready Capital are each subject to certain restrictions on the conduct of our and its respective business prior to completing the Merger. These restrictions may prevent our Company or Ready Capital from pursuing certain strategic transactions, acquiring and disposing assets, undertaking certain capital projects, undertaking certain financing transactions and otherwise pursuing other actions that are not in the ordinary course of business, even if such actions could prove beneficial. These restrictions may impede our or Ready Capital's growth, which could negatively impact our or its respective revenue, earnings and cash flows. Additionally, the pendency of the Merger may make it more difficult for our Company or Ready Capital to effectively retain and incentivize key personnel.

We and Ready Capital have incurred substantial expenses related and unrelated to the Merger.

We and Ready Capital have incurred substantial legal, accounting, financial advisory and other costs, and our and Ready Capital's respective management teams have devoted considerable time and effort in connection with the Merger. We and Ready Capital may incur significant additional costs in connection with the completion of the Merger or in connection with any delay in completing the Merger or termination of the Merger Agreement, in addition to the other costs already incurred. If the Merger is not completed, we and Ready Capital will separately bear certain fees and expenses associated with the Merger without realizing the benefits of the Merger. The fees and expenses may be significant and could have an adverse impact on our and/or Ready Capital's respective results of operations.

The Merger and related transactions are subject to our stockholder approval and Ready Capital stockholder approval.

The Merger cannot be completed unless (i) our stockholders approve the Anworth Merger Proposal by the affirmative vote of the holders of at least a majority of all outstanding shares of Anworth Common Stock entitled to vote on those matters; and (ii) Ready Capital stockholders approve the Ready Capital Common Stock Issuance Proposal by the affirmative vote of a majority of the votes cast on such proposal, provided a quorum is present. Pursuant to the guidance of the NYSE, abstentions with regard to the Ready Capital Common Stock Issuance Proposal will have the effect of a vote against such proposal. If required stockholder approval is not obtained from either our stockholders or Ready Capital stockholders, the Merger and related transactions cannot be completed.

If the Merger is not consummated by September 30, 2021, we or Ready Capital may terminate the Merger Agreement.

Either we or Ready Capital may terminate the Merger Agreement under certain circumstances, including if the Merger has not been consummated by September 30, 2021. However, this termination right will not be available to a party if that party failed to fulfill its obligations under the Merger Agreement and that failure was the cause of, or resulted in, the failure to consummate the Merger on or before such date.

An adverse judgment in any litigation challenging the Merger may prevent the Merger from becoming effective or from becoming effective within the expected timeframe.

In addition to the several lawsuits regarding the Merger that have already been filed, it is possible that our stockholders or Ready Capital stockholders may file lawsuits challenging the Merger or the other transactions contemplated by the Merger Agreement, which may name our Company, our board of directors, Ready Capital, and/or the Ready Capital board of directors as defendants. The outcome of such lawsuits cannot be assured, including the amount of costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation of these claims. If plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the Merger on the agreed-upon terms, such an injunction may delay the consummation of the Merger in the expected timeframe, or may prevent the Merger from being consummated altogether. Whether or not any plaintiff's claim is successful, this type of litigation may result in significant costs and divert the attention and resources of our and Ready Capital's respective management, which could adversely affect the operation of our business and/or Ready Capital's business.

Risks Related to Recent or Potential Economic, Legislative, and Regulatory Developments Affecting Our Industry

Adverse developments in the residential mortgage market, the real estate market, and the broader financial and capital markets, as well as in the U.S. economy and the broader global economy, may adversely affect our business, results of operations, and financial condition.

Our results of operations are materially affected by conditions in the markets for mortgages and mortgage-related assets, including MBS and residential mortgage loans, as well as the broader financial markets and the economy generally. Significant adverse changes in financial market conditions leading to the forced sale of large quantities of mortgage-related and other financial assets would result in significant volatility in the market for mortgages and mortgage-related assets and potentially significant losses for us and certain other market participants. In addition, concerns over the U.S. economy or uncertainty regarding future U.S. monetary policy may contribute to increased interest rate volatility. This may have an adverse impact on the supply or value of mortgage-related assets and could also make it more difficult for us as well as others in the marketplace to obtain financing on favorable terms or at all.

The U.S. government may make substantial changes to fiscal, tax, and other federal policies that may adversely affect our business.

Changes by the U.S. government on U.S. fiscal and tax policies, trade, healthcare, immigration, foreign policies, and governmental regulations may impact the residential mortgage and real estate markets, the U.S. economy, and the broader global economy. Although we cannot predict the impact, if any, that any change in federal policies could have on our business, they could negatively affect our business. Until we know what policy changes are made and how these changes impact our business and the business of others that compete in our markets, over the long-term, we cannot predict whether we will benefit from such changes or be negatively affected by them.

New laws may be passed affecting the relationship between Fannie Mae and Freddie Mac, on the one hand, and the federal government, on the other, which could adversely affect the price of Agency MBS.

The interest and principal payments we expect to receive on the Agency MBS in which we invest will be guaranteed by Fannie Mae and Freddie Mac. Principal and interest on securities issued by Fannie Mae and Freddie Mac are not guaranteed by the U.S. government. All the Agency MBS in which we invest depend on a steady stream of payments on the mortgages underlying the securities.

Since September 2008, there have been increased market concerns about Fannie Mae's and Freddie Mac's ability to withstand future credit losses associated with securities held in their investment portfolios, and on which they provide guarantees, without the direct support of the federal government. Fannie Mae and Freddie Mac were placed into the conservatorship of the FHFA, their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, a part of the Housing and Economic Recovery Act of 2008.

In addition to the FHFA becoming the conservator of Fannie Mae and Freddie Mac, the U.S. Department of the Treasury has taken various actions intended to provide Fannie Mae and Freddie Mac with additional liquidity and ensure their financial stability. The U.S. Treasury can hold its portfolio of Agency MBS to maturity and, based on mortgage market conditions, may make adjustments to the portfolio. This flexibility may adversely affect the pricing and availability for our target investments.

It is also possible that if and when the U.S. Treasury commits to purchase Agency MBS in the future, it could create additional demand that would increase the pricing of Agency MBS that we seek to acquire.

Shortly after Fannie Mae and Freddie Mac were placed in federal conservatorship, the Secretary of the U.S. Treasury suggested that the guarantee payment structure of Fannie Mae and Freddie Mac should be re-examined. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantees could be eliminated or considerably limited relative to historical measurements. The U.S. Treasury could also stop providing credit support to Fannie Mae and Freddie Mac in the future. Any changes to the nature of the guarantees provided by Fannie Mae and Freddie Mac could redefine what constitutes an Agency MBS and could have broad adverse market implications. In addition, if Fannie Mae or Freddie Mac was eliminated, or their structures were to change radically, we would not be able to acquire Agency MBS from these companies, which would eliminate a major component of our business model.

Our income could be negatively affected in a number of ways depending on the manner in which related events unfold. For example, the current credit support provided by the U.S. Treasury to Fannie Mae and Freddie Mac, and any additional credit support it may provide in the future, could have the effect of lowering the interest rate we expect to receive from Agency MBS that we seek to acquire, thereby tightening the spread between the interest we earn on our portfolio of targeted assets and our cost of financing that portfolio. A reduction in the supply of Agency MBS could also negatively affect the pricing of Agency MBS we seek to acquire by reducing the spread between the interest we earn on our portfolio of targeted assets and our cost of financing that portfolio.

Any law affecting these government-sponsored enterprises may create market uncertainty and have the effect of reducing the actual or perceived credit quality of securities issued or guaranteed by Fannie Mae or Freddie Mac. As a result, such laws could increase the risk of loss on investments in Fannie Mae and/or Freddie Mac Agency MBS. It also is possible that such laws could adversely impact the market for such securities and spreads at which they trade. All of the foregoing could materially adversely affect our business, operations and financial condition.

A failure by the U.S. government to reduce its budget deficit or resolve future debt ceiling or government funding crises, or a further downgrade of U.S. sovereign debt and government-sponsored agency debt, could have a material adverse impact on our borrowings and the valuations of our mortgage-related assets and may have a material adverse impact on our stock price, financial condition and results of operations.

There continues to be concerns over the ability of the U.S. government to reduce its budget deficit, and resolve its debt crisis and continued government funding crises. The U.S. sovereign debt and government-sponsored agency debt credit ratings continue to be monitored to account for the risk that U.S. lawmakers fail to reduce its overall debt. A failure by the U.S. government to reach agreement on future budgets and debt ceilings, reduce its budget deficit, or avoid government shutdowns, or a future downgrade of U.S. sovereign debt and government-sponsored agencies debt could have a material adverse effect on the U.S. economy and the global economy.

In particular, this could cause disruption in the capital markets and impact the stability of future U.S. treasury auctions and the trading market for U.S. government securities, resulting in increased interest rates and impaired access to credit. These factors could negatively impact our borrowing costs, our liquidity and the valuation of the mortgage-related assets we currently own in our portfolio, which could have a material adverse impact on our stock price, financial condition and our results of operations.

The outbreak of the global COVID-19 coronavirus pandemic has caused much economic upheaval, both globally and in the United States. Despite the efforts of federal and state governments to contain the virus, and also to provide economic assistance to states, local communities, lenders, businesses, and individuals, the pandemic has had a significant negative effect on the economy, and in particular, the stock market and the mortgage market. While the longer-term effects on the economy and the stock and mortgage markets cannot be determined at this time, our Company, our stock price, our book value, our assets, and our results of operations may be materially and adversely impacted by these events.

The outbreak of the COVID-19 coronavirus has resulted in a global pandemic. Federal, state, and local governments, both domestic and foreign, have restricted travel and/or the movement of their citizens, due to the ongoing and evolving situation around COVID-19 coronavirus pandemic. The outbreak in the United States has led to many state and local governments cancelling events, closing schools, and mandating stay-at-home orders. This has caused many businesses to either temporarily or permanently close which, in response, has caused millions of Americans to lose their jobs and file for unemployment benefits. State and local governments have been working with the Federal government to mitigate both the health and economic consequences of the pandemic. In working with the Federal government, many lenders have been offering forbearance agreements to borrowers who cannot make their mortgage payments and are delaying foreclosures. Many landlords have delayed evictions for tenants who cannot pay their rent. The Federal government lowered the Federal Funds rate to zero and injected trillions of dollars into the repurchase agreement and other lending markets. In early 2020, the U.S. Congress passed the CARES Act, which provided $2.2 trillion in funds for banks to extend corporate loans for employees' payroll and business continuity. In December 2020, Congress passed a $2.3 trillion COVID-19 coronavirus pandemic relief and government funding bill. As a result of the pandemic and its economic impact, financial markets, including the mortgage market, experienced substantial declines and heightened volatility. While the longer-term effects on the U.S. economy, the stock market, and the mortgage market cannot be determined at this time, our Company, our stock price, our book value, our assets, and our results of operations may be materially and adversely impacted by these events.

We are subject to the risk that domestic and international crises, despite efforts by global governments to address such crises, may affect interest rates and the availability of financing in general, which could adversely affect our financing and our operating results.

In the years following the financial and credit crisis of 2007-2008, several large European banks experienced financial difficulty and were either rescued by government assistance or by other large European banks. Several European governments attempted 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. As there continues to be concern over the economies of European countries, there is no assurance that these government plans and programs will be successful in addressing global credit crises or in preventing other banks from failing. If unsuccessful, this could adversely affect our financing and operations as well as those of the entire mortgage sector in general.

As there continue to be concerns about many of the economies of European countries, particularly since the outbreak of the COVID-19 coronavirus pandemic, there is a continuing risk to the financial condition and stability of major European banks. Many of the European banks have U.S. banking subsidiaries, which have provided financing to us, particularly repurchase agreement financing and warehouse lines of credit for the acquisition of various mortgage-related investments.

If the European economic crises continue to impact major European banks, there is the possibility that they will also impact the operations of their U.S. banking subsidiaries. This could adversely affect our financing and operations as well as those of the entire mortgage sector in general.

Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, mortgage-related assets in which we invest.

The U.S. government, through the Federal Housing Authority and the Federal Deposit Insurance Corporation, has implemented programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures. The programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or extending the payment terms of the loans. In addition, members of the U.S. Congress have indicated support for additional legislative relief for homeowners. These loan modification programs, as well as future legislative or regulatory actions that result in the modification of outstanding mortgage loans, may adversely affect the value of, and the returns on, the mortgage-related investments in which we invest.

A change in the LIBOR setting process could affect the interest rates that borrowing agreement counterparties charge on borrowings in general. Any such change could affect our borrowing agreements and could have an adverse impact on our net interest income.

Over the past several years, U.S. and British banking authorities assessed fines on several major financial institutions for LIBOR manipulation. LIBOR is an unregulated rate based on estimates that lenders submitted to the British Bankers' Association, a trade group that compiled the information and published daily the LIBOR rate. On February 1, 2014, the administration of LIBOR was transferred from the British Bankers' Association to the Intercontinental Exchange Benchmark Administration, or the IBA, following authorization by the Financial Conduct Authority (the United Kingdom regulators). In July 2017, the Financial Conduct Authority announced that by the end of 2021, LIBOR would be replaced with a more reliable alternative. At this time, we do not know what changes will be made by the Financial Conduct Authority. In the United States, the Alternative Reference Rates Committee selected the Secured Overnight Financing Rate, or SOFR, an overnight secured U.S. Treasury repurchase agreement rate, as the new rate and adopted a proposed transition plan for the change from U.S. LIBOR to SOFR. The calculation of LIBOR under the IBA is the average of the interest rates that some of the world's leading banks charge each other for short-term loans. It is unclear at this time how the change to another alternative to LIBOR will affect the interest rates that repurchase agreement counterparties and lenders charge on borrowings in general and how they could specifically affect our borrowing agreements.

Government use of eminent domain to seize underwater mortgages could materially and adversely affect the value of, and the returns on, our Non-Agency MBS and residential mortgage loans.

The mortgages securing our Non-Agency MBS and residential mortgage loans are located in different geographic regions across the United States. Several county and municipal governments have discussed using eminent domain to seize from mortgage holders the mortgages of borrowers who are underwater but not in default. In August 2013, the FHFA released a statement expressing serious concerns on the use of eminent domain to restructure mortgages based on a review it conducted since requesting public input on the proposal in August 2012 and indicated that it may take action in response to such use. However, if definitive action is taken by any local governments and such actions withstand Constitutional and other legal challenges resulting in mortgages securing our Non-Agency MBS and residential mortgage loans being seized using eminent domain, the consideration received from the seizing authorities for such mortgages may be substantially less than the outstanding principal balance, which would result in a realized loss and a corresponding write-down of the principal balance of those mortgages. The result of these seizures would be that the amount we receive on our Non-Agency MBS and residential mortgage loans would be less than we would have otherwise received if the mortgage loans had not been seized, which may result in a decline in the market value of these assets. If governments adopt such plans and mortgages securing our Non-Agency MBS and residential mortgage loans are seized on a widespread scale, it could have a material adverse effect on the value of and/or returns on our mortgage-related assets and our results of operations.

Our business is subject to complex and evolving U.S. and international laws and regulations regarding privacy and data protection. Many of these laws and regulations are subject to change and uncertain interpretation and could result in claims, changes to our business practices and penalties, or otherwise harm our business.

Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection, including measures to ensure that encryption of users' data does not hinder law enforcement agencies' access to data. In addition, the interpretation and application of consumer and data protection laws in the United States, Europe, and in other countries in the world are often uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data protection or with the data protection on service providers that we rely upon. If borrower or consumer data, including personally identifiable information, is lost, exposed, stolen, or subject to unauthorized access or use as a result of accidents, error, or malfeasance by employees, independent contractors or others working for us on our behalf, we may be liable for losses suffered by individuals whose identities are stolen as a result of a data breach on the systems used by our various service providers, and any liability could be material. Even if we are not liable for such losses, any breach of these systems could expose us to material costs in notifying affected individuals and providing credit monitoring services to them as well as regulatory fines or penalties. In addition, any breach of these systems could disrupt our normal business operations and expose us to reputational damage and lost business, revenues and profits.

Recent legal developments in Europe have created compliance uncertainty regarding certain transfers of personal data from Europe to the United States. For example, the General Data Protection Regulation, or the GDPR, which became effective in the European Union, or EU, on May 25, 2018, not only applies to companies and organizations in the EU but also applies to organizations based outside the EU if they collect or process personal data of individuals located inside the EU. According to the European Commission, personal data is any information relating to an individual, whether it relates to his or her private, professional or public life, and can include anything such as a name, a home address, an email address, bank details, or medical information.

The California Consumer Privacy Act, or the CCPA, is a bill intended to enhance privacy rights and consumer protection for residents of California. The bill was passed by the California State Legislature and signed into law by Jerry Brown, then-Governor of California, on June 28, 2018. The CCPA applies to any business that collects consumers' personal data and does business in California and has annual gross revenue in excess of $25 million, or possesses the personal information of 50,000 or more consumers, households, or devices.

These laws and regulations are subject to change and uncertain interpretation and could result in claims, changes to our business practices and penalties, or otherwise harm our business.

Risks Related to our Financings and Leverage

If we are unable to negotiate favorable terms and conditions on future borrowing arrangements with one or more of our lenders, our ability to acquire investments for our portfolio, our financial condition and earnings could be negatively impacted.

The terms and conditions of each borrowing arrangement with our lenders are negotiated on a transaction-by-transaction basis. Our access to financing depends upon many factors over which we have little or no control including, but not limited to: general market conditions; each lender's view of the quality and value of our assets and our liquidity; regulatory requirements; our current and future earnings potential; and the market price of our stock. Key terms and conditions of each transaction include interest rates, maturity dates, asset pricing procedures and margin requirements. We cannot assure you that we will be able to continue to negotiate favorable terms and conditions on our future borrowing arrangements. This could negatively impact our ability to acquire investments for our portfolio.

Also, during periods of market illiquidity or due to perceived credit quality deterioration of the collateral pledged, a lender may require that less favorable asset pricing procedures be employed or the margin requirements be increased. Possible market developments, including a sharp rise in interest rates, a change in prepayment rates, or increasing market concern about the value or liquidity of MBS and residential mortgage loans, may reduce the market value of our portfolio, which may cause our lenders to require additional collateral. Under these conditions, we may determine it is prudent to sell assets to improve our ability to pledge sufficient collateral to support our remaining borrowings. Such sales may be at disadvantageous times, which may harm our operating results and net profitability.

If one or more major market participants fail, it could negatively impact the marketability of mortgage-related assets, and this could negatively affect the value of the investments in our portfolio, thus reducing our book value.

Our ability to access funding, or the terms on which funding is available, could be materially and adversely impacted in light of the ongoing market turbulence as a result of the COVID-19 coronavirus pandemic.

Financing of our assets could be significantly impacted during periods of significant market turbulence, as is occurring now with the COVID-19 coronavirus pandemic. It is possible that our financing counterparties may reduce their lending capacity and not provide us with financing, or if they do provide financing, it could be on more restrictive terms. If our funding ability is reduced, we could be forced to sell assets at times when prices are lower. The amount of financing that we receive under our lending arrangements is related to our counterparties' valuation of our assets that collateralize the financing. If the valuation of our assets decreases, the counterparty could require additional margin calls, and also require additional collateral if they increase the haircuts under the lending agreements. In these situations, we could be forced to sell assets at lower prices to meet such margin calls and to maintain adequate liquidity, which could cause significant losses.

Our leveraging strategy increases the risks of our operations.

Use of leverage can enhance our investment returns (and at times when we reduce our leverage, our profitability may be reduced as a result). Leverage, however, also increases risks. In the following ways, the use of leverage increases our risk of loss and may reduce our net income by increasing the risks associated with other risk factors, including a decline in the market value of, or a default on, a mortgage-related asset:

- The use of leverage increases our risk of loss resulting from various factors including rising interest rates, increased interest rate volatility, downturns in the economy and reductions in the availability of financing or deterioration in the conditions of any of our mortgage-related assets;

- Substantially all of our borrowings are secured by our mortgage-related assets. A decline in the market value of the assets used to secure these debt obligations could limit our ability to borrow or result in lenders requiring us to pledge additional collateral to secure our borrowings. In that situation, we could be required to sell our investments under adverse market conditions in order to obtain the additional collateral required by the lender. If these sales are made at prices lower than the carrying value of the investments, we would experience losses;

- A default of a mortgage-related asset that constitutes collateral for our borrowings could also result in an involuntary liquidation of the mortgage-related asset. This would result in a loss to us of the difference between the value of the mortgage-related asset upon liquidation and the amount borrowed against the mortgage-related asset; and

- To the extent we are compelled to liquidate qualified REIT assets to repay debts, our compliance with the REIT rules regarding our assets and our sources of income could be affected, which could jeopardize our status as a REIT. Losing our REIT status would cause us to lose tax advantages applicable to REITs and may decrease our overall profitability and distributions to our stockholders.

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

If interest rates on these agreements and on other borrowing facilities increase, that would harm our profitability. Our borrowing costs under repurchase agreements and other short-term borrowing facilities generally correspond to short-term interest rates such as LIBOR plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon:

- the movement of interest rates;

- the availability of financing in the market; and

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

If we are unable to complete securitizations or experience delays on securitization closings, we would face a liquidity shortage in this area of our business, which would harm our operating results.

We expect to rely significantly upon securitizations to generate cash proceeds to repay warehouse lines of credit and replenish our borrowing capacity. If we are unable to complete a securitization or experience delays, we may be required to utilize other sources of financing which, if available at all, may not be on the best terms for us. Shortages in financing would make it difficult for us to continue to purchase loans. In addition, delays in closing securitizations increase our credit and interest rate risks on our mortgage loans, as we would be holding them for an extended period of time. Several factors could affect our ability to complete a securitization including, among others, the following:

- Condition in the securities and secondary markets;
- The credit quality of the mortgage loans acquired;
- The volume of mortgage acquisitions;
- The ability to receive good ratings from the rating agencies; and
- Lack of investor demand for purchasing components of the securities.

Any borrowing arrangements that we use to finance our assets may require us to provide additional collateral or pay down debt, and if these requirements are not met, our financial condition and prospects could deteriorate rapidly.

Our repurchase agreements and other borrowing agreements involve the risk that the market value of the securities pledged or sold by us to the borrowing agreement counterparty may decline in value, in which case the counterparty may require us to provide additional collateral or to repay all or a portion of the funds advanced.

We may not have additional collateral or the funds available to repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. Posting additional collateral would reduce our liquidity and limit our ability to leverage our assets. If we cannot meet these requirements, the counterparty could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from them, which could materially and adversely affect our financial condition and ability to implement our investment strategy. In addition, in the event that the counterparty files for bankruptcy or becomes insolvent, our securities may become subject to bankruptcy or insolvency proceedings, thus depriving us of the benefit of these assets. In the event that we are unable to meet these collateral obligations, our financial condition and prospects could deteriorate rapidly.

Our use of repurchase agreements and other credit facilities 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 and other credit facilities 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 borrowing agreements exposes our pledged assets to risk in the event of a bankruptcy filing by either a lender or us.

A failure to comply with restrictive covenants in our financing arrangements would have a material adverse effect on us, and any future financings may require us to provide additional collateral or pay down debt.

We are subject to various restrictive covenants contained in our financing arrangements and may become subject to additional covenants in connection with future financings. These covenants may limit our flexibility to pursue certain investments or incur additional debt. If we fail to meet or satisfy any of these covenants, subject to certain cure provisions, as applicable, we would be in default under those agreements and our indebtedness could be declared due and payable. In addition, our lenders could terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights under our financing arrangements, whereby a default (such as a failure to comply with a covenant) under one financing arrangement could trigger a default under other financing arrangements.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates.

We engage in hedging activity from time to time. As such, we use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. When interest rates change, we expect to record a gain or loss on derivatives, which would be offset by an inverse change in the value of loans. Additionally, from time to time, we may enter into hedging transactions in connection with our holdings of mortgage-related assets with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps and floors, options to purchase these items and futures and forward contracts. Our actual hedging decisions will be determined in light of the facts and circumstances existing at the time and may differ from our currently anticipated hedging strategy. We cannot assure you that our use of derivatives will offset the risks related to changes in interest rates. It is likely that there will be periods in the future during which we will incur losses after accounting for our derivative financial instruments. The derivative financial instruments we select may not have the effect of reducing our interest rate risk. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. In addition, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses.

The characteristics of hedging instruments present various concerns, including illiquidity, enforceability, and counterparty risks, which could adversely affect our business and results of operations.

From time to time, we enter into interest rate swap agreements to hedge risks associated with movements in interest rates. Entities entering into interest rate swap agreements are exposed to credit losses in the event of non-performance by counterparties to these transactions. Effective October 12, 2012, the Commodities Futures Trading Commission, or the CFTC, issued new rules regarding interest rate swaps under the authority granted to it pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. Although these rules do not directly affect the negotiations and terms of individual swap transactions between counterparties, they do require that after September 9, 2013, the clearing of all swap transactions occur through registered derivatives clearing organizations, or swap execution facilities, through standardized documents under which each swap counterparty transfers its position to another entity whereby 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 interest rate 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.

Risks Related to our Investments and Investment Activity

Competition may prevent us from acquiring mortgage-related assets at favorable yields, and that would negatively impact our profitability.

Our net income largely depends on our ability to acquire mortgage-related assets at favorable spreads over our borrowing costs. In acquiring mortgage-related 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, and many of which are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from the Investment Company Act.

As a result, we may not in the future be able to acquire sufficient mortgage-related assets at favorable spreads over our borrowing costs. If that occurs, our profitability will be harmed.

A decrease or lack of liquidity in our investments may adversely affect our business, including our ability to value and sell our assets.

Turbulent market conditions could significantly and negatively impact the liquidity of our assets. In some cases, it may be difficult to obtain third-party pricing on certain of our investment securities. Illiquid investments typically experience greater price volatility, as a ready market does not exist, and can be more difficult to value. In addition, third-party pricing for illiquid investments may be more subjective than for more liquid investments. The illiquidity of certain investment securities may make it difficult for us to sell such investments if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded certain of our investments. 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.

If we are unable to find suitable investments, we may not be able to achieve our investment objectives or pay dividends.

The availability of mortgage-related assets meeting our criteria depends upon, among other things, the level of activity and quality of and demand for these investments in the mortgage securitization and secondary markets. The market for these investments depends upon various factors including the level of activity in the residential real estate market, the level of and difference between short-term and long-term interest rates, incentives for issuers to securitize mortgage loans and demand for these investments by institutional investors. The size and level of activity in the residential real estate lending market depends upon various factors, including the level of interest rates, regional and national economic conditions and real estate values. To the extent we are unable to acquire a sufficient volume of mortgage-related assets meeting our criteria, our results of operations would be adversely affected. Furthermore, we cannot assure you that we will be able to acquire sufficient mortgage-related assets at spreads above our cost of funds.

An increase in interest rates may harm our book value, which could adversely affect the cash available for distribution to you and could cause the price of our securities to decline.

Increases in interest rates may harm the market value of our mortgage-related assets.

Our hybrid adjustable-rate mortgage-related assets (during the fixed-rate component of the mortgages underlying such assets) and our fixed-rate securities are generally more harmed by these increases. In accordance with generally accepted accounting principles utilized in the United States of America, or GAAP, we reduce our book value by the amount of any decrease in the market value of our mortgage-related assets. Losses on securities classified as available-for-sale, which are determined by management to be other-than-temporary in nature, are reclassified from "accumulated other comprehensive income," or AOCI, to current operations.

An increase in interest rates may cause a decrease in the volume of newly issued, or investor demand for, MBS and other mortgage-related assets, which could adversely affect our ability to acquire MBS and other mortgage-related assets that satisfy our investment objectives and to generate income and pay dividends.

Rising interest rates generally reduce the demand for consumer credit, including mortgage loans, due to the higher cost of borrowing. A reduction in the volume of mortgage loans originated may affect the volume of MBS and other mortgage-related assets available to us, which could affect our ability to acquire MBS and other mortgage-related assets that satisfy our investment objectives. Rising interest rates may also cause MBS and other mortgage-related assets that were issued prior to an interest rate increase to provide yields that exceed prevailing market interest rates.

If rising interest rates cause us to be unable to acquire a sufficient volume of MBS or mortgage-related assets with a yield that exceeds the borrowing cost we will incur to purchase MBS or mortgage-related assets, our ability to satisfy our investment objectives and to generate income and pay dividends in the amount expected, or at all, may be materially and adversely affected.

A flat or inverted yield curve may negatively affect our operations, book value and profitability due to its potential impact on investment yields and the supply of adjustable-rate mortgage products.

A flat yield curve occurs when there is little difference between short-term and long-term interest rates. An inverted yield curve occurs when short-term interest rates are higher than long-term interest rates. A flat or inverted yield curve may be an adverse environment for ARM product volume, as there may be little incentive for borrowers to choose an ARM product over a longer-term fixed-rate loan. If the supply of ARM product decreases, yields may decline due to market forces.

Our borrowing costs under repurchase agreements generally correspond to short-term interest rates such as LIBOR. A flat or inverted yield curve will likely result in lower profits.

Additionally, a flat or inverted yield curve may negatively impact the pricing of our securities. According to GAAP, if the values of our securities decrease, we reduce our book value by the amount of any decrease in the market value of our mortgage-related assets.

If we cannot renew or replace maturing borrowings, we may have to sell our mortgage-related assets under adverse market conditions and may incur permanent capital losses as a result. Any number of these factors in combination may cause difficulties for us, including a possible liquidation of a major portion of our portfolio at disadvantageous prices with consequent losses, which may render us insolvent.

Interest rate mismatches between our adjustable-rate investments and our borrowings used to fund our purchases of these assets may reduce our income during periods of changing interest rates.

We fund most of our acquisitions of adjustable-rate investments (including hybrid adjustable-rate investments) with borrowings that have interest rates based on indices and repricing terms similar to, but of shorter maturities than, the interest rate indices and repricing terms of our investments. Accordingly, if short-term interest rates increase, this may harm our profitability.

The interest rates of adjustable-rate investments may vary over time based upon changes in a short-term interest rate index. Therefore, in most cases, the interest rate indices and repricing terms of these adjustable-rate investments that we acquire and their funding sources will not be identical, thereby creating an interest rate mismatch between our assets and liabilities. While the historical spread between relevant short-term interest rate indices has been relatively stable, there have been periods when the spread between these indices was volatile. During periods of changing interest rates, these mismatches could reduce our net income, dividend yield and the market price of our stock.

The interest rates on our borrowings generally adjust more frequently than the interest rates on our adjustable-rate MBS. For example, at December 31, 2020, our Agency MBS had a weighted average term to next rate adjustment of approximately 19 months, while our borrowings had a weighted average term to next rate adjustment of 30 days. After adjusting for interest rate swap transactions, the weighted average term to next rate adjustment was 1,047 days. Accordingly, in a period of rising interest rates, we could experience a decrease in net income or a net loss because the interest rates on our borrowings adjust faster than the interest rates on our adjustable-rate MBS.

We may experience reduced net interest income from holding fixed-rate investments during periods of rising interest rates.

We generally fund our acquisition of fixed-rate MBS and residential mortgage loans with short-term borrowings. During periods of rising interest rates, our costs associated with borrowings used to fund acquisition of fixed-rate assets are subject to increases while the income we earn from these assets remains substantially fixed. This reduces or could eliminate the net interest spread between the fixed-rate assets that we purchase and our borrowings used to purchase them, which could lower our net interest income or cause us to suffer a loss. At December 31, 2020, 2.0% of our MBS were 15-year fixed-rate Agency MBS, 9.0% of our MBS were 20-year fixed-rate Agency MBS, 50.0% of our MBS were 30-year fixed-rate Agency MBS, and 10.0% of our MBS were fixed-rate Non-Agency MBS.

Interest rate caps on our adjustable-rate MBS may reduce our income or cause us to suffer a loss during periods of rising interest rates.

Our adjustable-rate MBS (including hybrid adjustable-rate MBS) 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 through maturity of a mortgage-backed security. Our borrowings 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 would limit the interest rates on our adjustable-rate MBS. This problem is magnified for our adjustable-rate MBS that are not fully indexed. Further, some adjustable-rate MBS may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we could receive less cash income on adjustable-rate MBS than we need to pay interest on our related borrowings. These factors could lower our net interest income or cause us to suffer a loss during periods of rising interest rates. At December 31, 2020, 29.0% of our MBS were adjustable-rate securities.

New assets we acquire may not generate yields as attractive or be as accretive to book value as have been experienced historically.

We may acquire new assets as we receive principal and interest payments and prepayments from our existing assets. We also sell assets from time to time as part of our portfolio and asset/liability management programs. We may invest these proceeds into new earning assets.

New assets may not generate yields as attractive as we have experienced historically. Business conditions, including credit results, prepayment patterns and interest rate trends in the future, may not be as favorable as they have been during the periods we held the replaced assets.

New assets may not be as accretive to book value as existing assets. The market value of our assets is sensitive to interest rate fluctuations. In the past as short-term interest rates increased, the market value of our existing assets has declined. As we classify most of our Agency MBS as available-for-sale, accounting rules require that any unrealized losses from the decline in market value that are not considered to be an other-than-temporary impairment be carried as “Accumulated other comprehensive income consisting of unrealized gains and losses” in the “Stockholders’ Equity” section of our consolidated balance sheets.

When short-term interest rates stop increasing, or start declining, or when the interest rates on these securities reset, the market value of these assets may increase. This may be more accretive to book value than the new assets that we acquire to replace existing assets.

Increased levels of prepayments from Agency MBS may decrease our net interest income.

Pools of mortgage loans underlie the MBS that we acquire. We generally receive payments from principal payments that are made on these underlying mortgage loans. When borrowers prepay their mortgage loans faster than expected, this results in prepayments that are faster than expected on the MBS.

Faster than expected prepayments could harm our profitability as follows:

- We primarily purchase Agency MBS that have a higher interest rate than the market interest rate at the time. In exchange for this higher interest rate, we pay a premium over the par value to acquire the security. In accordance with accounting rules, we amortize this premium over the term of the mortgage-backed security. If the mortgage-backed security is prepaid in whole or in part prior to its maturity date, however, we expense the premium that was prepaid at the time of the prepayment. At December 31, 2020, substantially all of our Agency MBS had been acquired at a premium;

- We anticipate that a substantial portion of our adjustable-rate Agency MBS may bear interest rates that are lower than their fully indexed rates, which are equivalent to the applicable index rate plus a margin. If an adjustable-rate mortgage-backed security is prepaid prior to or soon after the time of adjustment to a fully indexed rate, we will have held that mortgage-backed security while it was less profitable and lost the opportunity to receive interest at the fully indexed rate over the remainder of its expected life; and

- If we are unable to acquire new Agency MBS similar to the prepaid MBS, our financial condition, results of operation and cash flow would suffer.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, general economic conditions, actions by the federal government and the relative interest rates on fixed-rate and adjustable-rate mortgage loans.

While we seek to minimize prepayment risk to the extent practical, in selecting investments, we must balance prepayment risk against other risks and the potential returns of each investment. No strategy can completely insulate us from prepayment risk.

The timing and amount of prepayments could adversely affect our liquidity and our profitability.

Prepayments may be difficult to predict and can vary significantly over time. As a holder of MBS, on a monthly basis, we receive a payment equal to a portion of our investment principal as the underlying mortgages are prepaid. With respect to our Agency MBS, we typically receive notice of monthly principal prepayments on the fifth business day of each month (more commonly referred to as “factor day”) and receive the related scheduled payment on a specified later date, which for (a) Agency MBS guaranteed by Fannie Mae is the 25th day of that month (or the next business day thereafter); and (b) Agency MBS guaranteed by Freddie Mac is the 15th day of the following month (or the next business day thereafter). This delay between factor day and receipt of payment creates a short-term receivable for us in the amount of any such principal prepayments. In general, on the date each month that the principal prepayments are announced (factor day), the value of our MBS pledged as collateral is reduced by the amount of the prepaid principal and, as a result, our repurchase agreement counterparties will typically initiate a margin call requiring the pledge of additional collateral or cash, in an amount equal to such prepaid principal, in order to re-establish the required ratio of borrowing to collateral value under such repurchase agreements. As the posting of such additional collateral or payment of cash to our counterparties is on or about factor day and is prior to the receipt of the payment to us by the agencies, this would reduce and, depending on the magnitude of such principal prepayments, could be material to, our liquidity. As a result, in order to meet such margin calls, we could be forced to sell assets or take other actions in order to maintain liquidity.

If we were required to sell Agency MBS under adverse market conditions, we may receive sale prices lower than we might have received if we sold those securities under normal market conditions and, if these prices were lower than the amortized cost of the Agency MBS, we would incur losses. An increase in prepayment rates could have a material adverse effect on our business, financial condition and results of operations.

A decline in the fair market value of our Non-Agency MBS could have an adverse effect on our results of operations and financial condition.

In March 2020, we changed the designation of our Non-Agency MBS from available-for-sale to trading securities. As a result, changes in the fair value of our Non-Agency MBS are no longer recorded in AOCI but directly impact our results of operations and financial condition, and as such, a decline in the fair market value of our Non-Agency MBS could have an adverse effect on our results of operations and financial condition.

Our investments in Non-Agency MBS and residential mortgage loans involve credit risk, which could materially adversely affect our results of operations.

In general, Non-Agency MBS and residential mortgage loans carry greater investment risk than Agency MBS because they are not guaranteed as to principal and/or interest by the U.S. Government, any federal agency or any federally chartered corporation. Unexpectedly high rates of default (i.e., in excess of the default rates forecasted) and/or higher than expected loss severities on the mortgages collateralizing our Non-Agency MBS and residential mortgage loans may adversely affect the values of such assets. Accordingly, Non-Agency MBS and other investment assets of less-than-high credit quality could cause us to incur losses of income from, and/or losses in market value relating to, these assets if there are defaults of principal and/or interest on these assets.

We may have significant credit risk, especially on Non-Agency MBS and residential mortgage loans in certain geographic areas and may be disproportionately affected by economic or housing downturns, natural disasters, terrorist events, adverse climate changes or other adverse events specific to those markets.

A significant number of the mortgages collateralizing our mortgage assets may be concentrated in certain geographic areas. Any event that adversely affects the economy or real estate market in these areas could have a disproportionately adverse effect on our mortgage assets. In general, any material decline in the economy or significant difficulties in the real estate markets would be likely to cause a decline in the value of residential properties securing the mortgages in the relevant geographic area. This, in turn, would increase the risk of delinquency, default and foreclosure on real estate collateralizing our mortgage assets in this area. This may then materially adversely affect our credit loss experience on our mortgage assets in such area if unexpectedly high rates of default (i.e., in excess of the default rates forecasted) and/or higher than expected loss severities on the mortgages collateralizing such securities were to occur.

The occurrence of a natural disaster (such as an earthquake, tornado, hurricane, wildfires, or a flood), economic or housing downturns, terrorist events, significant adverse climate change, or any other adverse event may cause a sudden decrease in the value of real estate and would likely reduce the value of the properties securing the mortgages collateralizing or mortgage assets. Since certain natural disasters may not typically be covered by the standard hazard insurance policies maintained by borrowers, the borrowers may not be able to repair the properties or may stop paying their mortgages if the property is damaged. This would likely cause defaults and credit loss severities to increase on the pool of mortgages securing our mortgage assets which may materially adversely affect our results of operations and financial condition.

We invest in Non-Agency MBS that are collateralized by loans of lower credit quality, such as Alt-A loans or securitized non-performing loans, which, due to lower underwriting standards, are subject to increased risk of losses.

We invest in Non-Agency MBS backed by collateral pools containing mortgage loans that have been originated using underwriting standards that are less strict than those used in underwriting “prime mortgage loans” (mortgage loans that generally conform to the underwriting standards of Fannie Mae or Freddie Mac). These loans may experience delinquency, foreclosure, bankruptcy and loss rates that are higher than “prime mortgage loans,” which could cause the performance of Non-Agency MBS backed by such lower credit quality loans to be adversely affected, which could materially adversely impact our results of operations and financial condition.

We may generate taxable income that differs from our GAAP income on our mortgage-related investments, which may result in significant timing differences in the recognition of income and losses.

Generally, the cumulative net income we report over the life of an asset will be the same for GAAP and tax purposes, although the timing of this income recognition over the life of the asset could be materially different. Differences exist in the accounting for GAAP net income and REIT taxable net income, which could lead to significant variances in the amount and timing of when income and losses are recognized under these two measures.

As a REIT must distribute at least 90% of its annual taxable income (subject to certain adjustments) to our stockholders, such timing differences could affect the amount of the dividend distribution. However, dividends are declared and paid at the discretion of our Board and depend not only on REIT taxable net income, but also on our financial results, our overall financial condition, maintenance of our REIT qualification and such other factors as our board may deem relevant from time to time.

Generally, Non-Agency MBS have greater price sensitivity than Agency MBS, which could cause fluctuations in our net income. Such price fluctuations could cause repurchase agreement lenders to require greater amounts of collateral and higher margin requirements, which could affect our results of operations and could cause us to sell our Non-Agency MBS at potentially distressed prices in periods of significant price fluctuation. It could also cause repurchase agreement lenders to withdraw their financing from such investments.

Non-Agency MBS historically have been more price sensitive than Agency MBS which may limit the number of lenders willing to provide repurchase agreement financing for these securities. In periods of price volatility, we may be subject to higher margin requirements or may be required to pledge additional collateral which could affect our results of operations. Also, during periods of significant price fluctuation, lenders may cut back the amounts they are willing to finance on such investments or withdraw from lending on such securities. If we could not find replacement financing, this could cause us to sell our Non-Agency MBS at potentially distressed prices, which would adversely affect our results of operations and financial condition.

Our subordinated mortgage assets may be in the "first loss" position, subjecting us to greater risks of loss.

We invest in certain tranches of mortgage assets that are only entitled to a portion of the principal and interest payments made on mortgage loans underlying the securities issued by the securitization trust. In general, losses on a mortgage loan included in an MBS securitization trust will be borne first by the equity holder of the issuing trust, if any, and then by the "first loss" subordinated security holder and then by the "second loss" subordinate holder and so on.

We may acquire securities at every level of such a securitization trust, from the equity position to the most senior tranche. In the event of default and the exhaustion of any classes of securities junior to those which we acquire, our securities will suffer losses as well. In addition, if we overvalue the underlying mortgage portfolio, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related MBS, the securities which we acquire may effectively become the "first loss" position ahead of the more senior securities, which may result in significant losses. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly-rated securities, but more sensitive to adverse economic downturns or individual issuer developments. A projection of an economic downturn could cause a decline in the value of lower credit quality securities because the ability of obligors or mortgages underlying MBS to make principal and interest payments may be impaired. In such event, existing credit support in the securitization structure may be insufficient to protect us against loss of our principal on these securities.

If our Manager underestimates the collateral loss on our investments, we may experience losses.

Our Manager values our potential investments based on loss-adjusted yields, taking into account estimated future losses on the mortgage loans that collateralize the investments, and the estimated impact of these losses on expected future cash flows. Our Manager's loss estimates may not prove accurate, as actual results may vary from estimates. In the event that our Manager underestimates the pool level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

The servicing of the mortgage loans that are the underlying collateral of our mortgage-related assets is outside of our control, and if this servicing is not successful in limiting future delinquencies, defaults and losses, it could adversely affect our results of operations.

Third party servicers provide for the servicing of the mortgage loans that are the underlying collateral of our mortgage-related assets. These service providers control all aspects of loan collection, loss mitigation, default management and ultimate resolution of a defaulted loan. The efforts of these service providers may not be successful in limiting future delinquencies, defaults, and losses, which could adversely affect our results of operations.

We invest in securities in the developing Credit risk transfer sector that are subject to mortgage credit risk.

We invest in securities in the developing Credit risk transfer sector ("CRT Sector").

The CRT Sector is comprised of the risk sharing transactions issued by Fannie Mae ("CAS") and Freddie Mac ("STACR") and similarly structured transactions arranged by third party market principals. The securities issued in the CRT Sector are designed to synthetically transfer mortgage credit risk from Fannie Mae and Freddie Mac to private investors. Currently, CAS and STACR transactions are structured and unsecured and unguaranteed bonds issued by Fannie Mae and Freddie Mac, respectively, whose principal payments are determined by the delinquency and prepayment experience of a reference pool of mortgages originated and guaranteed by Fannie Mae or Freddie Mac, respectively, in a particular quarter. Transactions arranged by third party market participants in the CRT Sector are similarly structured to reference a specific pool of loans that have been securitized by Fannie Mae or Freddie Mac and synthetically transfer mortgage credit risk related to those loans to the purchaser of the securities. The holder of the securities in the CRT Sector has the risk that the borrowers may default on their obligations to make full and timely payments of principal and interest. Investments in securities in the CRT Sector could cause us to incur losses of income from, and/or losses in market value relating to, those assets if there are defaults of principal and/or interest on the pool of mortgages referenced in the transaction.

We may invest in leveraged mortgage derivative securities that generally experience greater volatility in market prices, thus exposing us to greater risk with respect to their rate of return.

We may acquire leveraged mortgage derivative securities that may expose us to a high level of interest rate risk. The characteristics of leveraged mortgage derivative securities result in greater volatility in their market prices. Thus, acquisition of leveraged mortgage derivative securities would expose us to the risk of greater price volatility in our portfolio and that could harm our net income and overall profitability.

We are dependent upon information systems and communication systems and their failure could significantly disrupt our business.

Our business is highly dependent upon our information and communication systems. Although we have implemented various structural and security policy enhancements to our information systems in recent years, such as a cybersecurity policy manual, employee training, and enhanced firewall and antivirus/malware protection, problems with our computer systems could still occur. Any failure or interruption of our systems, or cyber-attacks, or security breaches of our networks or systems, or of those systems of our service providers, could cause delays or other problems in our securities and loan trading activities, which could have a material adverse effect on our operating results, the market price of our common stock and other securities, and our ability to pay dividends to our stockholders. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third parties with which we do business or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securities and loan transactions.

Computer malware, viruses, and computer hacking, phishing, and cyber-attacks have become more prevalent in our industry and may occur on our systems in the future. We rely heavily on financial, accounting, and other data processing systems, including those systems of our service providers. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of our networks or systems (or the networks or systems of, among other third parties, our lenders), or any failure to maintain performance, reliability, and security of our technical infrastructure. As a result, such computer malware, viruses, and computer hacking, phishing and cyber-attacks may negatively affect our operations.

We have a limited operating history in the business of acquiring and securitizing mortgage loans and we may not be successful.

The acquisition of mortgage loans and the securitization process are inherently complex and involve risks related to the type of mortgage loans we seek to acquire, including interest rate risk, credit risk, finding and maintaining funding sources, prepayment risk, borrower bankruptcies, foreclosures and other factors that we may not be able to properly manage. Less than optimal management of these risks may take years to become apparent. If we fail to properly manage these and other risks, this could harm our business and results of operations.

Representations and warranties made by us in loan sales and securitizations may subject us to liability that could result in loan losses, which could harm our operating results.

In connection with any securitizations we sponsor, we will make representations and warranties regarding the mortgage loans transferred to securitization trusts. The trustee in the securitization trust has recourse to us with respect to the breach of the standard representations and warranties regarding the loans made at the time such mortgage loans are transferred to the trust. While we would have recourse to the loan originators for any such breaches, there can be no assurance of the originators' abilities to honor their respective obligations. Although we may attempt to limit the potential remedies of the trustee to mirror the potential remedies we receive from the originators from who we acquire loans, the remedies to the trustee are often broader than those we have from the originators. Furthermore, if we discover, prior to the securitization, that there is a breach of the representations and warranties we receive from the originators and they fail to repurchase or otherwise fail to cure any deficiency, we will not be able to securitize the loan and will have to hold the loan in our portfolio or sell it to another party, probably at a discount.

We acquire, or will acquire, most of the loans from a limited number of originators and if we fail to properly manage these relationships, or if these originators experience origination problems, our ability to acquire loans from them could be harmed, which would negatively affect our operations.

We acquire, or will acquire, most of the loans from a limited number of originators. Our ability to manage these relationships is a key aspect of our loan activities. If we do not manage these relationships properly, or if the originators experience origination problems, it would negatively affect the volume of loans we would acquire and could delay our ability to do securitizations, which would negatively affect our operations and financial results.

Our real estate-related assets (including mortgage loans and MBS) are subject to the risks associated with real property.

We own assets secured by real estate, which are subject to various risks, including:

- Declines in the value of real estate;
- Acts of God, including earthquakes, flooding, and other natural disasters, which may result in uninsured losses;
- Acts of war or terrorism, including the consequences of terrorist attacks;
- Adverse changes in national, local economic, and general market conditions;
- Changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance;
- Costs of remediation and liabilities associated with environmental conditions, such as indoor mold;
- Potential liabilities for other legal actions related to property ownership, including tort claims; and
- The potential for uninsured or under-insured property losses.

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

We expect to engage in securitization transactions relating to real estate mortgage loans that we will sponsor. In addition, we have invested in, and continue to invest in, mortgage-backed securities issued in securitization transactions sponsored by other companies. These types of transactions and investments expose us to potential material risks.

Engaging in securitization transactions generally requires us to incur short-term debt on a recourse basis to finance the accumulation of loans or other assets prior to securitization. If demand for investing in securitization transactions weakens, we may be unable to complete the securitization of loans accumulated for that purpose, which may hurt our business or financial results. In addition, in connection with engaging in securitization transactions, we engage in due diligence with respect to the loans we are securitizing and make representations and warranties relating to those loans. When engaging in securitization transactions, we also expect to prepare marketing and disclosure documentation, including term sheets and prospectuses that include disclosures regarding the securitization transaction and the assets being securitized. If our marketing and disclosure documentation are alleged or found to contain inaccuracies or omissions, we may be liable under federal and state securities laws (or other laws) for damages to third parties that invest in these securitization transactions, including in circumstances where we relied upon a third party in preparing accurate disclosures, or we may incur other expenses and costs in connection with disputing these allegations or settling claims.

We could be liable under federal and state securities laws (or other laws) for damages to third parties that invest in these securitization transactions, including liability for disclosures prepared by third parties or with respect to loans that we did not sell or contribute to the securitization. Additionally, we typically retain various third-party service providers when we engage in securitization transactions, including underwriters or initial purchasers, trustees, administrative and paying agents, and custodians, among others. We frequently contractually agree to indemnify these service providers against various claims and losses they may suffer in connection with the provision of services to us and/or the securitization trust. To the extent any of the service providers are liable for damages to third parties that have invested in these securitization transactions, we may incur costs and expenses as a result of these indemnities.

In recent years, there has also been debate as to whether there are defects in the legal process and legal documents governing transactions in which securitization trusts take legal ownership and establish their rights as first priority lien holders on underlying mortgaged property. To the extent there are problems with the manner in which title and lien priority rights were established or transferred, securitization transactions that we sponsor, and third-party sponsored securitizations in which we hold investments, may experience losses, which could materially affect our operating results and could damage our ability to engage in future securitization transactions.

With respect to mortgage loans we own, or which we have purchased and will subsequently securitize, we may be subject to liabilities for potential violations of CFPB's TILA-RESPA Integrated Disclosure rule (also referred to as "TRID") or other similar consumer protection laws and regulations, which could adversely impact our business and operating results.

Federal consumer protections laws and regulations have been enacted and promulgated that are designed to regulate residential mortgage loan underwriting and originators' lending processes, standards and disclosures to borrowers. These laws and regulations include, among others, the CFPB's "TRID, "ability-to-repay," and "qualified mortgage" regulations. In addition, there are various other federal, state and local laws and regulations that are intended to discourage predatory lending practices by residential mortgage loan originators. Failure of residential mortgage loan originators or servicers to comply with these laws and regulations could subject us, as a purchaser of these loans, to monetary penalties and defenses to foreclosures, including by recoupment or setoff of finance charges and fees collected, and could result in rescission of affected residential mortgage loans, which could adversely impact our business and financial results.

Risks Related to Our Management

We have no employees and our Manager is responsible for making all of our investment decisions. The employees of our Manager are not required to devote any specific amount of time to our business.

Effective December 31, 2011, in accordance with the Management Agreement, we have no employees and all our prior employees became employees of our Manager. Our Manager is responsible for conducting our day-to-day operations and is responsible for the selection, purchase and sale of our investment portfolio; our financing and hedging activities; providing us with portfolio management and administrative services; and such other services and activities relating to our assets and operations as may be appropriate.

Mr. Joseph E. McAdams (our Chairman, Chief Executive Officer, and President) and others are officers and employees of our Manager and are also officers and employees of Pacific Income Advisers, Inc., or PIA, where they devote a portion of their time. These officers and employees are under no contractual obligations mandating minimum amounts of time to be devoted to our Company. In addition, a trust controlled in part by Mr. Lloyd McAdams (one of our directors and our former Chairman and Chief Executive Officer) is the principal stockholder of PIA.

These officers and employees are involved in investing approximately $4.8 billion (including our assets) in MBS and other fixed income assets for institutional clients and individual investors through PIA at December 31, 2020. These multiple responsibilities and ownerships may create conflicts of interest if these officers and employees of our Company are presented with opportunities that may benefit both us and the clients of PIA. These officers allocate investments among our portfolio and the clients of PIA by determining the entity or account for which the investment is most suitable. In making this determination, these officers consider the investment strategy and guidelines of each entity or account with respect to acquisition of assets, leverage, liquidity and other factors that our officers determine appropriate. These officers, however, have no obligation to make any specific investment opportunities available to us and the above-mentioned conflicts of interest may result in decisions or allocations of securities that are not in our best interests.

Additionally, there is nothing in the Management Agreement that prevents our Manager or any of its Affiliates, officers, directors or employees from engaging in other businesses or from rendering services of any kind to any other Person or entity, whether or not the investment objectives or policies of any such other Person or entity are similar to those of the Company or in any way binds or restricts our Manager or any of its Affiliates, officers, directors or employees from buying, selling or trading any securities or commodities for their own accounts or for the accounts of others for whom our Manager or any of its Affiliates, officers, directors or employees may be acting.

The service to PIA by the officers and employees of our Manager allow them to spend only part of their time and effort managing our Company, as they are required to devote a portion of their time and effort to the management of other companies, and this may harm our overall management and operating results.

Messrs. Joseph E. McAdams, Charles J. Siegel, and John T. Hillman and others are officers and employees of PIA Farmland, Inc., where they devote a portion of their time. PIA Farmland, Inc., a privately-held real estate investment trust investing in U.S. farmland properties leased to independent farm operators, was incorporated in February 2013. These officers and employees are under no contractual obligations to PIA Farmland, Inc., its external manager, PIA, or to Anworth or its external manager, Anworth Management, LLC, as to their time commitment. To the extent that significant time is devoted to these other companies, this could harm our overall management and operating results.

We are completely dependent upon our Manager, who provides services to us through the Management Agreement, and we may not find suitable replacements for our Manager if the Management Agreement is terminated or such key personnel are no longer available to us. The loss of any key personnel of our Manager could harm our operations.

We no longer have any employees and are completely dependent on our Manager to conduct our operations pursuant to the Management Agreement. Our Manager has its own employees, which conduct its day-to-day operations. The Management Agreement does not require our Manager to dedicate specific personnel to our operations.

If we terminate the Management Agreement without cause, we may not, without the consent of our Manager, employ any employee of our Manager or any of its Affiliates, or any Person who has been employed by our Manager or any of its Affiliates at any time within the two year period immediately preceding the date on which the Person commences employment with us for two years after such termination of the Management Agreement. We will not have retention agreements with any of our officers. We believe that the successful implementation of our investment and financing strategies will depend upon the experience of certain of our Manager's officers and employees. None of these individuals' continued service is guaranteed. If the Management Agreement is terminated or these individuals leave our Manager, our Manager may be unable to replace them with persons with appropriate experience, or at all, and we may not be able to execute our business plan.

We depend upon the diligence, experience and skill of the officers and employees of our Manager for the selection, structuring and monitoring of our mortgage-related assets and associated borrowings. The key officers of our Manager include Mr. Joseph E. McAdams, its Chief Investment Officer, and our Chairman, President, and Chief Executive Officer; Mr. Charles J. Siegel, our Chief Financial Officer, Treasurer and Secretary; Mr. Brett Roth, its Senior

Vice President; and Ms. Bistra Pashamova, its Senior Vice President. Our dependence on our Manager is heightened by the fact that they have a relatively small number of employees and the loss of any key person could harm our entire business, financial condition, cash flow, and results of operations. In particular, the loss of the services of Mr. Joseph E. McAdams could seriously harm our business.

The Management Agreement was not negotiated on an arm's-length basis and the terms, including fees payable, may not be as favorable to us as if it were negotiated with an unaffiliated third party.

Effective as of December 31, 2011, we entered into the Management Agreement, which effected the externalization of our management function. The Management Agreement was negotiated between related parties, and we did not have the benefit of arm's-length negotiations of the type normally conducted with an unaffiliated third party. The terms of the Management Agreement, including fees payable, may not reflect the terms we may have received if it was negotiated with an unrelated third party. In addition, as a result of this relationship, we may choose not to enforce, or to enforce less vigorously, our rights under the Management Agreement because of our desire to maintain our ongoing relationship with our Manager.

If the Merger is not consummated, and we elect to not renew the Management Agreement without cause, we would be required to pay our Manager a substantial termination fee.

In connection with the execution of the Merger Agreement, we, our Manager, and Ready Capital entered into the Management Agreement Amendment, pursuant to which, upon the completion of the transactions contemplated by the Merger Agreement, the Management Agreement will terminate, and as a result of the completion of the transactions contemplated by the Merger Agreement and the termination of the Management Agreement, we will pay our Manager a termination fee of $20.3 million, and Ready Capital or Merger Sub (as the surviving company following the Merger) will reimburse our Manager for certain unpaid expenses and pay to our Manager all accrued and unpaid management fees then owed under the Management Agreement, as and when specified in the Management Agreement Amendment.

However, if the Merger is not consummated, it will be costly for us if we elect not to renew the Management Agreement without cause. With the consent of the majority of our independent directors, and with at least 180-days' prior written notice before the end of the calendar year, we may elect to not renew the Management Agreement at the end of the calendar year. If the Merger is not consummated and we elect not to renew the Management Agreement without cause, we will be required to pay our Manager a termination fee equal to three times the average annual management fee earned by our Manager during the 24-month period immediately preceding the most recently completed quarter prior to the year-end termination of the Management Agreement, and after giving notice of our intent to not renew the Management Agreement without cause, we will continue to be required to pay our Manager the management fees stated in the Management Agreement until the end of the calendar year that the Management Agreement is not renewed. If the Merger is not consummated and such notice is given less than 180 days prior to the end of the calendar year, the management fees will be paid until termination of the Management Agreement at the end of the following calendar year.

If we do not renew the Management Agreement for any reason, we would continue to be obligated to pay the sublease on our office premises in California.

Our obligation to pay the sublease on our office premises does not end with termination of the Management Agreement. There can be no assurance that we can sublease our office space to another tenant at a rate which eliminates this obligation and is satisfactory to the sublessor and the building owner.

Various corporate actions require the approval of the majority of all shareholders.

There are corporate actions which can be implemented only if a majority of all shareholders approves at a convened meeting of shareholders. There can be no assurance that a majority of all shareholders will vote to approve any measure that only a majority of the voting shareholders had previously approved. Examples of actions which require the approval of a majority of all shareholders to pass are: an agreement of consolidation, merger, share exchange or transfer of assets; for dissolution of the Corporation; or for a business combination between the Corporation and an interested stockholder.

In the event of a change of control, we will owe certain of the officers and employees of our Manager a payment as specified in their Change of Control and Arbitration Agreements between these officers/employees and the Company.

In the event of a change of control of the Company, we would incur the costs of paying lump sum payments and other employee benefits to certain of the officers and employees of our Manager as specified in their Change of Control and Arbitration Agreement between these officers/employees and the Company.

The management fee is payable regardless of our performance.

Our Manager is entitled to receive a management fee from us that is based on 1.20% of our Equity (as defined in our Management Agreement), regardless of the performance of our investment portfolio. For example, we would pay our Manager a management fee for a specific period even if we experienced a net loss during the same period. Our Manager's entitlement to substantial nonperformance-based compensation may reduce its incentive to devote sufficient time and effort to seeking investments that provide attractive risk-adjusted returns for our investment portfolio. This in turn could harm our ability to make distributions to our stockholders and the market price of our common stock.

The fee structure of the Management Agreement may limit our Manager's ability to retain access to its key personnel.

Under the terms of the Management Agreement, we are required to pay our Manager a base management fee payable monthly in arrears in an amount equal to one twelfth of 1.20% of our Equity. Our Equity is defined as our month-end stockholders' equity, adjusted to exclude the effect of any unrealized gains or losses included in either retained earnings or other comprehensive income, each as computed in accordance with GAAP. The Management Agreement does not provide our Manager with an incentive management fee that would pay our Manager additional compensation as a result of meeting performance targets. Some of our externally-managed competitors pay their managers an incentive management fee, which enables them to provide additional compensation to their key personnel. Thus, the lack of an incentive fee in the Management Agreement may limit the ability of our Manager to provide key personnel with additional compensation for strong performance, which could adversely affect our Manager's ability to retain these key personnel. If our Manager were not able to retain any of the key personnel providing services to our Manager, it would have to find replacement personnel to provide those services. Those replacement key personnel may not be able to produce the same operating results as the current key personnel.

Some investors may not view our external management in a positive light, which may affect the market price of our common stock, and may make it more difficult for future offerings of our stock.

Although there are currently other mortgage REITs that are externally-managed, there may be times in the future when some investors may have a preference for internally-managed companies. There may also be times, if there are low returns from our portfolio, when our external management is not viewed in a positive light. In either of these cases, there may be a negative effect on the market price of our common stock, and this may make it difficult for future offerings of our common stock.

Potential conflicts of interest could arise if our Manager were to take greater risk for the purpose of increasing our equity in order to earn a greater management fee.

The Management Agreement does not contain an incentive fee. Our Manager is paid a base management fee payable monthly in arrears in an amount equal to one twelfth of 1.20% of our Equity, as defined in the Management Agreement. As the Management Agreement does not contain an incentive fee, our Manager may take greater risk in our investment portfolio to increase our equity in order to earn a greater management fee.

Our Manager's liability is limited under the Management Agreement and we have agreed to indemnify our Manager against certain liabilities.

Pursuant to the Management Agreement, our Manager does not assume any responsibility other than to render the services called for thereunder and is not responsible for any action of our Board in following or declining to follow any advice or recommendation of our Manager. Our Manager and its Affiliates, and the directors, officers, employees and stockholders of our Manager and its Affiliates, are not liable to us, any subsidiary of ours, our Board or our stockholders for any acts or omissions by our Manager, its officers, employees or its Affiliates, performed in accordance with and pursuant to the Management Agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence or reckless disregard of their respective duties under this Management Agreement. We have agreed to indemnify our Manager and its Affiliates, its directors, officers, employees and stockholders of our Manager and its Affiliates (each a "Manager Indemnified Party") of and from any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including reasonable attorneys' fees) in respect of or arising from any acts or omissions of such Manager Indemnified Party, not constituting bad faith, willful misconduct, gross negligence or reckless disregard of duties of such Manager Indemnified Party under this Management Agreement.

Our Manager has limited resources and may not be able to defend itself in litigation.

The only fee that our Manager receives from us is the base management fee, as previously described. It is anticipated that most, if not all, of this fee will be used by our Manager for compensation to its employees and to pay for its other administrative expenses. Our Manager has limited resources. If our Manager were to be involved in litigation not related to our operations, it may not be able to defend itself and it may be forced to declare bankruptcy or go out of business and we would have to find another Manager. This could have a material adverse impact on our business and our operations.

Failure of our Manager to comply with SEC rules and regulations could cause various disciplinary actions, which could cause a disruption in services provided to us, and may impact our business operations and our profitability.

Under rules promulgated under the Dodd-Frank Act, our Manager is considered an investment adviser. In reliance upon the no-action letter issued by the SEC to the American Bar Association on January 18, 2012, we consider Anworth Management, LLC to be a "relying adviser," which means that its registration as an investment adviser is integrated into the existing registration of PIA, its "filing adviser." Anworth Management, LLC and PIA are both subject to the Investment Advisers Act of 1940 and the rules and regulations of the SEC and also are subject to examination by the SEC. Any failure by Anworth Management, LLC, PIA, or any of their respective employees to comply with such rules and regulations could cause various disciplinary actions, up to and including loss of registration status as investment advisers. Such disciplinary actions could lead to disruptions in the services provided to us which may impact our business operations and our profitability.

Our Board may change our operating policies and strategies without prior notice or stockholder approval and such changes could harm our business, results of operations and stock price.

Our Board can modify or waive our current operating policies and our strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies may have on our business, operating results and stock price, however, the effects may be adverse.

Risks Related to Our Residential Properties Business

We are in an industry that has significant competition, which makes this business difficult to evaluate, and may affect our ability to operate this business in a profitable manner.

Historically, the single-family residential rental business consisted primarily of private individual investors in local markets and was managed individually or by small local property managers. Within the past several years, several institutional companies and REITs have entered this market and have attempted to acquire and operate single-family properties on a large-scale basis and to achieve attractive yields employing technology through a disciplined approach to acquisitions and leasing, marketing and management. Many of our competitors may be larger and have greater financial, technical, leasing, marketing and other resources than we do, which may affect our ability to acquire our target properties at attractive prices and attract quality tenants.

In addition, although we have several employees who have previously personally engaged in this business on a small scale, we contract with various third-party professionals to assist us in acquiring and managing our properties and providing services to tenants. If these professionals do a poor job or don't perform to our expectations, it could affect the prices we pay to acquire properties, our relationships with our tenants, the operation of our properties, and our reputation in this business. These factors make this business difficult to evaluate, and may affect our ability to operate this business in a profitable manner.

Many factors affect the single-family residential rental market, and the profitability of this business will be affected both by our assumptions about this market and this market's conditions in our target areas.

The success of our business model will depend upon many factors including, but not limited to: the availability of properties that meet our investment criteria and our ability to acquire such properties at favorable prices; real estate appreciation or depreciation in our target markets; the condition of our properties; our ability to contain renovation, maintenance, marketing and other operating costs for our properties; our ability to maintain high occupancy rates and target rent levels; general economic conditions in our target markets, such as changes in employment and household earnings and expenses; the effects of rent controls, stabilization laws and other laws or regulations regarding rental rates and tenant rights; and changes in, and changes in enforcement of, laws, regulations and government policies including health, safety, environmental, property, zoning and tax laws.

We will have no control over many of these factors, which could adversely affect the profitability of this business. Our success will also depend, in part, on our assumptions about our target properties, our target renters, our renovation, maintenance and other operating costs, and our rental rates and occupancy levels and, if our assumptions prove to be inaccurate, this may adversely affect the profitability of this business.

Initially, our portfolio of properties has been geographically concentrated, and any adverse developments in local economic conditions, or the demand for single-family rental homes in these markets, or the occurrence of natural disasters, may adversely affect the operating results of this business.

Initially, our target markets are in the east coast of Florida and we are exposed to any adverse developments in local economic conditions or natural disasters in that area. Due to this geographic concentration, any such developments could affect our business to a greater extent than if our properties were less geographically concentrated.

Poor resident selection and defaults by renters may adversely affect the financial performance of this business and harm our reputation.

Our success depends, in large part, upon our ability to attract and retain qualified tenants. This will depend, in turn, upon our ability to screen applicants, identify good residents, avoid tenants who may default, and the willingness of our tenants to renew their leases. When properties are vacant, we are not earning rental income and incur maintenance costs as well as turnover costs associated with re-leasing the properties, such as marketing and leasing commissions. Additionally, if we have to evict tenants, we will incur legal costs and may have renovation costs if the tenants don't properly maintain the properties or cause damage to the properties. Our reputation in the communities where our properties are located may be harmed if our tenants are not good neighbors or do damage to our properties or to the local communities.

Declining real estate values and impairment charges could adversely affect the earnings and financial condition of this business.

Our success depends upon our ability to acquire rental properties at attractive values, such that we can earn a satisfactory return on our investment primarily through rental income and secondarily through increases in property values. If we overpay for properties, or if their values subsequently decline or fail to rise because of market factors, we may not achieve our financial objectives. Additionally, U.S. GAAP requires companies to take an impairment charge if there is a permanent decline in the value of a property based upon a review of various market factors. An impairment charge would reduce the net income in the period in which it was taken. Even if we concluded that an impairment charge was not needed, a decline in the value of a property may become manifest over time through reduced rental income from the property, which would affect the earnings and financial condition of this business.

Risks Related to REIT Compliance and Other Tax Matters

If we are disqualified as a REIT, we will be subject to tax as a regular corporation and face substantial tax liability.

We believe that, since our initial public offering in 1998, we have operated so as to qualify as a REIT under the Code and we intend to continue to meet the requirements for taxation as a REIT. Nevertheless, we may not remain qualified as a REIT in the future. Qualification as a REIT involves the application of highly technical and complex Code provisions for which only a limited number of judicial or administrative interpretations exist. Even a technical or inadvertent mistake could require us to pay a penalty or jeopardize our REIT status. We hold certain assets and derive certain types of income that do not qualify under various gross asset and income requirements applicable to REITs and, if the amounts of such assets or income exceed thresholds permitted under the Code, our ability to qualify as a REIT could be jeopardized. Furthermore, Congress or the IRS might change tax laws or regulations and the courts might issue new rulings, in each case potentially having retroactive effects that could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

- we would be taxed as a regular domestic corporation, which, among other things, means being unable to deduct distributions to stockholders in computing taxable income and being subject to federal income tax on our taxable net income at regular corporate rates;
- any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders;
- we would no longer be required to make distributions to our stockholders; and
- unless we were entitled to relief under applicable statutory provisions, we could be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which we lost our qualification and thus our cash available for distribution to stockholders would be reduced for each of the years during which we do not qualify as a REIT.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

In order to qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, our sources of income, the nature and diversification of our MBS and other assets, the amounts we distribute to our stockholders and the ownership of our stock. We may also be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

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

Compliance with the REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, any income that is generated from transactions intended to hedge our interest rate, inflation and/or currency risks will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if the instrument hedges (1) interest rate risk on liabilities incurred to carry or acquire real estate or (2) risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the REIT 75% or 95% gross income tests, and such instrument is properly identified under applicable Treasury Regulations. Income from hedging transactions that does not meet these requirements will generally constitute non-qualifying income for purposes of both the REIT 75% and 95% gross income tests. As a result of these rules, we may have to limit use of hedging techniques that might otherwise be advantageous, which could result in greater risks associated with interest rate or other changes than we would otherwise incur.

Complying with REIT requirements may force us to liquidate otherwise attractive investments or to make investments inconsistent with our business plan.

In order to qualify as a REIT, we must also determine that at the end of each calendar quarter at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investment in securities generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets can consist of the securities of any one issuer. No more than 20% of the total value of our assets can be stock in taxable REIT subsidiaries. If we fail to comply with these requirements, we must dispose of a portion of our assets within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences. The need to comply with these gross income and asset tests may cause us to acquire other assets that are qualifying real estate assets for purposes of the REIT requirements that are not part of our overall business strategy and might not otherwise be the best investment alternative for us.

REIT distribution requirements could adversely affect our ability to execute our business plan and may require us to incur debt, sell assets, or take other actions to make such distributions.

In order to continue to qualify as a REIT, we must distribute to stockholders each calendar year at least 90% of our REIT taxable net income (including certain items of non-cash income), determined without regard to the deduction of dividends paid and excluding net capital gains. To the extent that we satisfy the 90% distribution requirement but distribute less than 100% of our taxable net income, we will be subject to U.S. federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any calendar year are less than a minimum amount specified under U.S. federal income tax law.

We intend to distribute our taxable net income to stockholders in a manner intended to satisfy the 90% distribution requirement and to avoid both corporate income tax and the 4% nondeductible excise tax, subject to the operating restrictions included in the Merger Agreement. Our taxable net income may substantially exceed our net income as determined by U.S. GAAP or differences in timing between the recognition of taxable net income and the actual receipt of cash may occur, in which case we may have taxable net income in excess of cash flow from our operating activities. In such event, we may generate less cash flow than taxable net income in a particular year and find it difficult or impossible to meet the REIT distribution requirements in certain circumstances. In such circumstances, in order to satisfy the distribution requirement and to avoid U.S. federal corporate income tax and the 4% nondeductible excise tax in that year, we may be required to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures, or repayment of debt, or (iv) make a taxable distribution of our shares as part of a distribution in which stockholders may elect to receive shares or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirements. Thus, compliance with the REIT distribution requirements may require us to take actions that may not otherwise be advisable given existing market conditions and hinder our ability to grow, which could adversely affect the value of our common stock.

Even though we elected to be taxed as REIT, we may be required to pay certain taxes.

Even though we have elected to be taxed as a REIT, we may be subject to certain U.S. federal, state, and local taxes on our income and assets, including taxes on any undistributed income, prohibited transactions, tax on income from some activities conducted as a result of a foreclosure, and state or local income, franchise, property, and transfer taxes, including mortgage recording taxes. In addition, in the future, we may hold some of our assets through wholly-owned taxable REIT subsidiaries. Any taxable REIT subsidiaries and any other taxable corporations in which we own an interest will be subject to U.S. federal, state, and local corporate taxes. Payment of these taxes generally would reduce our cash flow and the amount available for distribution to our stockholders.

Our ability to invest in and dispose of TBA contracts could be limited by our REIT status and we could lose our REIT status as a result of these investments.

We regularly purchase agency securities through TBA contracts. In certain instances, rather than take delivery of the agency securities subject to a TBA contract, we will dispose of the TBA contract 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 TBA contracts will be qualifying assets for the 75% asset test and whether income and gains from dispositions of TBA contracts 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 TBA contracts should be treated as qualifying assets for purposes of the 75% asset test, we will limit our investment in TBA contracts 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 TBA contracts should be treated as qualifying income for purposes of the 75% gross income test, we will limit our gains from dispositions of TBA contracts and any non-qualifying income to no more than 25% of our gross income for each calendar year. Accordingly, our ability to purchase agency securities through TBA contracts and to dispose of TBA contracts, through dollar roll transactions or otherwise, could be limited.

Moreover, even if we are advised by counsel that TBA contracts should be treated as qualifying assets or that income and gains from dispositions of TBA contracts 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 TBA contracts, 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 TBA contracts, together with our non-qualifying income for the 75% gross income test, exceeded 25% of our gross income for any taxable year.

Complying with REIT requirements may force us to borrow to make distributions to stockholders.

As a REIT, we must distribute at least 90% of our annual taxable net income (subject to certain adjustments) to our stockholders. At the time when we are required to make previously declared dividend distributions, declines in the value of our portfolio holdings and the resulting subsequent margins calls may have depleted most or all of our cash and cash equivalents. If this were to occur and if market conditions allowed us to do so, we would sell some of our portfolio holdings to generate sufficient funds to make the dividend payments. If market conditions did not allow us to sell portfolio holdings, we would be required to borrow funds on an unsecured basis to make the previously declared dividend payments.

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

Current tax law generally provides for favorable tax rates (20% maximum in the case of non-corporate stockholders) on dividends received from corporations. However, dividends paid by REITs to these stockholders are generally not eligible for these reduced rates. Notwithstanding the foregoing, however, all such dividends, other than dividends which are taxable as capital gain dividends or traceable to dividends from a taxable REIT subsidiary, as are received by a pass-through entity or an individual, became eligible for a 20% deduction from gross income starting in 2018 under the tax laws.

This eligibility for a 20% deduction will expire in 2025. This legislation does not adversely affect the taxation of REITs or dividends paid by REITs, but the more favorable rates applicable to non-REIT corporate dividends could cause investors which are trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock. Investors and potential investors should consult with their tax advisors regarding the implications of this tax law on any investment in our stock.

The tax imposed on REITs engaging in “prohibited transactions” will limit our ability to engage in transactions, including certain methods of securitizing loans, which would be treated as sales for federal income tax purposes.

A REIT’s net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property but including any mortgage loans, held in inventory primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to sell a loan or securitize loans in a manner that was treated as a sale of such inventory for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans other than through a taxable REIT subsidiary and may limit the structures we utilize for our securitization transactions even though such sales or structures might otherwise be beneficial for us. In addition, this prohibition may limit our ability to restructure our investment portfolio of mortgage loans from time to time, even if we believe that it would be in our best interest to do so.

We may incur excess inclusion income that would increase the tax liability of our stockholders.

In general, dividend income that a tax-exempt entity receives from us should not constitute unrelated business taxable income as defined in Section 512 of the Code. If we realize excess inclusion income and allocate it to stockholders, however, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Code. If the stockholder is foreign, it would generally be subject to U.S. federal income tax withholding on this income without reduction pursuant to any otherwise applicable income tax treaty. U.S. stockholders would not be able to offset such income with their operating losses.

We generally structure our borrowing arrangements in a manner designed to avoid generating significant amounts of excess inclusion income. However, excess inclusion income could result if we held a residual interest in a REMIC. Excess inclusion income also may be generated if we were to issue debt obligations with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our mortgage loans or MBS securing those debt obligations. For example, we may engage in non-REMIC CMO securitizations. We also enter into various repurchase agreements that have differing maturity dates and afford the lender the right to sell any pledged mortgage securities if we default on our obligations. The IRS may determine that these transactions give rise to excess inclusion income that should be allocated among our stockholders. We may invest in equity securities of other REITs and it is possible that we might receive excess inclusion income from those investments. Some types of entities, including, without limitation, voluntarily employee benefit associations and entities that have borrowed funds to acquire their shares of our stock, may be required to treat a portion of or all of the dividends they receive from us as unrelated business taxable income.

Misplaced reliance on legal opinions or statements by issuers of mortgage-related assets could result in a failure to comply with REIT gross income or asset tests.

When purchasing MBS, government securities and interests in loans held in securitization trusts, we may rely on opinions of counsel for the issuer or sponsor of such securities, or statements made in related offering documents or opinions of tax accountants, for purposes of determining whether and to what extent those securities constitute “real estate assets” for purposes of the REIT asset tests and produce income that qualifies under the REIT income tests. The inaccuracy of any such opinions or statements may harm our REIT qualification and result in significant corporate level tax.

Additional Risk Factors

Failure to maintain an exemption from the Investment Company Act would materially harm our results of operations.

We believe that we conduct our business in a manner that results in our not being regulated as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. If we fail to continue to qualify for an exemption from registration as an investment company, our ability to use leverage would be substantially reduced and we would be unable to conduct our business as we presently do.

Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer’s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, which we refer to as the 40% test.

Excluded from the term "investment securities" are, among other things, U.S. government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

The Investment Company Act has an exemption for entities that are primarily engaged in the business of purchasing or otherwise acquiring "mortgages and other liens on and interests in real estate." Under the SEC's current interpretation, we qualify for this exemption if we maintain at least 55% of our assets directly in qualifying assets and at least 80% of our assets must be in both the qualifying assets and other real estate related interests (and no more than 20% comprised of other miscellaneous assets). In meeting the 55% requirement under the Investment Company Act, the SEC has generally viewed the following asset types as qualifying interests: (1) assets that represent an actual interest in real estate; (2) loans or liens that are fully secured by real estate; (3) assets that can be viewed as the functional equivalent of, and provide the same economic experience as, an actual interest in real estate or a loan or lien fully secured by real estate, such as whole pool agency MBS. In meeting the 55% test, we treat MBS issued with respect to an underlying pool for which we hold all issued certificates as qualifying interests and partial pool agency MBS in other real estate related interests in complying with the 80% test. If the SEC or its staff adopts a contrary interpretation, we could be required to sell a substantial amount of our MBS under potentially adverse market conditions. Further, in order to maintain our exemption from registration as an investment company by acquiring "mortgages and other liens on and interests in real estate", we may be precluded from acquiring MBS whose yield is somewhat higher than the yield on "mortgages and other liens on and interests in real estate" that could be purchased in a manner consistent with the exemption.

On August 31, 2011, the SEC issued a release soliciting comments on the mortgage REIT exemption under the Investment Company Act. The SEC indicated in its release that it is concerned that some mortgage companies may be subject to the kinds of abuses that the Investment Company Act was intended to address, such as misvaluations of a company's investment portfolio and excessive leveraging. The release asked for comments on or before November 7, 2011 on whether the exclusion should be narrowed or changed in such a way that these potential abuses can be curtailed. The SEC also asked whether there are existing safeguards in the structure and operations of REITs and other mortgage companies that would address these or similar concerns. Although we believe that we have conducted our operations in a manner that would not be of the types of concerns addressed in the SEC's release, we could be subject to any rules or regulations that the SEC could propose in changing or narrowing the current exclusion that mortgage REITs rely on to maintain an exemption from the Investment Company Act. If the SEC or its staff changes or narrows this exemption, we could be required to sell a substantial amount of our MBS under potentially adverse market conditions. Although, at the present time, it is unknown whether the SEC or its staff will make any changes to this exclusion or the nature of any such changes, it is possible that any such changes could impact our Asset Acquisition Policy, our leverage, our liquidity, the size of our investment portfolio, our ability to use interest rate swap agreements, our ability to borrow, and could have a material adverse effect on our business and results of operations.

We presently are not, nor do we intend to be, regulated as an investment company. Fluctuations in our net income and in our book value will likely be greater than those of investment companies. This may affect investors or potential investors as to the appropriateness of our stock as compared to that of an investment company.

While presently our assets are similar to those owned by some investment companies, we are not regulated as an investment company. Regulation as an investment company entails that all investment companies maintain significantly lower levels of financial leverage than we have employed since our organization began operations in 1998. Because of the differences in our leverage from that of investment companies, this results in the fluctuation in net income and in book value by us to likely be greater than that experienced by investment companies. Therefore, investors and potential investors in our company should, on an ongoing basis, carefully determine if this greater level of income fluctuation and book value fluctuation is appropriate for them as compared to whether the less volatile results of investment companies are more appropriate for them.

The market price of our common stock may fluctuate significantly.

The market price and marketability of shares of our securities may, from time to time, be significantly affected by numerous factors, including many over which we have no control and that may not be directly related to us. These factors including the following:

- price and volume fluctuations in the stock market from time to time, which are often unrelated to the operating performance of particular companies;
- significant volatility in the market price and trading volume of securities of REITs or other companies in our sector, which is not necessarily related to the operating performance of these securities;
- changes in regulatory policies, tax guidelines and financial accounting and reporting standards, particularly with respect to REITs;
- changes in interest rates;
- changes in business conditions and the general economy, including the consequences of actions by the U.S. government and other foreign governments to address the various economic conditions including, but not limited to, Brexit, trade imbalances, credit crisis, currency fluctuations, and the impact of other events, such as threats or actions by other nations such as North Korea and Iran, and global terrorism;
- changes in our dividend policy and earnings or variations in operating results;
- any shortfall in revenue or net income or any increase in losses from levels expected by securities analysts;
- general economic trends and other external factors;
- changes in financial estimates by analysts or publication of research reports about us or the real estate or specialty finance industry; and
- loss of major repurchase agreement and other credit providers.

Fluctuations in the trading price of our common stock may adversely affect the liquidity of the trading market for our common stock and, in the event that we seek to raise capital through future equity financings, our ability to raise such equity capital.

We may not be able to use the money we raise from time to time to acquire investments at favorable prices.

We intend to seek to raise additional capital from time to time if we determine that it is in our best interests and the best interests of our stockholders, including through public offerings of our stock. The net proceeds of any offering could represent a significant increase in our equity. Depending on the amount of leverage that we use, the full investment of the net proceeds of any offering might result in a substantial increase in our total assets. There can be no assurance that we will be able to invest all of such additional funds in mortgage-related assets at favorable prices. We may not be able to acquire enough mortgage-related assets to become fully invested after an offering, or we may have to pay more for MBS than we have historically. In either case, the return that we earn on stockholders' equity may be reduced.

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 them 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 net income in each year, subject to certain adjustments and the operating restrictions included in the Merger Agreement, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the 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 in this Annual Report on Form 10-K. All distributions to our common stockholders will be made at the discretion of our Board and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future.

If we raise additional capital, our earnings per share and dividends per share may decline since we may not be able to invest all of the new capital during the quarter in which additional shares are sold and possibly the entire following calendar quarter.

Our charter does not permit ownership of over 9.8% of our common or preferred stock and attempts to acquire our common or preferred stock in excess of the 9.8% limit are void without prior approval from our Board.

For the purpose of preserving our REIT qualification and for other reasons, our charter prohibits direct or constructive ownership by any person of more than 9.8% of the lesser of the total number or value of the outstanding shares of our common stock or more than 9.8% of the outstanding shares of our preferred stock. Our charter's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of the outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% of the outstanding stock and thus be subject to our charter's ownership limit. Any attempt to own or transfer shares of our common or preferred stock in excess of the ownership limit without the consent of the Board shall be void and will result in the shares being transferred by operation of law to a charitable trust.

Because provisions contained in Maryland law, our charter and our bylaws may have an anti-takeover effect, investors may be prevented from receiving a "control premium" for their shares.

Provisions contained in our charter and bylaws, as well as Maryland corporate law, may have anti-takeover effects that delay, defer or prevent a takeover attempt, which may prevent stockholders from receiving a "control premium" for their shares. For example, these provisions may defer or prevent tender offers for our common stock or purchases of large blocks of our common stock, thereby limiting the opportunities for our stockholders to receive a premium for their common stock over then-prevailing market prices. These provisions include the following:

- *Ownership limit*. The ownership limit in our charter limits related investors including, among other things, any voting group, from acquiring over 9.8% of our common stock or more than 9.8% of our preferred stock without our permission;

- *Preferred Stock*. Our charter authorizes our Board to issue preferred stock in one or more classes and to establish the preferences and rights of any class of preferred stock issued. These actions can be taken without soliciting stockholder approval;

- *Maryland business combination statute*. Maryland law restricts the ability of holders of more than 10% of the voting power of a corporation's shares to engage in a business combination with the corporation; and

- *Maryland control share acquisition statute*. Maryland law limits the voting rights of "control shares" of a corporation in the event of a "control share acquisition."

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

In February 2012, we signed a new sublease agreement with PIA that expires on June 30, 2022 for approximately 7,300 square feet of office space at our existing location in Santa Monica, California. We believe this facility is adequate for our intended level of operations.

Item 3. LEGAL PROCEEDINGS

In the normal course of business, we may become involved in various types of legal proceedings. As of December 31, 2020, we were not a party to any material pending legal proceedings.

Litigation Relating to the Merger

Seven putative class action lawsuits have been filed by purported stockholders of the Company relating to the Merger.

On January 7, 2021, Shiva Stein, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Shiva Stein v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00122 (referred to as the "Stein Action"). The Stein Action was filed against the Company and our board of directors in connection with the Merger Agreement. The complaint in the Stein Action asserts that the Form S-4 Registration Statement initially filed on January 4, 2021 in connection with the Merger (referred to as the "Initial S-4 Filing") contained materially incomplete and misleading information concerning financial projections and financial analyses in violation of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-9 promulgated thereunder. The Stein Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, compensatory damages against the defendants, and an award of attorneys' and experts' fees.

On January 12, 2021, Giuseppe Alescio, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Southern District of New York, styled *Giuseppe Alescio v. Anworth Mortgage Asset Corporation, et al.*, No. 1:21-cv-00258 (referred to as the "Alescio Action"). The Alescio Action was filed against the Company, our board of directors, Ready Capital, and Merger Sub. The complaint in the Alescio Action asserts that the Initial S-4 Filing omitted material information concerning financial forecasts and financial analyses in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Alescio Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, the filing of an amendment to the registration statement that does not contain any untrue statements of material fact and that states all material facts required in it or necessary to make the statements contained therein not misleading, and an award of attorneys' and experts' fees.

On January 19, 2021, Joseph Sheridan, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Southern District of New York, styled *Joseph Sheridan v. Anworth Mortgage Asset Corporation, et al.*, No. 1:21-cv-00465 (referred to as the "Sheridan Action"). The Sheridan Action was filed against the Company, our board of directors, Ready Capital, and Merger Sub. The complaint in the Sheridan Action asserts that the Initial S-4 Filing contained materially incomplete and misleading information concerning the sales process, financial projections, and financial analyses in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Sheridan Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, and an award of attorneys' and experts' fees.

On January 20, 2021, Ken Bishop, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Eastern District of New York, styled *Ken Bishop v. Anworth Mortgage Asset Corporation, et al.*, No. 1:21-cv-00331 (referred to as the "Bishop Action"). The Bishop Action was filed against the Company and our board of directors. The complaint in the Bishop Action asserts that the Initial S-4 Filing contained materially false and misleading statements and omissions concerning financial projections, financial analyses, the sales process and potential conflicts of interest involving the Company's financial advisor, Credit Suisse Securities (USA) LLC ("Credit Suisse"), in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Bishop Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, and an award of attorneys' and experts' fees.

On January 21, 2021, Samuel Carlisle, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Samuel Carlisle v. Anworth Mortgage Asset*

Corporation, et al., No. 2:21-cv-00566 (referred to as the "Carlisle Action"). The Carlisle Action was filed against the Company and our board of directors. The complaint in the Carlisle Action asserts that the Initial S-4 Filing omitted or misrepresented material information concerning financial projections, potential conflicts of interest involving Credit Suisse, and the background of the Merger, in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Carlisle Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, and an award of attorneys' and experts' fees.

On January 26, 2021, Reginald Padilla, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Reginald Padilla v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00702 (referred to as the "Padilla Action"). The Padilla Action was filed against the Company and our board of directors. The complaint in the Padilla Action asserts that the Initial S-4 Filing was materially deficient and misleading in regards to financial projections, potential conflicts of interest involving Credit Suisse, and the background of the Merger, in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Padilla Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, the filing of an amendment to the registration statement that does not contain any untrue statements of material fact and that states all material facts required in it or necessary to make the statements contained therein not misleading, and an award of attorneys' and experts' fees.

On February 1, 2021, Diane Antasek, as Trustee for The Diane R. Antasek Trust Agreement, April 8, 1997, and Ronald Antasek, as Trustee for the Ronald J. Antasek Sr. Trust Agreement, April 8, 1997, purported shareholders of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Antasek et al. v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00917 (referred to as the "Antasek Action," and collectively with the Stein Action, Alescio Action, Sheridan Action, Bishop Action, Carlisle Action, and the Padilla Action, the "Actions"). The Antasek Action was filed against the Company and our board of directors. The complaint in the Antasek Action asserts that the Initial S-4 Filing was materially deficient in regards to potential conflicts of interest involving Credit Suisse, financial projections and financial valuation analyses in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder, and that our board of directors violated their fiduciary duty as a result of an unfair process for an unfair price. The Antasek Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, an order directing our board of directors to exercise their fiduciary duties to commence a sale process that is reasonably designed to secure the best possible consideration for the Company and obtain a transaction which is in the best interests of the Company and its stockholders, an award of damages sustained, and an award of attorneys' and experts' fees.

We intend to vigorously defend the Company and our board of directors against the Actions.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common stock began trading under the symbol ANH on the New York Stock Exchange on May 9, 2003. Our common stock previously traded under the symbol ANH on the American Stock Exchange. Prior to March 17, 1998, there had been no public market for our common stock.

Holders

As of February 24, 2021, there were approximately 655 record holders of our common stock. On February 24, 2021, the last reported sale price of our common stock on the New York Stock Exchange was $2.83 per share.

Dividends

Subject to the operating restrictions included in the Merger Agreement, we pay cash dividends on a quarterly basis. The following table lists the cash dividends declared on each share of our common stock for our most recent two fiscal years. The dividends listed below were based primarily on our Board's evaluation of earnings and consideration of actions necessary to maintain our REIT status for each listed quarter and were declared on the date indicated:

	Cash Dividends Per Common Share	Date Dividends Declared
2020		
First quarter ended March 31, 2020	$ 0.05	April 21, 2020
Second quarter ended June 30, 2020	$ 0.05	June 16, 2020
Third quarter ended September 30, 2020	$ 0.05	September 16, 2020
Fourth quarter ended December 31, 2020	$ 0.05	December 16, 2020
2019		
First quarter ended March 31, 2019	$ 0.13	March 14, 2019
Second quarter ended June 30, 2019	$ 0.11	June 13, 2019
Third quarter ended September 30, 2019	$ 0.10	September 17, 2019
Fourth quarter ended December 31, 2019	$ 0.09	December 17, 2019

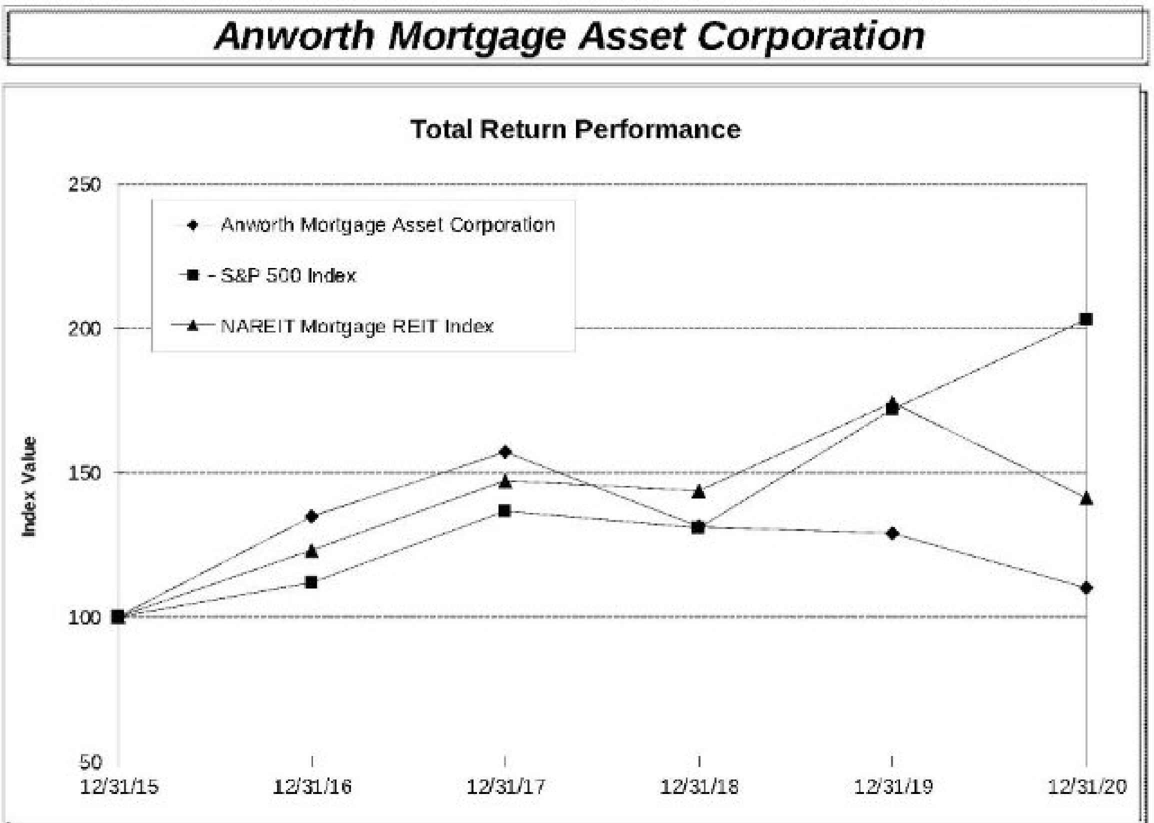
Issuer Purchase of Equity Securities

On October 3, 2011, we announced that our Board had authorized a share repurchase program which permitted us to acquire up to 2,000,000 shares of our common stock. The shares were expected to be acquired at prevailing prices through open market transactions. Our Board also authorized the Company to repurchase an amount of our common stock up to the amount of common stock sold and issued through our Dividend Reinvestment and Stock Purchase Plan. Subsequently, our Board authorized the Company to repurchase up to an aggregate of an additional 45,000,000 shares (pursuant to six separate authorizations) between December 13, 2013 and January 22, 2016. In December 2019, our Board decided to no longer include the amount of common stock that we sold and issued through our Dividend Reinvestment and Stock Purchase Plan as an amount of shares available for repurchase under our share repurchase program. Therefore, there are no longer any shares available for repurchase by us under our share repurchase program.

During the year ended December 31, 2020, we did not repurchase any shares of our common stock.

Total Return Comparison

The following graph presents a cumulative total stockholder return comparison of our common stock with the Standard & Poor's 500 Index and the National Association of Real Estate Investment Trusts, Inc. Mortgage REIT Index:



	Period Ending					
Index	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**
Anworth Mortgage Asset Corporation	100.00	134.48	156.94	131.48	128.59	110.29
S&P 500 Index	100.00	111.96	136.40	130.42	171.49	203.04
NAREIT Mortgage REIT Index	100.00	122.85	147.16	143.45	174.05	141.38

The cumulative total stockholder return reflects stock price appreciation, if any, and the value of dividends for our common stock and for each of the comparative indices. The graph assumes that $100 was invested on December 31, 2015 in our common stock, that $100 was invested in each of the indices on December 31, 2015 and that all dividends were reinvested into additional shares of common stock at the frequency with which dividends are paid on the common stock during the applicable fiscal year. The total return performance shown in this graph is not necessarily indicative of and is not intended to suggest future total return performance. Measurement points are at the last trading day of the fiscal years represented above.

Item 6. SELECTED FINANCIAL DATA

The selected financial data as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019, and 2018 are derived from our consolidated financial statements included in this Annual Report on Form 10-K. The selected financial data as of December 31, 2018, 2017, and 2016 and for the years ended December 31, 2017 and 2016 are derived from consolidated financial statements not included in this Annual Report on Form 10-K. You should read these selected financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto that are included in this Annual Report on Form 10-K beginning on page F-1.

	For the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(amounts in thousands, except per share data and days)				
Statements of Operations Data					
Days in period	366	365	365	365	366
Interest income net of amortization of premium and discount	$ 83,085	$ 154,395	$ 159,972	$ 142,748	$ 140,452
Interest expense	(44,890)	(118,756)	(115,307)	(82,519)	(70,420)
Provision for loan losses	(670)	—	—	—	—
Net interest income after provision for loan losses	$ 37,525	$ 35,639	$ 44,665	$ 60,229	$ 70,032
Expenses	(13,512)	(13,306)	(13,503)	(13,305)	(14,219)
Other (loss) income	(127,706)	(77,752)	(37,650)	7,448	(33,320)
Net (loss) income	$ (103,693)	$ (55,419)	$ (6,488)	$ 54,372	$ 22,493
Dividends on preferred stock	(9,189)	(9,189)	(9,189)	(8,173)	(6,583)
Net (loss) income available to common stockholders	$ (112,882)	$ (64,608)	$ (15,677)	$ 46,199	$ 15,910
Basic (loss) earnings per common share	$ (1.14)	$ (0.65)	$ (0.16)	$ 0.48	$ 0.17
Diluted (loss) earnings per common share	$ (1.14)	$ (0.65)	$ (0.16)	$ 0.47	$ 0.17
Average number of shares outstanding	99,048	98,684	98,314	96,764	96,408
Average number of diluted shares outstanding	99,048	98,684	98,314	100,479	101,068

	As of December 31,				
	2020	2019	2018	2017	2016
	(amounts in thousands, except per share data)				
Balance Sheets Data					
Agency MBS	$ 1,624,354	$ 3,510,051	$ 3,548,719	$ 4,278,797	$ 3,925,193
Non-Agency MBS	$ 206,933	$ 643,610	$ 795,203	$ 760,825	$ 641,246
Residential mortgage loans held-for-securitization	$ 109,312	$ 152,922	$ 11,660	$ —	$ —
Residential mortgage loans held-for-investment through consolidated securitization trusts	$ 267,107	$ 458,348	$ 549,016	$ 639,351	$ 744,462
Total assets	$ 2,384,490	$ 4,938,631	$ 5,039,700	$ 5,765,541	$ 5,395,776
Repurchase agreements	$ 1,470,620	$ 3,657,873	$ 3,811,627	$ 4,365,695	$ 3,911,015
Warehouse line of credit	$ 90,185	$ 133,811	$ —	$ —	$ —
Asset-backed securities issued by securitization trusts	$ 258,414	$ 448,987	$ 539,651	$ 629,984	$ 728,683
Junior subordinated notes	$ 37,380	$ 37,380	$ 37,380	$ 37,380	$ 37,380
Total liabilities	$ 1,955,996	$ 4,366,679	$ 4,458,595	$ 5,068,119	$ 4,740,754
Series B Preferred Stock	$ 19,455	$ 19,455	$ 19,455	$ 19,455	$ 23,924
Stockholders' equity (common, Series A, and Series C Preferred)	$ 409,039	$ 552,497	$ 561,650	$ 677,967	$ 631,098
Number of common shares outstanding	99,242	98,849	98,483	98,137	95,718
Book value per common share	$ 3.13	$ 4.60	$ 4.71	$ 5.91	$ 5.95

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

Our Business

We were incorporated in Maryland on October 20, 1997 and commenced operations on March 17, 1998. Our principal business is to invest in, finance and manage a leveraged portfolio of residential mortgage-backed securities and residential mortgage loans which presently include the following types of investments:

- *Agency mortgage-backed securities*, or Agency MBS, which include residential mortgage pass-through certificates and collateralized mortgage obligations, or CMOs, which are securities representing interests in pools of mortgage loans secured by residential property in which the principal and interest payments are guaranteed by a government-sponsored enterprise, or GSE, such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac;

- *Non-agency mortgage-backed securities*, or Non-Agency MBS, which are securities issued by companies that are not guaranteed by federally sponsored enterprises and that are secured primarily by first-lien residential mortgage loans; and

- *Residential mortgage loans.* We acquire non-Qualified Mortgage, or Non-QM, residential mortgage loans (which are described further on page 86) from independent loan originators with the intent of holding these loans for securitization. These loans are financed by a warehouse line of credit until securitization. We also hold residential mortgage loans through consolidated securitization trusts. We finance these loans through asset-backed securities, or ABS, issued by the consolidated securitization trusts. The ABS, which are held by unaffiliated third parties, are non-recourse financing. The difference in the amount of the loans in the trusts and the amount of the ABS represents our retained net interest in the securitization trusts.

Proposed Merger with Ready Capital Corporation

On December 6, 2020, we entered into the Merger Agreement with Ready Capital and Merger Sub, pursuant to which, subject to the terms and conditions therein, our Company will be merged with and into Merger Sub, with Merger Sub remaining as a wholly owned subsidiary of Ready Capital (such transaction, the "Merger").

Under the terms of the Merger Agreement, at the Effective Time, each share of Anworth Common Stock issued and outstanding immediately prior to the Effective Time (excluding any shares held by Ready Capital, Merger Sub or any of their respective subsidiaries) will automatically be converted into the right to receive from Ready Capital (i) 0.1688 shares of Ready Capital Common Stock, plus (ii) $0.61 in cash minus the Per Share Excess Amount, in each case, subject to adjustment as provided in the Merger Agreement. Additionally, at the Effective Time, each share of our 8.625% Series A Cumulative Preferred Stock will be converted into the right to receive one share of Ready Capital Series B Preferred Stock; each share of our 6.25% Series B Cumulative Convertible Preferred Stock will be converted into the right to receive one share Ready Capital Series C Preferred Stock; and each share of our 7.625% Series C Cumulative Redeemable Preferred Stock will be converted into the right to receive one share of Ready Capital Series D Preferred Stock.

The Merger Agreement provides that each of our Company and Ready Capital will, until the Effective Time, operate their respective businesses in all material respects in the ordinary course and consistent with practice, and preserve substantially intact its current business organization and preserve key business relationships. Each of our Company and Ready Capital are subject to restrictions as specified in the Merger Agreement on certain actions each company may take prior to the Effective Time, including, among other things, actions related to amending organizational documents, declaring dividends, issuing or repurchasing capital stock, engaging in certain business transactions and incurring indebtedness.

Completion of the proposed Merger is subject to the satisfaction of certain customary conditions, and is subject to the approval of the stockholders of both Ready Capital and our Company. We cannot provide any assurance that the proposed Merger will close in a timely manner or at all.

Our Business Strategy

Our principal business objective is to generate net income for distribution to our stockholders primarily based upon the spread between the interest income on our mortgage assets and our borrowing costs to finance our acquisition of those assets.

We generally view our target investments as being influenced primarily by either interest rate risks or credit risks. Our Agency MBS are sensitive to changes in interest rates and related prepayment speeds. Our Non-Agency MBS and residential mortgage loans held-for-securitization or held-for-investment through consolidated securitization trusts are sensitive to changes in both interest rate risk and credit risk.

The assets which we allocate to Agency MBS are also allocated to one of two subcategories:

1. Agency MBS which have a fixed interest rate during the life of the mortgages; and
2. Agency MBS whose interest rates will change or adjust to current market levels at varying times.

We believe our hybrid investment model allows us to allocate assets across various sectors within the residential mortgage market with a focus on security selection and implementation of a relative value investment approach. Our asset allocation process takes into account the opportunities in the marketplace, cost of financing and cost of hedging interest rate, prepayment credit, and other portfolio risks. As a result, mortgage-related asset allocation reflects management's opportunistic approach to investing in the marketplace.

The following table provides the MBS asset allocation and asset allocation between our Agency MBS, Non-Agency MBS and residential mortgage loans at December 31, 2020 and December 31, 2019:

	December 31, 2020		December 31, 2019	
	Dollar Amount (in thousands)	Percentage	Dollar Amount (in thousands)	Percentage
Agency MBS	$ 1,624,354	73.58 %	$ 3,510,051	73.66 %
Non-Agency MBS	206,933	9.37	643,610	13.51
Total MBS	$ 1,831,287	82.95 %	$ 4,153,661	87.17 %
Residential mortgage loans held-for-securitization	109,312	4.95	152,922	3.21
Residential mortgage loans held-for-investment through consolidated securitization trusts	267,107	12.10	458,348	9.62
Total mortgage-related assets	$ 2,207,706	100.00 %	$ 4,764,931	100.00 %

When we change the allocation of our investment portfolio, our annualized yields and cost of financing will change. As previously discussed, our investment decisions are not driven solely by annualized yields but also by taking into account the uncertainty of faster or slower prepayments, extension risk and credit-related events.

Our MBS Portfolio

At December 31, 2020 and December 31, 2019, the fair value of our MBS portfolio (which consists primarily of Agency MBS and Non-Agency MBS) and its allocation were approximately as follows:

	December 31, 2020	December 31, 2019
	(dollar amounts in thousands)	
Fair value of MBS	$ 1,831,287	$ 4,153,661
Adjustable-rate Agency MBS less than 1-year reset	18 %	12 %
Adjustable-rate Agency MBS 1-3 year reset	7	2
Adjustable-rate Agency MBS 3-5 year reset	—	3
Adjustable-rate Agency MBS greater than 5-year reset	3	2
Total Adjustable-Rate Agency MBS	28 %	19 %
15-year fixed-rate Agency MBS	2	1
20-year fixed-rate Agency MBS	9	5
30-year fixed-rate Agency MBS	50	60
Non-Agency MBS	11	15
Total MBS	100 %	100 %

Results of Operations

Years Ended December 31, 2020 and 2019

For the year ended December 31, 2020, our net loss to common stockholders was approximately $(112.9) million, or $(1.14) per basic and diluted share, based on a weighted average of 99.0 million basic and fully diluted shares outstanding. This included a net loss of $(103.7) million and the payment of preferred dividends of $9.2 million. For the year ended December 31, 2019, our net loss to common stockholders was approximately $(64.6) million, or $(0.65) per basic and diluted share, based on a weighted average of 98.7 million basic and fully diluted shares outstanding. This included a net loss of $(55.4) million and the payment of preferred dividends of $9.2 million.

Net interest income after provision for loan losses for the year ended December 31, 2020 totaled $37.5 million, or 34.9% of gross interest income, as compared to $35.6 million, or 19.7% of gross interest income, for the year ended December 31, 2019. Net interest income after provision for loan losses is comprised of the interest income earned on mortgage investments (net of premium amortization expense) and other interest income less interest expense from borrowings and provision for loan losses. Interest and other interest income net of premium amortization expense for the year ended December 31, 2020 was $83.1 million, as compared to $154.4 million for the year ended December 31, 2019, a decrease of 46.2% due primarily to a decrease in interest income on securitized residential mortgage loans of approximately $5.8 million due to paydowns on this portfolio, a decrease in the weighted average portfolio outstanding, from approximately $3.95 billion in 2019 to approximately $2.34 billion in 2020, and a decrease in the weighted average coupons on MBS (from 3.93% in 2019 to 3.71% in 2020), and a decrease in other interest income of $1.2 million due primarily to less interest earned on restricted cash balances, partially offset by a decrease in premium amortization expense of $2.2 million and an increase in interest on residential mortgage loans held-for-securitization of $1.7 million due to a greater weighted average outstanding balance during 2020. Interest expense for the year ended December 31, 2020 was $44.9 million, as compared to $118.8 million for the year ended December 31, 2019, a decrease of approximately 62.2%, which resulted primarily from a decrease in the weighted average interest rates, from 2.64% in 2019 to 1.18% in 2020, a decrease in interest expense on asset-backed securities issued by securitization trusts of approximately $5.7 million due to paydowns on this portfolio, and a decrease in the average borrowings outstanding, from $3.52 billion in 2019 to $2.11 billion in 2020, partially offset by an increase in interest expense on our warehouse line of credit of $0.3 million.

Our results of our operations are affected by a number of factors, many of which are beyond our control, and primarily depend on, among other things, the level of our net interest income, the market value of our mortgage-related assets, the supply of, and demand for, mortgage-related assets in the marketplace, and the terms and availability of financing. Our net interest income varies primarily as a result from changes in interest rates, the slope of the yield curve (the differential between long-term and short-term interest rates), borrowing costs (our interest expense) and prepayment speeds on our MBS and loan portfolios, the behavior of which involves various risks and uncertainties. Interest rates and prepayment speeds, as measured by the constant prepayment rate, vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. With respect to our business operations, increases in interest rates, in general, may, over time, cause: (i) the interest expense associated with our borrowings, which are primarily comprised of repurchase agreements, to increase; (ii) the value of our MBS and loan portfolios and, correspondingly, our stockholders' equity to decline; (iii) coupons on our MBS and loans to reset, although on a delayed basis, to higher interest rates; (iv) prepayments on our MBS and loan portfolios to slow, thereby slowing the amortization of our purchase premiums; and (v) the value of our interest rate swap agreements and, correspondingly, our stockholders' equity to increase. Conversely, decreases in interest rates, in general, may, over time, cause: (a) prepayments on our MBS and loan portfolios to increase, thereby accelerating the amortization of our purchase premiums; (b) the interest expense associated with our borrowings to decrease; (c) the value of our MBS and loan portfolios and, correspondingly, our stockholders' equity to increase; (d) the value of our interest rate swap agreements and, correspondingly, our stockholders' equity to decrease; and (e) coupons on our MBS and loans to reset, although on a delayed basis, to lower interest rates. In addition, our borrowing costs and credit lines are further affected by the type of collateral pledged and general conditions in the credit markets.

During the year ended December 31, 2020, premium amortization expense decreased by $2.2 million, or 8.4%, to $24.6 million from $26.8 million during the year ended December 31, 2019, due primarily to less unamortized premium from a lower average MBS portfolio outstanding. The prepayment rate assumptions used in our projection of long-term CPR percentages are based on historical prepayment rates on our MBS assets as well as assumptions about future mortgage rates and their expected impact on future prepayments. Given our current expectations for prepayments and market conditions, we do not expect a significant change in future prepayment assumptions.

The table below shows the approximate constant prepayment rate of our MBS:

	2020				2019			
Portfolio	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
MBS	40 %	39 %	33 %	18 %	25 %	21 %	18 %	13 %

We review our MBS portfolios relative to current market conditions, trading prices of individual MBS, the general level of mortgage interest rates, prepayment activity, other investment opportunities and the duration of our portfolio versus the duration of our liabilities. During the year ended December 31, 2020, we sold available-for-sale Agency MBS (including Agency MBS trading securities) of approximately $1.4 billion and realized net gains of approximately $19.4 million. During 2020, we sold a substantial portion of our MBS in order to reduce leverage, maintain adequate liquidity, pay-down the balance on our repurchase agreements, and preserve over-collateralization for our repurchase agreements. During the year ended December 31, 2019, we received proceeds of approximately $2.95 billion from the sales of Agency MBS (including Agency MBS trading securities) and recognized a combined net gain of approximately $7.2 million. During 2019, we sold a substantial portion of our MBS to reallocate our portfolio from lower-yielding assets to higher-yielding assets. During the years ended December 31, 2020 and 2019, we recognized a gain (including derivative income) of approximately $28.2 million and approximately $14.2 million, respectively, on TBA Agency MBS. During the years ended December 31, 2020 and 2019, we did not sell any of our residential mortgage loans. At March 31, 2020, we designated our Non-Agency MBS as trading securities. The unrealized gain or loss on these securities, which had been formally recorded in AOCI, is now recorded as a net gain or loss on our consolidated statements of operations. During the year ended December 31, 2020, we had a net loss on these securities of approximately $15.5 million. During 2019, we did not classify our Non-Agency MBS as trading securities. During the year ended December 31, 2020, we also had a net loss on available-for-sale Non-Agency MBS of approximately $55.4 million. During the year ended December 31, 2019, we received proceeds of approximately $30 million from the sales (including calls) of Non-Agency MBS and recognized a net gain of approximately $76 thousand.

During the year ended December 31, 2020, we had a loss on interest rate swaps recognized in our consolidated statements of operations of approximately $106.3 million, consisting primarily of $91.5 million in the negative change in fair value (see the section entitled "Derivative Financial Instruments–Accounting for Derivative and Hedging Activities" in Note 1, “Organization and Significant Accounting Policies,” to the accompanying audited consolidated financial statements for additional information), and approximately $3.3 million in AOCI amortization and approximately $11.5 million in net cash settlements paid. During the year ended December 31, 2019, we also had a loss on interest rate swaps recognized in our consolidated statements of operations of approximately $98.9 million, consisting primarily of approximately $106.5 million in the negative change in fair value and approximately $3.9 million in AOCI amortization, partially offset by approximately $11.5 million in net cash settlements received. During the year ended December 31, 2020, rental income from our residential rental properties decreased by approximately $93 thousand. During the year ended December 31, 2020, we sold three of our residential rental properties and realized a gain of approximately $201 thousand. During the year ended December 31, 2019, we sold one of our residential rental properties and realized a gain of approximately $31 thousand. During the year ended December 31, 2020, there was no impairment charge on our Non-Agency MBS, as compared to an impairment charge of approximately $2.1 million during the year ended December 31, 2019.

Total expenses were approximately $13.5 million for the year ended December 31, 2020, as compared to approximately $13.3 million for the year ended December 31, 2019. For the year ended December 31, 2020, we incurred management fees of approximately $5.6 million, which is based on a percentage of our equity (see Note 12, “Public Offerings and Capital Stock,” to the accompanying audited consolidated financial statements), as compared to management fees of approximately $6.7 million for the year ended December 31, 2019. Rental properties depreciation and expenses increased by $470 thousand during 2020. “Other expenses” increased by approximately $0.8 million, due primarily to approximately $1.4 million in expenses related to the Merger Agreement.

Years Ended December 31, 2019 and 2018

The discussion comparing the results of operations for the years ended December 31, 2019 and December 31, 2018 can be found in, and is incorporated herein by reference to, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations–Years Ended December 31, 2019 and 2018,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Financial Condition

MBS Portfolio

At December 31, 2020, we held Agency MBS which had an amortized cost of approximately $1.56 billion, consisting primarily of approximately $0.5 billion of adjustable-rate MBS and approximately $1.06 billion of fixed-rate MBS. This amount represents a decrease of approximately 55% from the $3.46 billion held at December 31, 2019. This decrease was due primarily to paydowns and sales of the portfolio. At December 31, 2020, as our Non-Agency MBS are now designated as trading securities, they had a carrying value and a fair value of approximately $206.9 million. At December 31, 2019, the Non-Agency MBS had an amortized cost of approximately $613.6 million, a fair value of approximately $643.6 million, and a contractually required principal of approximately $801.9 million. Due to the COVID-19 coronavirus pandemic, there was much volatility in the markets, and we sold a substantial portion of our Agency MBS and Non-Agency MBS portfolios during March and April 2020 to reduce leverage, maintain adequate liquidity, pay-down the balances on our repurchase agreements, and preserve over-collateralization for our repurchase agreements.

The following table presents a schedule of our MBS at fair value owned at December 31, 2020 and December 31, 2019 as classified by type of issuer:

	December 31, 2020		December 31, 2019	
Agency	**Fair Value (in thousands)**	**Portfolio Percentage**	**Fair Value (in thousands)**	**Portfolio Percentage**
Fannie Mae (FNM)	$ 1,067,375	58.3 %	$ 2,617,084	63.0 %
Freddie Mac (FHLMC)	556,979	30.4	892,967	21.5
Non-Agency MBS	206,933	11.3	643,610	15.5
Total MBS	$ 1,831,287	100.0 %	$ 4,153,661	100.0 %

The following table classifies our portfolio of MBS owned at December 31, 2020 and December 31, 2019 by type of interest rate index:

	December 31, 2020		December 31, 2019	
Index	Fair Value (in thousands)	Portfolio Percentage	Fair Value (in thousands)	Portfolio Percentage
Agency MBS:				
One-month LIBOR	$ 322	— %	$ 386	— %
Six-month LIBOR	1,069	0.1	1,426	—
One-year LIBOR	495,532	27.1	767,275	18.5
Six-month certificate of deposit	147	—	297	—
One-year constant maturity treasury	12,801	0.7	17,552	0.4
Cost of Funds Index	1,757	0.1	2,532	0.1
15-year fixed-rate	34,755	1.9	48,226	1.2
20-year fixed-rate	156,369	8.5	194,577	4.7
30-year fixed-rate	921,602	50.3	2,477,780	59.6
Total Agency MBS	$ 1,624,354	88.7 %	$ 3,510,051	84.5 %
Non-Agency MBS	206,933	11.3	643,610	15.5
Total MBS	$ 1,831,287	100.0 %	$ 4,153,661	100.0 %

The fair values indicated do not include interest earned but not yet paid. With respect to our hybrid adjustable-rate Agency MBS, the fair value of these securities appears on the line associated with the index based on which the security will eventually reset once the initial fixed interest rate period has expired. The fair value of our MBS is reported to us independently, either from third-party pricing services or from dealers who are major financial institutions and are considered to be market makers for these types of instruments. For more detail on the fair value of our MBS, see Note 9, "Fair Values of Financial Instruments," to the accompanying audited consolidated financial statements.

Agency MBS

The weighted average coupon and average amortized cost of our Agency MBS at December 31, 2020, September 30, 2020, June 30, 2020, March 31, 2020, and December 31, 2019 were as follows:

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Agency MBS Portfolio:					
Weighted Average Coupon:					
Adjustable-rate Agency MBS	2.80 %	3.16 %	3.47 %	3.78 %	3.95 %
Hybrid adjustable-rate Agency MBS	2.73	2.74	2.76	2.78	2.78
15-year fixed-rate Agency MBS	3.50	3.50	3.50	3.50	3.50
20-year fixed-rate Agency MBS	3.56	3.56	3.56	3.56	3.56
30-year fixed-rate Agency MBS	3.61	4.00	4.00	3.79	3.56
Total Agency MBS	3.34 %	3.58 %	3.66 %	3.64 %	3.54 %
Average Amortized Cost:					
Adjustable-rate Agency MBS	101.99 %	102.02 %	102.16 %	101.96 %	102.04 %
Hybrid adjustable-rate Agency MBS	101.30	101.51	101.84	102.09	102.11
15-year fixed-rate Agency MBS	101.50	101.51	101.72	101.75	101.81
20-year fixed-rate Agency MBS	103.28	103.35	103.76	103.83	103.96
30-year fixed-rate Agency MBS	102.81	102.23	102.51	102.54	102.33
Total Agency MBS	102.49 %	102.18 %	102.44 %	102.47 %	102.35 %
Current yield on Agency MBS (weighted average coupon divided by average amortized cost)	3.26 %	3.51 %	3.57 %	3.56 %	3.46 %

At December 31, 2020 and December 31, 2019, the unamortized net premium paid for our Agency MBS was approximately $37.8 million and $79.4 million, respectively.

At December 31, 2020, the current yield on our Agency MBS decreased to 3.26% from 3.46% at December 31, 2019. This was due primarily to the decrease in the weighted average coupon. As noted in the trend above, the weighted average coupon has decreased by approximately 20 basis points from December 31, 2019. During the three months ended December 31, 2020, the weighted average coupon for our total Agency MBS decreased by 24 basis points, due primarily to the decrease in the coupon on 30-year fixed-rate MBS. One of the factors that also impact the reported yield on our MBS portfolio is the actual prepayment rate on the underlying mortgages. We analyze our MBS and the extent to which prepayments impact the yield. When the rate of prepayments exceeds expectations, we amortize the premiums paid on mortgage assets over a shorter time period, resulting in a reduced yield to maturity on our mortgage assets. Conversely, if actual prepayments are less than the assumed constant prepayment rate, the premium would be amortized over a longer time period, resulting in a higher yield to maturity.

Non-Agency MBS

Non-Agency MBS yields are based on our estimate of the timing and amount of future cash flows and our cost basis. Our cash flow estimates for these investments are based on our observations of current information and events and include assumptions related to interest rates, prepayment rates and the timing and amount of credit losses and other factors.

Non-Agency MBS include the following types of securities:

- *Legacy Non-Agency MBS* – These are collateralized by loans that were generally originated prior to the 2008 financial crisis and, therefore, trade at a deep discount due to having experienced high levels of defaults by the underlying borrowers. While these underlying loans will generally experience losses, the securities were generally acquired at deep discounts to face/par value, which we believe serves to mitigate this potential exposure to credit risk;

- *Non-performing* – These are collateralized by loans that were generally originated prior to 2008 and have been repackaged into newer securitization pools. They may or may not be currently non-performing or delinquent but there is a higher expectation of loss on these loans. Resolution of these loans typically occurs from loan modifications, short sales, and foreclosures. These loan pools usually have a greater degree of overcollateralization to support the securities; and

- *Credit Risk Transfer* – These securities are designed to synthetically transfer mortgage credit risk from Fannie Mae, Freddie Mac, and other issuers to private investors. As loans default, the securities may incur principal write-downs. These are allocated to the tranches within a deal according to the cash flow structure of the securities.

At March 31, 2020, our Non-Agency MBS were designated as trading securities and are carried at fair value.

The following table summarizes our Non-Agency MBS portfolio by type at December 31, 2020 and December 31, 2019:

December 31, 2020

Portfolio Type	Fair Value	Weighted Average Coupon	Weighted Average Fair Market Price
	(in thousands)		
Legacy Non-Agency MBS	$ 101,149	5.21 %	$ 62.57
Non-performing	9,860	6.35	98.60
Credit Risk Transfer	95,924	4.12	101.20
Total Non-Agency MBS	$ 206,933	4.86 %	$ 77.67

December 31, 2019

Portfolio Type	Fair Value	Amortized Cost	Contractual Principal	Weighted Average Amortized Cost	Weighted Average Coupon	Weighted Average Yield
		(in thousands)				
Legacy Non-Agency MBS	$ 497,408	$ 477,786	$ 655,447	72.9 %	5.52 %	5.49 %
Non-performing	11,052	10,938	11,000	99.4	5.50	6.05
Credit Risk Transfer	135,150	124,852	135,489	92.2	4.20	5.80
Total Non-Agency MBS	$ 643,610	$ 613,576	$ 801,936	76.5 %	5.30 %	5.56 %

Financing

The following information pertains to our repurchase agreement borrowings at December 31, 2020, September 30, 2020, June 30, 2020, March 31, 2020, December 31, 2019, and December 31, 2018:

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	December 31, 2018
	(dollar amounts in thousands)					
Total repurchase agreements outstanding	$ 1,470,620	$ 1,464,593	$ 1,697,181	$ 2,473,134	$ 3,657,873	$ 3,811,627
Average repurchase agreements outstanding during the quarter	$ 1,400,044	$ 1,587,115	$ 1,919,736	$ 3,476,576	$ 3,322,672	$ 3,891,158
Average repurchase agreements outstanding during the year	$ 2,106,400	$ N/A	$ N/A	$ N/A	$ 3,516,634	$ 4,110,250
Maximum monthly amount during the quarter	$ 1,470,620	$ 1,621,431	$ 1,847,853	$ 3,607,774	$ 3,657,873	$ 3,914,585
Maximum monthly amount during the year	$ 3,607,774	$ N/A	$ N/A	$ N/A	$ 4,214,226	$ 4,357,754
Average interest rate on outstanding repurchase agreements	0.33 %	0.35 %	0.39 %	1.86 %	2.07 %	2.67 %
Average days to maturity	30 days	26 days	23 days	29 days	28 days	32 days
Average interest rate after adjusting for interest rate swaps	1.38 %	1.44 %	1.24 %	2.15 %	2.13 %	2.23 %
Weighted average maturity after adjusting for interest rate swaps	1,047 days	1,091 days	983 days	859 days	978 days	1,217 days

At December 31, 2020, the repurchase agreements had the following balances, weighted average interest rates, and remaining weighted average maturities:

	Agency MBS		Non-Agency MBS		Total MBS	
	Balance (in thousands)	Weighted Average Interest Rate	Balance (in thousands)	Weighted Average Interest Rate	Balance (in thousands)	Weighted Average Interest Rate
Overnight	$ —	— %	$ —	— %	$ —	— %
Less than 30 days	710,000	0.21	48,936	2.01	758,936	0.32
30 days to 90 days	655,000	0.21	56,684	1.85	711,684	0.34
Over 90 days	—	—	—	—	—	—
Demand	—	—	—	—	—	—
	$ 1,365,000	0.21 %	$ 105,620	1.92 %	$ 1,470,620	0.33 %
Weighted average maturity	29 days		49 days		30 days	
Weighted average interest rate after adjusting for interest rate swaps					1.38 %	
Weighted average maturity after adjusting for interest rate swaps					1,047 days	
MBS pledged as collateral under the repurchase agreements and interest rate swaps	$ 1,437,565		$ 166,140		$ 1,603,705	

At December 31, 2019, the repurchase agreements had the following balances, weighted average interest rates, and remaining weighted average maturities:

	Agency MBS		Non-Agency MBS		Total MBS	
	Balance (in thousands)	Weighted Average Interest Rate	Balance (in thousands)	Weighted Average Interest Rate	Balance (in thousands)	Weighted Average Interest Rate
Overnight	$ —	—%	$ —	—%	$ —	—%
Less than 30 days	1,680,000	2.04	427,873	2.80	2,107,873	2.20
30 days to 90 days	1,550,000	1.89	—	—	1,550,000	1.89
Over 90 days	—	—	—	—	—	—
Demand	—	—	—	—	—	—
	$ 3,230,000	1.97 %	$ 427,873	2.80 %	$ 3,657,873	2.07 %
Weighted average maturity	30 days		11 days		28 days	
Weighted average interest rate after adjusting for interest rate swaps					2.13 %	
Weighted average maturity after adjusting for interest rate swaps					978 days	
MBS pledged as collateral under the repurchase agreements and interest rate swaps	$ 3,419,375		$ 535,315		$ 3,954,690	

The average interest rate on outstanding repurchase agreements, after adjusting for interest rate swap transactions, decreased from 2.13% at December 31, 2019 to 1.38% at December 31, 2020. The decrease was due primarily to a reduction in the repurchase agreement weighted average interest rate, from 2.07% at December 31, 2019 to 0.33% at December 31, 2020. The weighted average term to next rate adjustment after adjusting for interest rate swap transactions increased from 978 days at December 31, 2019 to 1,047 days at December 31, 2020. This was due primarily to the increase in the weighted average maturity of the swap agreements, as shown in the table under "Hedging Strategies."

Residential Mortgage Loans Held-for-Securitization

At December 31, 2020, we owned approximately $109.3 million of residential mortgage loans which are being held until we have a sufficient quantity for securitization. Non-QM loans do not comply with the rules of the Consumer Financial Protection Bureau, or the CFPB, relating to Qualified Mortgages. Post-crisis, the CFPB issued rules on what is required for a loan to be qualified as a Qualified Mortgage, or QM. These rules have certain requirements, such as debt-to-income ratio, being fully-amortizing, and limits on loan fees. Non-QM loans do not comply with at least one of these requirements, but that does not necessarily imply that they carry more risk. Even though these loans may not have traditional documentation of income, such as a Form W-2 or paychecks, they generally have stated income and may have alternate documentation, such as bank statements, CPA letters, or tax returns. The loans we are acquiring have high FICO scores, as well as other strong borrower attributes, which are factors we analyze in making acquisitions. See Note 4, “Residential Mortgage Loans Held-for-Securitization,” to our accompanying audited consolidated financial statements for more information regarding the residential mortgage loans held-for-securitization.

These loans are financed by a warehouse line of credit. In July 2020, we entered into a new agreement with the same lender to renew the line of credit in the amount of $300 million and a term of one year. At December 31, 2020, the amount outstanding on this line of credit (including warehouse transaction costs) was $90.2 million. The interest rate on the amounts advanced under this line of credit is at LIBOR + 3.00%, which was 3.50% at December 31, 2020. Additionally, we paid a facility fee on this line of credit for the first six months of 2020, which was approximately $375 thousand. Under the terms of the new agreement, the facility fee was terminated, and we now pay a funding fee of 0.50% on new advances under this line of credit with a minimum fee of $150 thousand per quarter. During the year ended December 31, 2020, this funding fee was $300 thousand. Various fees plus legal fees paid to secure this line of credit are being amortized over one year. See Note 9, “Fair Values of Financial Instruments,” to the accompanying audited consolidated financial statements for more information regarding the fair value of these investments and their related financing.

Residential Mortgage Loans Held-for-Investment Through Consolidated Securitization Trusts

At December 31, 2020, we owned approximately $8.7 million in net interests on certain securitization trusts. The underlying mortgage loans held in the securitization trusts (classified as residential mortgage loans held-for-investment through consolidated securitization trusts) and the related financing (asset-backed securities issued by the securitization trusts) are consolidated on our consolidated balance sheets and are carried at cost. See Note 5, “Variable Interest Entities,” to the accompanying audited consolidated financial statements for more information regarding consolidation of the securitization trusts. See Note 9, “Fair Values of Financial Instruments,” to the accompanying audited consolidated financial statements for more information regarding the fair value of these investments and their related financing.

Residential Properties Portfolio

At December 31, 2020, we owned 82 single-family residential properties which are all located in Southeastern Florida and are carried at a total cost, net of accumulated depreciation, of approximately $12.7 million. During the year ended December 31, 2020, we sold three properties for a gain of approximately $201 thousand. At December 31, 2019, we owned 85 single-family residential properties which are all located in Southeastern Florida and were carried at a total cost, net of accumulated depreciation, of approximately $13.5 million. During the year ended December 31, 2019, we sold one of our residential properties for a gain of approximately $31 thousand.

Hedging Strategies

As we intend to hedge our exposure to rising rates on funds borrowed to finance our investments in securities, we periodically enter into derivative transactions, primarily in the form of interest rate swaps. We designate interest rate swaps as cash flow hedges for tax purposes. To the extent that we enter into hedging transactions to reduce our interest rate risk on indebtedness incurred to acquire or carry real estate assets, any income or gain from the disposition of hedging transactions should be qualifying income under the REIT rules for purposes of the 75% and 95% gross income test. To qualify for this exclusion, the hedging transaction must be clearly identified as such before the close of the day on which it was acquired, originated or entered into.

As part of our asset/liability management policy, we may enter into hedging agreements, such as interest rate swaps. These agreements are entered into to try to reduce interest rate risk and are designed to provide us with income and capital appreciation in the event of certain changes in interest rates. We review the need for hedging agreements on a regular basis consistent with our capital investment policy. Interest rate swaps are derivative instruments as defined by ASC 815-10. We do not anticipate entering into derivative transactions for speculative or trading purposes. In accordance with the swap agreements, we pay a fixed-rate of interest during the term of the interest rate swaps and we receive a payment that varies with the three-month LIBOR rate.

The following table pertains to all of our interest rate swaps at each quarter-end for the years ended December 31, 2020 and December 31, 2019:

	Year Ended December 31, 2020				Year Ended December 31, 2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Aggregate notional amount of interest rate swaps(1)	$715 million	$765 million	$915 million	$1.276 billion	$2.501 billion	$2.191 billion	$2.956 billion	$3.356 billion
Average maturity of interest rate swaps	5.9 years	5.8 years	5.1 years	4.6 years	4.0 years	3.9 years	3.6 years	3.9 years
Weighted average fixed-rate paid on interest rate swaps	2.38 %	2.34 %	2.23 %	2.10 %	2.02 %	2.08 %	2.09 %	2.13 %

(1) This table excludes $162.5 million in notional amount of OIS swaps that we received in the transition from LIBOR to OIS rates.

Interest rate swaps are used to provide protection from increases in interest rates having a negative impact on the market value of our portfolio that could result in our lenders requiring additional collateral for our repurchase agreement borrowings. An increase or decrease in the notional value of these agreements or contracts usually provides an increase or decrease in protection to our portfolio's change in value due to interest rate changes. However, there are other methods that can also lessen our portfolio's change in value due to interest rate increases. Among them are acquiring mortgages that are inherently less sensitive to interest rate changes and borrowings using long-term agreements.

After August 22, 2014, none of our interest rate swaps were designated for hedge accounting. For both terminated interest rate swaps and the de-designated interest rate swaps, as long as there is the probability that the forecasted transactions that were being hedged (i.e., rollovers of our repurchase agreement borrowings) are still expected to occur, the amount of the gain or loss in AOCI remains in AOCI and is amortized over the remaining term of the interest rate swaps. At December 31, 2020, the net unrealized loss in AOCI on the interest rate swaps was approximately $4.3 million, as compared to an unrealized loss of approximately $7.6 million at December 31, 2019.

At December 31, 2020, we had approximately $700 million in notional amount of TBA Agency MBS, as compared to approximately $250 million in notional amount of TBA Agency MBS at December 31, 2019.

For more information on the amounts, policies, objectives and other qualitative data on our derivatives, see Notes 1, 9, and 15 to the accompanying consolidated financial statements.

Liquidity and Capital Resources

Agency MBS and Non-Agency MBS Portfolios

Our primary source of funds consists of repurchase agreements which totaled $1.47 billion at December 31, 2020. As collateral for the repurchase agreements and interest rate swaps, we had pledged approximately $1.44 billion in Agency MBS and approximately $166 million in Non-Agency MBS. Our other significant sources of funds for the year ended December 31, 2020 consisted of payments of principal from our MBS portfolios in the amount of $825.8 million and proceeds from the sales of MBS of approximately $1.7 billion.

For the year ended December 31, 2020, there was a net increase in cash, cash equivalents, and restricted cash of approximately $32.2 million. This consisted of the following components:

- Net cash provided by operating activities for the year ended December 31, 2020 was approximately $62.1 million. This is comprised primarily of a net loss of $103.7 million and adding back or subtracting the following non-cash items: the amortization of premium and discounts on Agency MBS of approximately $24.6 million; accretion of discounts on Non-Agency MBS of approximately $1.3 million; depreciation on rental properties of $476 thousand; amortization of premium on residential loans of $1.3 million; a realized net loss on sales of available-for-sale Non-Agency MBS of approximately $55.4 million; provision for loan losses of $0.7 million; a loss on interest rate swaps of approximately $102.4 million; the amortization of restricted stock of $16 thousand; and a net loss on Non-Agency MBS held as trading investments of approximately $15.5 million, partially offset by net settlements on interest rate swaps, net of amortization, of approximately $7.6 million; a gain on derivatives, net of derivative income on TBA Agency MBS, of approximately $28.8 million; a realized gain on sales of available-for-sale Agency MBS of approximately $15.8 million; a net gain on Trading Agency MBS of approximately $3.6 million; a gain on sale of residential properties of $201 thousand; and accretion of discount on residential mortgage loans of approximately $116 thousand. Net cash provided by operating activities also included a decrease in interest receivable of approximately $5.7 million; a decrease in reverse repurchase agreements of approximately $15 million; and a decrease in prepaid expenses of approximately $10.6 million, partially offset by a decrease in accrued interest payable of approximately $6.5 million and a decrease in accrued expenses of approximately $4.6 million;

- Net cash provided by investing activities for the year ended December 31, 2020 was approximately $2.27 billion, which consisted of $825.8 million from principal payments on MBS; proceeds from sales of MBS of approximately $1.7 billion; payments on residential mortgage loans held-for-investment through consolidated securitization trusts of approximately $141 thousand; principal payments on loans held-for-securitization of $41.4 million; and sales of residential properties of approximately $662 thousand, partially offset by purchases of MBS of approximately $0.3 billion; purchases of residential mortgage loans held-for-securitization of approximately $4.8 million; and improvements on residential properties of approximately $257 thousand; and

- Net cash (used in) financing activities for the year ended December 31, 2020 was approximately $2.3 billion. This consisted of borrowings on repurchase agreements of approximately $17.6 billion, offset by repayments on repurchase agreements of approximately $19.8 billion; proceeds from sales of common stock of approximately $0.8 million; net settlements on TBA Agency MBS of approximately $22 million; and derivative counterparty margin of $4.9 million, partially offset by repayments on the warehouse line of credit of $43.9 million; dividends paid of $23.8 million on common stock; dividends paid of approximately $9.2 million on preferred stock; and termination of interest rate swaps of $62.9 million.

At December 31, 2020, our leverage (excluding the ABS issued by securitization trusts) on total capital (including all preferred stock and junior subordinated notes) decreased from 6.2x at December 31, 2019 to 3.4x at December 31, 2020. The decrease in our leverage was due primarily to a decrease in repurchase agreements and credit line outstanding, from $3.79 billion at December 31, 2019 to $1.56 billion at December 31, 2020, partially offset by a decrease in our total capital (as described above), from $609.4 million at December 31, 2019 to $465.9 million at December 31, 2020.

In the future, we expect that our primary sources of funds will continue to consist of borrowed funds under repurchase agreement transactions and of monthly payments of principal and interest on our MBS portfolios. Our liquid assets generally consist of unpledged MBS, cash and cash equivalents. A large negative change in the market value of our MBS might reduce our liquidity, requiring us to sell assets with the likely result of realized losses upon sale.

During the year ended December 31, 2020, we raised approximately $763 thousand in capital under our Dividend Reinvestment and Stock Purchase Plan.

At December 31, 2020, our authorized capital included 20 million shares of $0.01 par value preferred stock, which we have classified as Series A Cumulative Preferred Stock, or Series A Preferred Stock, Series B Cumulative

Convertible Preferred Stock, or Series B Preferred Stock, and Series C Cumulative Redeemable Preferred Stock, or Series C Preferred Stock.

On August 10, 2016, we entered into an At Market Issuance Sales Agreement, or the FBR Sales Agreement, with FBR Capital Markets & Co., or FBR, pursuant to which we may offer and sell from time to time through FBR, as our agent, up to $196,615,000 maximum aggregate amount of our common stock, Series B Preferred Stock, and Series C Preferred Stock, in such amounts as we may specify by notice to FBR, in accordance with the terms and conditions set forth in the FBR Sales Agreement. During the year ended December 31, 2020, we did not sell any shares of stock under the FBR Sales Agreement. At December 31, 2020, there was approximately $152.7 million available for sale and issuance under the FBR Sales Agreement.

On October 3, 2011, we announced that our Board had authorized a share repurchase program which permitted us to acquire up to 2,000,000 shares of our common stock. The shares are expected to be acquired at prevailing prices through open market transactions. Our Board also authorized the Company to purchase an amount of our common stock up to the amount of common stock sold through our Dividend Reinvestment and Stock Purchase Plan. Subsequently, our Board authorized the Company to acquire an aggregate of an additional 45,000,000 shares (pursuant to six separate authorizations) between December 13, 2013 and January 22, 2016. In December 2019, our Board decided to no longer include the amount of common stock sold through our Dividend Reinvestment and Stock Purchase Plan as an amount of stock available for repurchase. During the year ended December 31, 2020, we did not repurchase any shares of our common stock under our share repurchase program.

Disclosure of Contractual Obligations

The following table represents the contractual obligations of the Company at December 31, 2020:

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
		(in thousands)			
Repurchase agreements[1]	$ 1,470,620	$ 1,470,620	$ —	$ —	$ —
Warehouse line of credit	90,185	90,185	—	—	—
Junior subordinated notes[2]	37,380	—	—	—	37,380
Lease commitment	822	545	277	—	—
Total	$ 1,599,007	$ 1,561,350	$ 277	$ —	$ 37,380

(1) These represent amounts due by maturity.
(2) These represent amounts due by contractual maturity. However, we do have the option to redeem these as more fully described in Note 8, “Junior Subordinated Notes,” to the accompanying audited consolidated financial statements.

Stockholders’ Equity

We use available-for-sale treatment for most of our Agency MBS, which are carried on our consolidated balance sheets at fair value rather than historical cost. Based upon this treatment, our total equity base at December 31, 2020 was $409.0 million. Common stockholders’ equity was approximately $310.8 million, or a book value of $3.13 per common share. Common stockholders’ equity serves as the basis for how book value per common share is calculated.

Under our available-for-sale accounting treatment used for most of our MBS, unrealized fluctuations in fair values of assets are assessed to determine whether they are other-than-temporary. To the extent we determine that these unrealized fluctuations are not other-than-temporary, they do not impact GAAP income or taxable income but rather are reflected on our consolidated balance sheets by changing the carrying value of the assets and reflecting the change in the “Stockholders’ Equity” section under “Accumulated other comprehensive income, unrealized gain (loss) on available-for-sale securities.”

As a result of this mark-to-market accounting treatment, our book value and book value per share are likely to fluctuate far more than if we used historical amortized cost accounting on all of our assets. As a result, comparisons with some companies that use historical cost accounting for all of their balance sheets may not be meaningful.

Unrealized changes in the fair value of MBS have one significant and direct effect on our potential earnings and dividends: positive fair value changes will increase our equity base and allow us to increase our borrowing capacity, while negative changes will tend to reduce borrowing capacity under our capital investment policy. A very large negative change in the net market value of our MBS might reduce our liquidity, requiring us to sell assets with the likely result of realized losses upon sale. “Accumulated other comprehensive income, unrealized gain” on available-for-sale Agency MBS was approximately $58.8 million, or 4.06% of the amortized cost of our Agency MBS, at December 31, 2020. This, along with “Accumulated other comprehensive loss, derivatives” of approximately $4.3 million, constitutes the total “Accumulated other comprehensive income consisting of unrealized gains and losses” of approximately $54.5 million.

Non-GAAP Financial Measures Related to Operating Results

In addition to the Company’s operating results presented in accordance with GAAP, the following table includes the following non-GAAP financial measures: core earnings (including per common share), TBA dollar roll income, and paydown expense on Agency MBS. The table below reconciles the Company’s net loss to common stockholders for the year ended December 31, 2020 to core earnings for the same period. Core earnings represents the net loss to common stockholders (which is the nearest comparable GAAP measure) adjusted for the items shown in the table below.

The Company’s management believes that:

- these non-GAAP financial measures are useful because they provide investors with greater transparency to the information that the Company uses in its financial and operational decision-making process;

- the inclusion of paydown expense on Agency MBS is more indicative of the current earnings potential of the Company’s investment portfolio, as it reflects the actual principal paydowns which occurred during the period. Paydown expense on Agency MBS is not dependent on future assumptions on prepayments or the cumulative effect from prior periods of any current changes to those assumptions, as is the case with the GAAP measure, “Premium amortization on Agency MBS”;

- the adjustment for merger expenses, as these are not indicative of current earnings potential; and

- the presentation of these measures, when analyzed in conjunction with the Company’s GAAP operating results, allows investors to more effectively evaluate the Company’s performance to that of its peers, particularly those that have discontinued hedge accounting and those that have used similar portfolio and derivative strategies.

These non-GAAP financial measures should not be used as a substitute for the Company’s operating results for the year ended December 31, 2020. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP.

Core Earnings

	Year Ended December 31, 2020	
	Amount (in thousands)	Per Share
Net (loss) to common stockholders	$ (112,882)	$ (1.14)
Adjustments to derive core earnings:		
Realized net (gain) on sales of Agency MBS	(15,805)	(0.16)
Realized net loss on sales of Non-Agency MBS	55,390	0.56
Net (gain) on Agency MBS held as trading investments	(3,629)	(0.04)
Net loss on Non-Agency MBS held as trading securities	15,537	0.16
Loss on interest rate swaps, net	106,334	1.07
(Gain) on derivatives-TBA Agency MBS, net	(28,213)	(0.28)
(Gain) on sales of residential properties	(201)	—
Net settlement on interest rate swaps after de-designation(1)	(11,539)	(0.12)
Dollar roll income on TBA Agency MBS(2)	8,514	0.09
Premium amortization on MBS	24,577	0.25
Paydown expense(3)	(22,092)	(0.22)
Depreciation expense and non-recurring expenses on residential rental properties	891	0.01
Deferred payments on modifications/forbearance agreements(4)	301	—
Expenses related to the Merger Agreement(5)	1,369	0.01
Core earnings	$ 18,552	$ 0.19
Basic weighted average number of shares outstanding	99,048	

(1) Net settlement on interest rate swaps after de-designation include all subsequent net payments made on interest rate swaps which were de-designated as hedges in August 2014 and are recorded in “Loss on interest rate swaps, net.”
(2) Dollar roll income on TBA Agency MBS is the income resulting from the price discount typically obtained by extending the settlement of TBA Agency MBS to a later date. This is a component of the “Loss on derivatives, net” that is shown on the Company’s consolidated financial statements.
(3) Paydown expense on Agency MBS represents the proportional expense of Agency MBS purchase premiums relative to the Agency MBS principal payments and prepayments which occurred during the three-month period.
(4) The Trustee reported these amounts as losses in the securitization trusts, but these payments are due upon liquidation or maturity.
(5) Expenses related to the Merger Agreement are added back, as they are not indicative of earnings potential.

Critical Accounting Policies and Estimates

Management has the obligation to ensure that its policies and methodologies are in accordance with GAAP. Management has reviewed and evaluated its critical accounting policies and believes them to be appropriate.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying audited consolidated financial statements. In preparing these audited consolidated financial statements, management has made its best estimates and judgments on the basis of information then readily available to it of certain amounts included in the audited consolidated financial statements, giving due consideration to materiality. Application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ materially and adversely from these estimates.

Our accounting policies are described in Note 1, “Organization and Significant Accounting Policies,” to the accompanying audited consolidated financial statements. Management believes the more significant of our accounting policies are the following:

Income Recognition

The most significant source of our income is derived from our investments in Agency MBS. We reflect income using the effective yield method which, through amortization of premiums and accretion of discounts at an effective yield, recognizes periodic income over the estimated life of the investment on a constant yield basis, as adjusted for actual prepayment activity and estimated prepayments. Management believes our revenue recognition policies are appropriate to reflect the substance of the underlying transactions.

Interest income on our Agency MBS is accrued based on the actual coupon rate and the outstanding principal amounts of the underlying mortgages. Premiums and discounts are amortized or accreted into interest income over the expected lives of the securities using the effective interest yield method, adjusted for the effects of actual prepayments and estimated prepayments based on ASC 320-10.

Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, street consensus prepayment speeds and current market conditions. If our estimate of prepayments is incorrect, we may be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income, which could be material and adverse.

The vast majority of our Non-Agency MBS had previously been accounted for under “Loans and Debt Securities Acquired with Credit Deterioration” (ASC 310-30). Under CECL, debt securities previously accounted for as assets acquired with credit impairment (PCI) are treated as assets acquired with credit deterioration (PCD). Under ASC 326, PCD assets that are also available-for-sale debt securities follow the available-for-sale debt security impairment model. This compares the fair value of a security with its amortized cost. If the fair value of a security exceeds its amortized cost, there is no credit loss. If the fair value of a security is less than its amortized cost, then the security is impaired and further assessment needs to be done to determine if the decline in fair value is due to a credit loss or to other factors. The first step in this assessment process is for an entity to determine whether it had the intent to sell the security, or the ability to hold the security until the expected recovery of its amortized cost basis, or until maturity. If an entity did not have either the intent or the ability to hold the security until the expected recovery of the amortized cost basis, then the amortized cost basis is written down to the debt security’s fair value through earnings.

Upon the adoption of CECL at January 1, 2020, we reviewed those Non-Agency MBS that were in an unrealized loss position to determine if there was any credit loss. In our Annual Report on Form 10-K for the year ended December 31, 2019, we stated the following: “On the Non-Agency MBS that were in an unrealized loss position, at December 31, 2019, we did not expect to sell these Non-Agency MBS at a price less than the amortized cost basis of our investments. Because the decline in market value on these Non-Agency MBS is attributable to changes in interest rate and not the credit quality of the Non-Agency MBS in our portfolio, and because we did not have the intent to sell these investments, nor is it more likely than not that we will be required to sell these investments before recovery of their amortized cost basis, which may be at maturity, we do not consider these investments to be other-than-temporarily impaired.” On January 1, 2020, when we adopted CECL, we reviewed our assessment of the Non-Agency MBS in an unrealized loss position at December 31, 2020, and concluded that there was no credit loss on these securities. Our conclusion included a review of factors such as the ratings of these securities by rating agencies, the payment structure of these securities, whether the issuer has continued to make payments of principal and interest, and review of prepayment speeds, delinquency, and default rates.

At March 31, 2020, we changed the designation of our Non-Agency MBS from available-for-sale securities to trading securities. The reason for this change in designation was due to the negative effects on the economy resulting from the COVID-19 coronavirus pandemic and the high volatility in the market for Non-Agency MBS. Starting in the third week in March 2020, we began receiving requests from our repurchase agreement counterparties for margin calls, increases in the haircuts (the amount of coverage on the collateral securing the repurchase agreement financing), and higher interest rates. This all resulted from the perceived damage to the economy from the COVID-19 coronavirus pandemic. After the Federal Reserve stepped in and supported the Agency MBS market, the prices for Agency MBS stabilized. The Non-Agency MBS market was still volatile (with non-agency prices continuing to decline). We sold a substantial portion of our Non-Agency MBS in order to reduce leverage, maintain adequate liquidity, pay-down the balances on our repurchase agreement borrowings, and preserve over-collateralization for our repurchase agreement

lenders. Due to the high volatility in the market for Non-Agency MBS, and the more restrictive terms by our repurchase agreement counterparties on these securities, we felt that we could no longer state that we had the intent and the ability to hold these securities until recovery of their amortized cost basis, or until maturity. Therefore, we changed the designation of these securities to trading securities as of March 31, 2020. Once an entity elects to classify a security as a trading security, it should be prepared to maintain that classification until the security is sold or matures.
Transfer of securities from available-for-sale to trading securities means that the unrealized gains and losses that were in accumulated other comprehensive income are reported through earnings as unrealized gains or losses as of the date of the change in designation. Trading securities are subsequently measured at fair value, with the changes in fair value reported in income in the period the change occurs.

Interest income on the Non-Agency MBS that were purchased at a discount to par value, and were rated below AA at the time of purchase, was previously recognized based on the security's effective interest rate. The effective interest rate on these securities was based on the projected cash flows from each security, which was estimated based on our observation of current information and events, and include assumptions related to interest rates, prepayment rates, and the timing and amount of credit losses. On at least a quarterly basis, we reviewed and, if appropriate, made adjustments to our cash flow projections based on input and analysis received from external sources, internal models, and our 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, resulted in a prospective change in the yield/interest income recognized on such securities. Actual maturities of these Non-Agency MBS were affected by the contractual lives of the associated mortgage collateral, periodic payments of principal, and prepayments of principal. Therefore, actual maturities of these securities are generally shorter than stated contractual maturities. Stated contractual maturities are generally greater than ten years. At March 31, 2020, we designated our Non-Agency MBS as trading securities. On a prospective basis, interest income is recognized based on the actual coupon rate and the outstanding principal amount. Securities transactions are recorded on the date the securities are purchased or sold. Realized gains or losses from securities transactions are determined based on the specific identified cost of the securities.

Valuation and Classification of Investment Securities

We carry our investment securities on our consolidated balance sheets at fair value. The fair values of our Agency MBS are primarily based on third party bid price indications provided by independent third-party pricing services. If, in the opinion of management, one or more securities prices reported to us are not reliable or unavailable, management reviews the fair value based on characteristics of the security it receives from the issuer and available market information. The fair values reported reflect estimates and may not necessarily be indicative of the amounts we could realize in a current market exchange. We review various factors (i.e., expected cash flows, changes in interest rates, credit protection, etc.) in determining whether and to what extent an other-than-temporary impairment exists. The unrealized losses on our Agency MBS were primarily caused by fluctuations in interest rates due to market volatility resulting from the COVID-19 coronavirus pandemic and its negative effect on the economy, and not due to credit quality. At December 31, 2020, we did not have the intent to sell these investments, nor is it more likely than not that we will be required to sell these investments before recovery of their amortized cost basis, which may be at maturity. The payments of principal and interest on these securities are guaranteed by Fannie Mae and Freddie Mac, which are under the conservatorship of the U.S. government. Accordingly, there is zero loss expectation on these securities, and no allowance for credit losses has been recorded. Assets classified as trading investments are reported at fair value with unrealized gains and losses included in our consolidated statements of operations. For more detail on the fair value of our Agency MBS, see Note 9, "Fair Values of Financial Instruments," to the accompanying audited consolidated financial statements.

In determining the fair value of our Non-Agency MBS, management considers a number of observable market data points, including pricing from independent pricing services, prices obtained from well-known major financial brokers that make markets in these instruments, and timely trading activity in the marketplace. Management reviews these inputs in the valuation of our Non-Agency MBS. We understand that in order to determine the fair market value of a security, market participants not only consider the characteristics of the type of security and its underlying collateral but also take into consideration the historical performance data of the underlying collateral of that security including loan delinquency, loan losses and credit enhancement. In addition, we also collect and consider current market intelligence on all major markets, including benchmark security evaluations and bid list results from various sources. Upon the adoption of CECL on January 1, 2020, the unrealized losses on our investments in Non-Agency MBS were primarily caused by fluctuations in interest. We purchased the Non-Agency MBS primarily at a discount relative to their face value. At March 31, 2020, we designated these securities as trading securities, and they are carried at fair value. See the section on Non-Agency MBS under the caption, “Mortgage-Backed Securities,” in Significant Accounting Policies in Note 1, “Organization and Significant Accounting Policies,” to the accompanying audited consolidated financial statements.

Our MBS are valued using various market data points as described above, which management considers to be directly or indirectly observable parameters. Accordingly, our MBS are classified as Level 2 in the fair value hierarchy.

Residential Mortgage Loans Held-for-Securitization

Residential mortgage loans held-for-securitization are held at our wholly-owned subsidiary, Anworth Mortgage Loans, Inc., in connection with our intent to sponsor our own securitizations. Loans purchased with the intent to securitize are recorded on the trade date. Any fees associated with acquiring the loans held-for-securitization, as well as any premium paid to acquire the loans, are deferred. These are included in the loan balance and amortized using the effective interest yield method. Upon securitization, the costs of securitization such as underwriting fees, legal fees, and accounting fees are added to the loan balances and amortized using the effective interest yield method. Interest income is recorded as revenue when earned and deemed collectible or until a loan becomes more than 90 days’ past due, at which point the loan is placed on non-accrual status. When a non-accrual loan has been cured, meaning when all delinquent principal and interest have been remitted by the borrower, the loan is placed back on accrual status. Alternatively, nonaccrual loans may be placed back on accrual status after the loan is considered re-performing, generally when the loan has been current for 6 months. The estimates for the allowance for loan losses require consideration of various observable inputs including, but not limited to, historical loss experience, delinquency status, borrower credit scores, geographic concentrations and loan-to-value ratios, and are adjusted for current economic conditions as deemed necessary by management. Many of these factors are subjective and cannot be reduced to a mathematical formula. In addition, since we have not incurred any direct losses on our portfolio, we review national historical credit performance information from external sources to assist in our analysis. Changes in our estimates can significantly impact the allowance for loan losses and provision expense. The allowance reflects management’s best estimate of the credit losses inherent in the loan portfolio at the balance sheet date. It is also possible that we will experience credit losses that are different from our current estimates or that the time of those losses may differ from our estimates.

The residential mortgage loans held-for-securitization are financed by a warehouse line of credit. Fees incurred in securing the credit line are deducted from the amount outstanding under the line and are amortized to interest expense over the term of the credit line. Under this borrowing facility, we make various representations and warranties and the loans must also meet certain eligibility criteria. We may be required to remove a loan from a warehouse line of credit.
We do not maintain a loan repurchase reserve, as any risk of loss due to loan repurchase would normally be covered by recourse to the companies from which we acquired the loans.

Residential Mortgage Loans Held-for-Investment Through Consolidated Securitization Trusts

Residential mortgage loans held-for-investment through consolidated securitization trusts are carried at unpaid principal balance net of any allowance for loan losses. These estimates for the allowance for loan losses require consideration of various observable inputs including, but not limited to, historical loss experience, delinquency status, borrower credit scores, geographic concentrations and loan-to-value ratios, and are adjusted for current economic conditions as deemed necessary by management. Many of these factors are subjective and cannot be reduced to a mathematical formula. In addition, we review national historical credit performance information from external sources to assist in our analysis. Changes in our estimates can significantly impact the allowance for loan losses and provision expense. The allowance reflects management’s best estimate of the credit losses inherent in the loan portfolio at the balance sheet date. It is also possible that we will experience credit losses that are different from our current estimates or that the time of those losses may differ from our estimates.

Accounting for Derivatives and Hedging Activities

In accordance with ASC 815, we recognize all derivatives as either assets or liabilities and we measure these investments at fair value. Changes in fair value for derivatives not designated as hedges are recorded in our consolidated statements of operations as "(Loss) on derivatives, net."

In accordance with ASC 815-10, a derivative that is designated as a hedge is recognized as an asset/liability and measured at estimated fair value. In order for our interest rate swap agreements to qualify for hedge accounting, upon entering into the swap agreement, we must anticipate that the hedge will be highly "effective," as defined by ASC 815-10.

Prior to March 18, 2014 and August 22, 2014 (the dates when we de-designated our interest rate swaps from hedge accounting), on the date we entered into a derivative contract, we designated the derivative as a hedge of the variability of cash flows that were to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge). Changes in the fair value of a derivative that were highly effective and that were designated and qualified as a cash flow hedge, to the extent that the hedge was effective, were recorded in "other comprehensive income" and reclassified to income when the forecasted transaction affected income (e.g., when periodic settlement interest payments were due on repurchase agreements). The swap agreements were carried on our consolidated balance sheets at their fair value based on values obtained from large financial institutions who were market makers for these types of instruments. Hedge ineffectiveness, if any, was recorded in current-period income.

We formally assessed, both at the hedge's inception and on an ongoing basis, whether the derivatives that were used in hedging transactions were highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives were expected to remain highly effective in future periods. If it was determined that a derivative was not (or ceased to be) highly effective as a hedge, we discontinued hedge accounting.

When we discontinued hedge accounting, the gain or loss on the derivative remained in "Accumulated other comprehensive income (loss)" and is reclassified into income when the forecasted transaction affects income. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we carry the derivative at its fair value on our consolidated balance sheets, recognizing changes in the fair value in current-period income. At December 31, 2020, none of our derivative instruments were designated as hedges for accounting purposes.
For purposes of the cash flow statement, cash flows from derivative instruments were classified with the cash flows from the hedged item. Cash flows from derivatives that are not hedges are classified according to the underlying nature or purpose of the derivative. For more detail on our derivative instruments, see Notes 1, 9, and 15 to our accompanying audited consolidated financial statements.

Income Taxes

Our financial results do not reflect provisions for current or deferred income taxes. Management believes that we have and intend to continue to operate in a manner that will allow us to be taxed as a REIT and, as a result, management does not expect to pay substantial, if any, corporate level taxes. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax.

Recent and Recently Adopted Accounting Pronouncements

A description of recent and recently adopted accounting pronouncements, the date adoption is required, and the impact on our consolidated financial statements is contained in Note 1, "Organization and Significant Accounting Policies," to the accompanying audited consolidated financial statements.

Government Activity

Developments Concerning Fannie Mae and Freddie Mac

Payments on the Agency MBS in which we invest are guaranteed by Fannie Mae and Freddie Mac, which are stockholder corporations chartered by Congress with a public mission to provide liquidity, stability, and affordability to the U.S. housing market. Since 2008, Fannie Mae and Freddie Mac have been regulated by the Federal Housing Finance Agency, or the FHFA, the U.S. Department of Housing and Urban Development, the SEC, and the U.S. Department of the Treasury, or the U.S. Treasury, and are currently operating under the conservatorship of the FHFA. The U.S. Treasury has agreed to support the continuing operations of Fannie Mae and Freddie Mac with any necessary capital contributions while in conservatorship. However, the U.S. government does not guarantee the securities or other obligations of Fannie Mae or Freddie Mac.

Over the past several years, separate legislation has been introduced in both houses of the U.S. Congress to wind-down or reform both of these agencies. None of these bills have garnered enough support for a vote. It is currently unknown if, and when, any of these bills would become law and, if they did, what impact that would have on housing finance in general and what the impact would be on the existing securities guaranteed by Fannie Mae and Freddie Mac, as well as the impact on the pricing, supply, liquidity, and value of the MBS in which we invest.

Actions of the Federal Reserve

The outbreak of the COVID-19 coronavirus pandemic has created unprecedented economic disruption. In addition, measures to prevent the spread of the COVID-19 coronavirus have caused, and may continue to cause, substantial business closures, travel restrictions, and self-isolation. Most state and local governments, in coordination with the Federal government, have ordered people to stay home and mandated non-essential businesses to close. Millions of people have been laid off and have filed for unemployment benefits, potentially affecting their ability to make payments on their mortgage, rent, or other debt. In March 2020, the Federal Reserve took the following actions:

- On March 15, 2020, the Federal Reserve Open Market Committee, or the FOMC, lowered the fed funds rate to a target range of 0% to 0.25%. At its January 2021 meeting, the FOMC did not make any changes to this rate;

- The Federal Reserve increased holdings of U.S. Treasury securities by at least $500 billion and holdings of Agency MBS by at least $200 billion. It announced that it would also reinvest the principal from its holding into further acquisitions of Agency MBS;

- The FOMC announced it would expand its overnight and term repurchase agreement operations by trillions of dollars, which was designed to stabilize these markets;

- The Federal Reserve, in coordination with the Bank of England, Bank of Canada, Bank of Japan, the European Central Bank, and the Swiss National Bank, announced a coordinated action to enhance liquidity via standing U.S. dollar liquidity swap line agreements. The new lower rate will be the U.S. Overnight Index Swap, or the OIS, rate plus 25 basis points. This announcement is designed to reduce stress in global funding markets and to mitigate the stress on the supply of funds to households and businesses, both domestically and globally;

- The Federal Reserve enhanced the ability of banks and other financial institutions to access the Fed discount window, which supports the liquidity and stability of the banking system and the effective implementation of the monetary supply. The Fed primary credit rate was lowered by 150 basis points to 0.25%;

- The Federal Reserve established a Commercial Paper Funding Facility to support the flow of credit to consumers, such as through auto loans and mortgages, and to provide liquidity for the operational needs of a wide range of businesses. The U.S. Treasury has committed $10 billion to the Federal Reserve for this facility; and

- Congress passed the $2.2 trillion CARES Act to provide, through the U.S. Treasury and the Federal Reserve, aid to individuals and businesses. As part of this Act, lenders were encouraged to work with consumers struggling to make their loan payments by offering forbearance of several months to any persons who requested such assistance.

We cannot predict the economic impact of COVID-19 and the ultimate effect it will have on our business, nor can we predict whether the actions of the Federal Reserve, the U.S. government, state and local governments, and foreign governments will be successful, or whether future actions may be necessary. Although some of the actions have provided economic relief to individuals and businesses and may have stabilized, for the present time, certain lending markets, we cannot predict how the actions already taken, or those that may be taken, could impact our business, results of operations, and financial condition. These actions, while intending to help the economy currently, could have longer-term and broader implications, and could negatively affect the availability of financing and the quantity and quality of available mortgage products, and could cause changes in interest rates and the yield curve, any and each of which could materially and adversely affect our business, results of operations, and financial condition, as well as those of the entire mortgage sector in general, and the broader U.S. and global economies.

Other Recent Activity

During the past several years, there have been continuing liquidity and credit concerns surrounding the mortgage markets and the general global economy. While the U.S. government and other foreign governments have taken various actions to address these concerns, there are also concerns about the ability of the U.S. government to reduce its budget deficit as well as possible future rating downgrades of U.S. sovereign debt and government- sponsored agency debt. In December 2020, Congress passed a $2.3 trillion COVID-19 relief and government funding bill, which was signed by President Trump. A failure by the U.S. government to reach agreement on future budgets and debt ceilings, reduce its budget deficit, or a future downgrade of U.S. sovereign debt and government-sponsored agencies' debt, could have a material adverse effect on the U.S. economy and the global economy. These events could have a material adverse effect on our borrowing costs, the availability of financing, and the liquidity and valuation of securities in general, and also on the securities in our portfolio.

Over the past several years, U.S. and British banking authorities assessed fines on several major financial institutions for LIBOR manipulation. LIBOR is an unregulated rate based on estimates that lenders submitted to the British Bankers' Association, a trade group that compiled the information and published daily the LIBOR rate. On February 1, 2014, the administration of LIBOR was transferred from the British Bankers' Association to the Intercontinental Exchange Benchmark Administration, or the IBA, following authorization by the Financial Conduct Authority (the United Kingdom regulators). In July 2017, the Financial Conduct Authority announced that by the end of 2021, LIBOR would be replaced with a more reliable alternative. At this time, we do not know what changes will be made by the Financial Conduct Authority. In the United States, the Alternative Refinance Rates Committee selected the Secured Overnight Financing Rate, or SOFR, an overnight secured U.S. Treasury repurchase agreement rate, as the new rate, and adopted a proposed transition plan for the change from U.S. LIBOR to SOFR. The calculation of LIBOR under the IBA is the average of the interest rates that some of the world's leading banks charge each other for short-term loans. It is unclear at this time as to how the change to another alternative to LIBOR will affect the interest rates that repurchase agreement counterparties and lenders charge on borrowings in general and how they could specifically affect our borrowing agreements.

On June 23, 2016, the citizens of the United Kingdom, or the UK, voted to leave, or Brexit, the European Union, or the EU. The UK had two years from its formal notification of withdrawal (given on March 29, 2017) from the EU to negotiate a new treaty to replace the terms of its EU membership. The UK was due to leave the EU in March 2019 and EU leaders had adopted formal guidelines about the future relationship between the EU and the UK. It is unknown at this time what effects the Brexit vote and the UK/EU relationship will have on interest rates, on stock markets (over the longer term), and the effect on the U.S. economy and the global economy. The UK formerly left the EU on January 31, 2020.

On January 16, 2020, the U.S. Congress passed the USMCA trade agreement, which became effective after the legislatures of the United States, Mexico, and Canada all approved it. It is believed that the USMCA trade agreement will be beneficial to U.S. workers, manufacturers, and farmers in particular, as well as improving trade relations among all three nations.

Subsequent Events

Special Meeting of Stockholders

We have set March 17, 2021 as the date for the special meeting of our stockholders to, among other things, consider and vote on a proposal to approve the Merger. Stockholders of record as of the close of business on February 4, 2021 are entitled to vote at the special meeting. The Merger is subject to certain customary closing conditions and the receipt of approvals of the respective stockholders of the Company and Ready Capital.

Litigation Relating to the Merger

Seven putative class action lawsuits have been filed by purported stockholders of the Company relating to the Merger.

On January 7, 2021, Shiva Stein, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Shiva Stein v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00122 (referred to as the "Stein Action"). The Stein Action was filed against the Company and our board of directors in connection with the Merger Agreement. The complaint in the Stein Action asserts that the Form S-4 Registration Statement initially filed on January 4, 2021 in connection with the Merger (referred to as the "Initial S-4 Filing") contained materially incomplete and misleading information concerning financial projections and financial analyses in violation of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-9 promulgated thereunder. The Stein Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, compensatory damages against the defendants, and an award of attorneys' and experts' fees.

On January 12, 2021, Giuseppe Alescio, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Southern District of New York, styled *Giuseppe Alescio v. Anworth Mortgage Asset Corporation, et al.*, No. 1:21-cv-00258 (referred to as the "Alescio Action"). The Alescio Action was filed against the Company, our board of directors, Ready Capital, and Merger Sub. The complaint in the Alescio Action asserts that the Initial S-4 Filing omitted material information concerning financial forecasts and financial analyses in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Alescio Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, the filing of an amendment to the registration statement that does not contain any untrue statements of material fact and that states all material facts required in it or necessary to make the statements contained therein not misleading, and an award of attorneys' and experts' fees.

On January 19, 2021, Joseph Sheridan, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Southern District of New York, styled *Joseph Sheridan v. Anworth Mortgage Asset Corporation, et al.*, No. 1:21-cv-00465 (referred to as the "Sheridan Action"). The Sheridan Action was filed against the Company, our board of directors, Ready Capital, and Merger Sub. The complaint in the Sheridan Action asserts that the Initial S-4 Filing contained materially incomplete and misleading information concerning the sales process, financial projections, and financial analyses in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Sheridan Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, and an award of attorneys' and experts' fees.

On January 20, 2021, Ken Bishop, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Eastern District of New York, styled *Ken Bishop v. Anworth Mortgage Asset Corporation, et al.*, No. 1:21-cv-00331 (referred to as the "Bishop Action"). The Bishop Action was filed against the Company and our board of directors. The complaint in the Bishop Action asserts that the Initial S-4 Filing contained materially false and misleading statements and omissions concerning financial projections, financial analyses, the sales process and potential conflicts of interest involving the Company's financial advisor, Credit Suisse Securities (USA) LLC ("Credit Suisse"), in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Bishop Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, and an award of attorneys' and experts' fees.

On January 21, 2021, Samuel Carlisle, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Samuel Carlisle v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00566 (referred to as the "Carlisle Action"). The Carlisle Action was filed against the Company and our board of directors. The complaint in the Carlisle Action asserts that the Initial S-4 Filing omitted or misrepresented material information concerning financial projections, potential conflicts of interest involving Credit Suisse, and the background of the Merger, in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Carlisle Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, and an award of attorneys' and experts' fees.

On January 26, 2021, Reginald Padilla, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Reginald Padilla v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00702 (referred to as the "Padilla Action"). The Padilla Action was filed against the Company and our board of directors. The complaint in the Padilla Action asserts that the Initial S-4 Filing was materially deficient and misleading in regards to financial projections, potential conflicts of interest involving Credit Suisse, and the background of the Merger, in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Padilla Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, the filing of an amendment to the registration statement that does not contain any untrue statements of material fact and that states all material facts required in it or necessary to make the statements contained therein not misleading, and an award of attorneys' and experts' fees.

On February 1, 2021, Diane Antasek, as Trustee for The Diane R. Antasek Trust Agreement, April 8, 1997, and Ronald Antasek, as Trustee for the Ronald J. Antasek Sr. Trust Agreement, April 8, 1997, purported shareholders of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Antasek et al. v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00917 (referred to as the "Antasek Action," and collectively with the Stein Action, Alescio Action, Sheridan Action, Bishop Action, Carlisle Action, and the Padilla Action, the "Actions"). The Antasek Action was filed against the Company and our board of directors. The complaint in the Antasek Action asserts that the Initial S-4 Filing was materially deficient in regards to potential conflicts of interest involving Credit Suisse, financial projections and financial valuation analyses in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder, and that our board of directors violated their fiduciary duty as a result of an unfair process for an unfair price. The Antasek Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, an order directing our board of directors to exercise their fiduciary duties to commence a sale process that is reasonably designed to secure the best possible consideration for the Company and obtain a transaction which is in the best interests of the Company and its stockholders, an award of damages sustained, and an award of attorneys' and experts' fees.

We intend to vigorously defend the Company and our board of directors against the Action.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The COVID-19 coronavirus pandemic and its impact on the economy have negatively affected our business and results of operations. Business closures and the elevated unemployment rate caused by the COVID-19 coronavirus pandemic, as well as the efforts to contain it, could affect the underlying collateral and valuation of our securities and loans.

We seek to manage the interest rate, market value, liquidity, prepayment and credit risks inherent in all financial instruments in a prudent manner designed to insure our longevity while, at the same time, seeking to provide an opportunity for stockholders to realize attractive total rates of return through ownership of our common stock. While we do not seek to avoid risk completely, we do seek, to the best of our ability, to assume risk that can be quantified from historical experience, to actively manage that risk, to earn sufficient returns to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Interest Rate Risk

We primarily invest in adjustable-rate, hybrid adjustable-rate and fixed-rate mortgage assets. Hybrid mortgages are ARMs that have a fixed interest rate for an initial period of time (typically one to ten years) and then convert to an adjustable-rate for the remaining loan term. Our debt obligations are generally repurchase agreements of limited duration that are periodically refinanced at current market rates.

ARMs are typically subject to periodic and lifetime interest rate caps that limit the amount an ARM interest rate can change during any given period. ARMs are also typically subject to a minimum interest rate payable. Our borrowings are not subject to similar restrictions. Hence, in a period of increasing interest rates, interest rates on our borrowings could increase without limitation, while the interest rates on our mortgage assets could be limited. This problem would be magnified to the extent we acquire mortgage assets that are not fully indexed. Further, some ARM assets may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. These factors could lower our net operating income or cause a net loss during periods of rising interest rates, which would negatively impact our liquidity, net income and our ability to make distributions to stockholders.

We fund the purchase of a substantial portion of our ARM assets with borrowings that have interest rates based on indices and repricing terms similar to, but of shorter maturities than, the interest rate indices and repricing terms of our mortgage assets. Thus, we anticipate that in most cases the interest rate indices and repricing terms of our mortgage assets and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. During periods of changing interest rates, such interest rate mismatches could negatively impact our net operating income, dividend yield and the market price of our common stock.

Most of our adjustable-rate assets are based on the one-year constant maturity treasury rate and the one-year LIBOR rate and our debt obligations are generally based on LIBOR. These indices generally move in the same direction, but there can be no assurance that this will continue to occur.

Our ARM assets and borrowings reset at various different dates for the specific asset or obligation. In general, the repricing of our debt obligations occurs more quickly than on our assets. Therefore, on average, our cost of funds may rise or fall more quickly than does our earnings rate on the assets.

Further, our net income may vary somewhat as the spread between one-month interest rates and six- and twelve-month interest rates varies.

We also fund the acquisition of fixed-rate MBS with short-term borrowings. During periods of rising interest rates, our costs associated with borrowings used to fund acquisitions of fixed-rate assets are subject to increases while the income we receive from these assets remains fixed. This reduces or could eliminate the net interest spread between the fixed-rate MBS that we purchase and our borrowings used to purchase them, which could negatively impact our net operating income.

At December 31, 2020 and December 31, 2019, our MBS and related borrowings will prospectively reprice based on the following time frames:

December 31, 2020

	Investments[1]		Borrowings	
	Amount (in thousands)	Percentage of Total Investments	Amount (in thousands)	Percentage of Total Borrowings
Agency MBS Portfolio:				
Investment Type/Rate Reset Dates:				
15-year fixed-rate investments	$ 34,755	1.9 %	$ —	— %
20-year fixed-rate investments	156,369	8.5	—	—
30-year fixed-rate investments	921,602	50.3	—	—
Adjustable-Rate Investments/Obligations:				
Less than 3 months	46,907	2.6	1,365,000	92.8
Greater than 3 months and less than 1 year	285,380	15.6	—	—
Greater than 1 year and less than 3 years	119,320	6.5	—	—
Greater than 3 years and less than 5 years	—	—	—	—
Greater than 5 years	60,021	3.3	—	—
Non-Agency MBS Portfolio:				
Floating-rate MBS (less than 3 months)[2]	21,415	1.2	105,620	7.2
Hybrid MBS (greater than 3 months)	4,056	0.2	—	—
Fixed-rate MBS	181,462	9.9	—	—
Total MBS Portfolio	$ 1,831,287	100.0 %	$ 1,470,620	100.0 %

(1) Based on when they contractually reprice and do not reflect the effect of any prepayments.
(2) Floating-rate Non-Agency MBS are based on 1-month LIBOR.

December 31, 2019

	Investments[1]		Borrowings	
	Amount (in thousands)	Percentage of Total Investments	Amount (in thousands)	Percentage of Total Borrowings
Agency MBS Portfolio:				
Investment Type/Rate Reset Dates:				
15-year fixed-rate investments	$ 48,226	1.2 %	$ —	—%
20-year fixed-rate investments	194,577	4.7	—	—
30-year fixed-rate investments	2,477,780	59.6	—	—
Adjustable-Rate Investments/Obligations:				
Less than 3 months	62,788	1.5	3,230,000	88.3
Greater than 3 months and less than 1 year	429,685	10.3	—	—
Greater than 1 year and less than 3 years	68,650	1.7	—	—
Greater than 3 years and less than 5 years	126,949	3.1	—	—
Greater than 5 years	101,396	2.4	—	—
Non-Agency MBS Portfolio:				
Floating-rate MBS (less than 3 months)[2]	42,978	1.0	427,873	11.7
Hybrid MBS	18,717	0.5	—	—
Fixed-rate MBS	581,915	14.0	—	—
Total MBS Portfolio	$ 4,153,661	100.0 %	$ 3,657,873	100.0 %

(1) Based on when they contractually reprice and do not reflect the effect of any prepayments.
(2) Floating-rate Non-Agency MBS are based on 1-month LIBOR.

Market Risk

Market Value Risk

Our Agency MBS are classified as available-for-sale assets. As such, they are reflected at fair value (i.e., market value) with the periodic adjustment to fair value (that is not considered to be an other-than-temporary impairment) reflected as part of “Accumulated other comprehensive income” that is included in the equity section of our accompanying audited consolidated balance sheets. The market value of our assets can fluctuate due to changes in interest rates and other factors. At December 31, 2020, the fair value adjustment of our Agency MBS reflected in AOCI increased to a positive adjustment (other comprehensive income) of approximately $58.8 million, from a positive adjustment (other comprehensive income) of approximately $43.6 million at December 31, 2019.

Our Non-Agency MBS are classified as trading securities and are carried at fair value. Changes in fair value are recorded through earnings. The market value of these securities can fluctuate based on changes in interest rates and other factors. During the year ended December 31, 2020, the net loss on these securities due to changes in fair value was approximately $15.5 million.

Real Estate Risk

Non-Agency MBS and residential property values are subject to volatility and may be affected adversely by a number of factors including national, regional and local economic conditions; local real estate conditions (such as an oversupply of housing); changes or continued weakness in specific industry segments; construction quality; age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values reduce the value of the collateral for mortgage loans and the potential proceeds available to borrowers to repay the loans, which could cause us to suffer losses on our Non-Agency MBS and loan investments.

Liquidity Risk

Our primary liquidity risk arises from financing long-maturity MBS with short-term debt. The interest rates on our borrowings generally adjust more frequently than the interest rates on our adjustable-rate MBS. For example, at December 31, 2020, our Agency MBS had a weighted average term to next rate adjustment of approximately 19 months while our borrowings had a weighted average term to next rate adjustment of 30 days. After adjusting for interest rate swap transactions, the weighted average term to next rate adjustment was 1,047 days. Accordingly, in a period of rising interest rates, our borrowing costs will usually increase faster than our interest earnings from MBS. As a result, we could experience a decrease in net income or a net loss during these periods. Our assets that are pledged to secure short-term borrowings are high-quality liquid assets. As a result, we have been able to roll over our short-term borrowings as they mature. There can be no assurance that we will always be able to roll over our short-term debt.

During the past several years, there have been continuing liquidity and credit concerns surrounding the mortgage markets and the general global economy. While the U.S. government and other foreign governments have taken various actions to address these concerns, there are also concerns about the ability of the U.S. government to reduce its budget deficit as well as possible future rating downgrades of U.S. sovereign debt and government-sponsored agency debt. In December 2020, Congress passed a $2.3 trillion COVID-19 relief and government funding bill, which was signed by President Trump. A failure by the U.S. government to reach agreement on future budgets and debt ceilings, reduce its budget deficit, or a future downgrade of U.S. sovereign debt and government-sponsored agencies’ debt, could have a material adverse effect on the U.S. economy and the global economy. These events could have a material adverse effect on our borrowing costs, the availability of financing, and the liquidity and valuation of securities in general, and also on the securities in our portfolio. As a result, there continues to be concerns about the potential impact on product availability, liquidity, interest rates, and changes in the yield curve. While we have been able to meet all of our liquidity needs to date, there are still concerns in the mortgage sector about the availability of financing generally.

At December 31, 2020, we had unrestricted cash of approximately $34.1 million, $186.8 million in unpledged Agency MBS, and $40.8 million in unpledged Non-Agency MBS available to meet margin calls on short-term borrowings that could be caused by asset value declines or changes in lender collateralization requirements.

Prepayment Risk

Prepayments are the full or partial repayment of principal prior to the original term to maturity of a mortgage loan and typically occur due to refinancing of mortgage loans. Prepayment rates on mortgage-related securities and mortgage loans vary from time to time and may cause changes in the amount of our net operating income. Prepayments of ARM loans usually can be expected to increase when mortgage interest rates fall below the then-current interest rates on such loans and decrease when mortgage interest rates exceed the then-current interest rate on such loans, although such effects are not entirely predictable. Prepayment rates may also be affected by the conditions in the housing and financial markets, general economic conditions and the relative interest rates on fixed-rate loans and ARM loans underlying MBS. The purchase prices of our mortgage-related investments are generally based upon assumptions regarding the expected amounts and rates of prepayments. Where slow prepayment assumptions are made, we may pay a premium for our mortgage-related investments. To the extent such assumptions differ from the actual amounts of prepayments, we could experience reduced earnings or losses. The total prepayment of any of our mortgage-related investments purchased at a premium by us would result in the immediate write-off of any remaining capitalized premium amount and a reduction of our net operating income by such amount. In addition, in the event that we are unable to acquire new mortgage-related investments to replace the prepaid mortgage-related investments, our financial condition, cash flows and results of operations could be harmed.

We often purchase mortgage-related assets that have a higher interest rate than the market interest rate at the time. In exchange for this higher interest rate, we must pay a premium over par value to acquire these assets. In accordance with accounting rules, we amortize this premium over the term of the mortgage-related investments. As we receive repayments of mortgage principal, we amortize the premium balances as a reduction to our income. If the mortgage loans underlying mortgage-related investments were prepaid at a faster rate than we anticipate, we would amortize the premium at a faster rate. This would reduce our income.

Credit Risk

We review credit risk and other risks of loss associated with each of our potential investments. In addition, we may diversify our portfolio of mortgage-related assets to avoid undue geographic, insurer, industry and certain other types of concentrations. We believe that our investment strategy will generally keep our risk of credit losses low to moderate. However, we retain the risk of potential credit losses on all of the loans underlying our Non-Agency MBS. With respect to our investments in Non-Agency MBS that are collateralized by non-performing loans, there is a high expectation of losses on these loans. Resolution of the loans typically comes from loan modifications, short sales and foreclosures. With respect to these Non-Agency MBS, our investments are senior in the credit structure and credit support contained in these MBS deal structures provides a level of protection from losses. We seek to manage the remaining credit risk through our pre-acquisition due diligence process and by factoring assumed credit losses into the purchase prices we pay for Non-Agency MBS. In addition, with respect to any particular target investment, we evaluate relative valuation, supply and demand trends, the shape of yield curves, prepayment rates, delinquency and default rates, recovery of various sectors, and vintage of collateral. Nevertheless, unanticipated credit losses could adversely affect our operating results.

We retain the risk of potential credit losses on all of our residential mortgage loans held-for-securitization or held-for-investment through consolidated securitization trusts. We seek to manage this risk by reviewing key loan credit metrics including, but not limited to, payment status, current loan-to-value ratios, current borrower credit scores and debt yields. These characteristics assist us in determining the likelihood and severity of loan loss as well as prepayment and extension expectations. We then perform structural analysis under multiple scenarios to establish likely cash flow profiles and credit enhancement levels relative to collateral performance projections. This analysis allows us to quantify our opinions of credit quality and fundamental value, which are key drivers of portfolio management decisions.

General

Many assumptions are made to present the information in the tables below and, as such, there can be no assurance that assumed events will occur, or that other events that could affect the outcomes will not occur; therefore, the tables below and all related disclosures constitute forward-looking statements.

The analyses presented utilize assumptions and estimates based on management's judgment and experience. Furthermore, future sales, acquisitions and restructuring could materially change the interest rate risk profile for us. The tables quantify the potential changes in net income and portfolio value should interest rates immediately change (are "shocked") and remain at the new level for the next twelve months. The results of interest rate shocks of plus and minus 100 and 200 basis points are presented. The cash flows from our portfolio of mortgage-related assets for each rate shock scenario are projected, based on a variety of assumptions including prepayment speeds, time until coupon reset, yield on future acquisitions, slope of the yield curve and size of the portfolio. Assumptions made on the interest rate-sensitive liabilities, which are repurchase agreements, include anticipated interest rates (no negative rates are utilized), collateral requirements as a percent of the repurchase agreement and amount of borrowing. Assumptions made in calculating the impact on net asset value of interest rate shocks include projected changes in U.S. Treasury interest rates, prepayment rates and the yield spread of mortgage-related assets relative to prevailing U.S. Treasury interest rates.

Tabular Presentation

The information presented in the table below projects the impact of instantaneous parallel shifts in interest rates on our annual projected net interest income (relative to the unchanged interest rate scenario) and the impact of the same instantaneous parallel shifts on our projected MBS portfolio value (the value of our assets, including the value of any derivative instruments or hedges, such as interest rate swaps). These projections are based on investments in place at December 31, 2020 and include all of our interest rate sensitive assets, liabilities, and hedges, such as interest rate swaps.

Change in Interest Rates	Percentage Change in Projected Net Interest Income	Percentage Change in Projected Portfolio Value
(1)%	2 %	(0.4)%
0 %	0 %	0.0 %
1 %	(3)%	(0.6)%
2 %	(42)%	(2.7)%

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and related financial information required to be filed hereunder are indexed under Item 15 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

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported on a timely basis. In designing disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, have inherent limitations and can provide only reasonable assurance of achieving desired control objectives.

Our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that, as of December 31, 2020, our disclosure controls and procedures were not effective, due to a control deficiency in our disclosure controls that constituted a material weakness. This material weakness was a result of a deficiency of review controls, such that there was inadequate verification of the accuracy of the supporting data for disclosures presented in the financial statements.

Management Report on Internal Control Over Financial Reporting

The management of Anworth is responsible for establishing and maintaining adequate internal control over financial reporting. Anworth's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of prepared financial statements.

All internal control systems, no matter how well designed have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework* from 2013. Based on this assessment, our management has concluded that, as of December 31, 2020, Anworth's internal controls over financial reporting were not effective, based on the criteria set forth in the 2013 COSO framework, due to a material weakness in our system of internal controls. A material weakness is a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. This material weakness resulted from a deficiency of review controls, such that there was inadequate verification of the accuracy of the supporting data for adjustments posted to the general ledger and disclosures presented in the financial statements.

To address this material weakness, our management performed additional analyses and other procedures to ensure that the financial statements included herein fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented. Accordingly, we believe that the financial statements included in this Annual Report on Form 10-K fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

The Company's independent auditors, RSM US LLP, have issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on the following page of this Annual Report on Form 10-K.

Remediation of Material Weakness

Our management is committed to maintaining a strong internal control environment and implementing measures designed to help ensure that the material weakness is remediated as soon as possible. Our management is currently developing a remediation plan to address the material weakness referred to above.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors
Anworth Mortgage Asset Corporation

Opinion on the Internal Control Over Financial Reporting
We have audited Anworth Mortgage Asset Corporation and its subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements and schedules, and our report, dated February 26, 2021, expressed an unqualified opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. A material weakness related to review controls over the verification of the accuracy of the supporting data for adjustments posted to the general ledger or disclosures presented in the financial statements. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2020 financial statements, and this report does not affect our report dated February 26, 2021 on those financial statements.

Basis for Opinion
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 in the accompanying Item 9A, "Management 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting
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.

/s/ RSM US LLP

Los Angeles, California
February 26, 2021

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference from the information under the captions entitled “Election of Directors—Information Regarding Nominees for Director,” “Executive Officers and Compensation” and “Other Matters—Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive proxy statement to be filed with the SEC no later than April 30, 2021.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from the information under the caption entitled “Executive Officers and Compensation” in our definitive proxy statement to be filed with the SEC no later than April 30, 2021.

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

Certain of the information required by this Item is incorporated by reference from the information under the caption entitled “Security Ownership of Certain Beneficial Owners and Management” in our definitive proxy statement to be filed with the SEC no later than April 30, 2021.

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

The information required by this Item is incorporated by reference from the information under the caption entitled “Certain Relationships and Related Transactions” in our definitive proxy statement to be filed with the SEC no later than April 30, 2021.

Item 14. AUDIT FEES AND SERVICES

The information required by this Item is incorporated by reference from the information under the caption entitled “Audit Committee Report—Audit and Related Fees” in our definitive proxy statement to be filed with the SEC no later than April 30, 2021.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(1) The following financial statements of the Company are included in Part II, Item 8 of this Annual Report on Form 10-K:

- Report of Independent Registered Public Accounting Firm, RSM US LLP;
- Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019;
- Consolidated Statements of Operations: For the Years Ended December 31, 2020, December 31, 2019, and December 31, 2018;
- Consolidated Statements of Comprehensive Income: For the Years Ended December 31, 2020, December 31, 2019, and December 31, 2018;
- Consolidated Statements of Stockholders' Equity: For the Years Ended December 31, 2020, December 31, 2019, and December 31, 2018; and
- Consolidated Statements of Cash Flows: For the Years Ended December 31, 2020, December 31, 2019, and December 31, 2018;
- Notes to Consolidated Financial Statements.

(2) Schedules to financial statements:

- Schedule IV – Mortgage Loans on Real Estate

All other financial statement schedules have been omitted because they are either inapplicable or the information required is provided in the Company's Consolidated Financial Statements and Notes thereto, included in Part II, Item 8 of this Annual Report on Form 10-K.

(3) The following exhibits are either filed with, or incorporated by reference into, this Annual Report on Form 10-K.

EXHIBIT INDEX

Exhibit Number	Description
1.1	At Market Issuance Sales Agreement, dated August 10, 2016, among Anworth, Anworth Management LLC and FBR Capital Markets & Co. (incorporated by reference from our Current Report on Form 8-K filed with the SEC on August 10, 2016)
2.1	Agreement and Plan of Merger, dated as of December 6, 2020, by and among Ready Capital Corporation, RC Merger Subsidiary, LLC, and Anworth (incorporated by reference from our Current Report on Form 8-K filed with the SEC on December 8, 2020)
3.1	Amended Articles of Incorporation of Anworth (incorporated by reference from our Registration Statement on Form S-11, Registration No. 333-38641, which became effective under the Securities Act of 1933, as amended, on March 12, 1998)
3.2	Articles of Amendment to Amended Articles of Incorporation (incorporated by reference from our Definitive Proxy Statement filed, pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended, with the SEC on May 14, 2003)
3.3	Articles of Amendment to Amended Articles of Incorporation (incorporated by reference from our Current Report on Form 8-K filed with the SEC on May 28, 2008)
3.4	Amended Bylaws of the Company (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 13, 2009)
3.5	Amendment of Bylaws to Amended Bylaws of the Company (incorporated by reference from our Current Report on Form 8-K filed with the SEC on April 1, 2014)
3.6	Articles Supplementary for Series A Cumulative Preferred Stock (incorporated by reference from our Current Report on Form 8-K filed with the SEC on November 3, 2004)
3.7	Articles Supplementary for Series A Cumulative Preferred Stock (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 21, 2005)
3.8	Articles Supplementary for Series B Cumulative Convertible Preferred Stock (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 30, 2007)
3.9	Articles Supplementary for Series B Cumulative Convertible Preferred Stock (incorporated by reference from our Current Report on Form 8-K filed with the SEC on May 21, 2007)
3.10	Articles Supplementary for Series C Cumulative Redeemable Preferred Stock (incorporated by reference from our Registration Statement on Form 8-A filed with the SEC on January 23, 2015)
3.11	Articles Supplementary for Series C Cumulative Redeemable Preferred Stock (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 6, 2015)
4.1	Specimen Common Stock Certificate (incorporated by reference from our Registration Statement on Form S-11, Registration No. 333-38641, which became effective under the Securities Act of 1933 on March 12, 1998)
4.2	Specimen Series A Cumulative Preferred Stock Certificate (incorporated by reference from our Current Report on Form 8-K filed with the SEC on November 3, 2004)

Exhibit Number	Description
4.3	Specimen Series B Cumulative Convertible Preferred Stock Certificate (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 30, 2007)
4.4	Specimen Series C Cumulative Redeemable Preferred Stock Certificate (incorporated by reference from our Registration Statement on Form 8-A filed with the SEC on January 23, 2015)
4.5	Specimen Anworth Capital Trust I Floating Rate Preferred Stock Certificate (liquidation amount $1,000 per Preferred Security) (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 16, 2005)
4.6	Specimen Anworth Capital Trust I Floating Rate Common Stock Certificate (liquidation amount $1,000 per Common Security) (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 16, 2005)
4.7	Specimen Anworth Floating Rate Junior Subordinated Note Due 2035 (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 16, 2005)
4.8	Junior Subordinated Indenture, dated as of March 15, 2005, between Anworth and JPMorgan Chase Bank (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 16, 2005)
4.9	Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934, as amended (incorporated by reference from our Annual Report on Form 10 K for the fiscal year ended December 31, 2019, as filed with the SEC on March 5, 2020)
10.1*	2014 Equity Compensation Plan (incorporated by reference from our Registration Statement on Form S-8 filed with the SEC on August 5, 2014)
10.2*	2007 Dividend Equivalent Rights Plan (incorporated by reference from our Definitive Proxy Statement filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as filed with the SEC on April 26, 2007)
10.3*	2018 Dividend Reinvestment and Stock Purchase Plan (incorporated by reference from our Registration Statement on Form S-3, Registration No. 333-223697, which became effective under the Securities Act of 1933, as amended, on March 26, 2018)
10.4	Purchase Agreement, dated as of March 15, 2005, by and among Anworth, Anworth Capital Trust I, TABERNA Preferred Funding I, Ltd., and Merrill Lynch International (incorporated by reference from our Current Report on Form 8-K filed with the SEC on March 16, 2005)
10.5	Second Amended and Restated Trust Agreement, dated as of September 26, 2005 by and among Anworth, JPMorgan Chase Bank, National Association, Chase Bank USA, National Association, Lloyd McAdams, Joseph McAdams, Thad Brown and the several Holders, as defined therein (incorporated by reference from our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as filed with the SEC on March 16, 2006)
10.6*	Change in Control and Arbitration Agreement, dated June 27, 2006, between Anworth and Charles J. Siegel (incorporated by reference from our Current Report on Form 8-K filed with the SEC on June 28, 2006), as amended by Amendment to Anworth Mortgage Asset Corporation Change in Control and Arbitration Agreement, effective December 31, 2011, between Anworth and Charles J. Siegel (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 3, 2012)

Exhibit Number	Description
10.7	Amended and Restated Administrative Services Agreement, dated August 20, 2010, between Anworth and PIA (incorporated by reference from our Current Report on Form 8-K filed with the SEC on August 20, 2010)
10.8	Management Agreement, dated as of December 31, 2011 by and between Anworth and Anworth Management, LLC (incorporated by reference from our Current Report on Form 8-K filed with the SEC on January 3, 2012)
10.9	First Amendment to Management Agreement, dated as of December 6, 2020 by and among Anworth, Anworth Management, LLC, and Ready Capital Corporation (incorporated by reference from our Current Report on Form 8-K filed with the SEC on December 8, 2020)
10.10	Sublease dated as of January 26, 2012, between Anworth and PIA (incorporated by reference from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, as filed with the SEC on August 6, 2012)
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of the Principal Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of the Principal Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certifications of the Principal Executive Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications of the Principal Financial Officer provided pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained Exhibit 101)

* Represents a management contract or compensatory plan, contract or arrangement in which any director or any of the named executives participates.

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.

DATED: February 26, 2021

ANWORTH MORTGAGE ASSET CORPORATION

/S/ JOSEPH E. MCADAMS
Joseph E. McAdams
Chief Executive Officer and President
(Principal Executive Officer)

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

Signature	Title	Date
/s/ JOSEPH E. MCADAMS **Joseph E. McAdams**	Chairman of the Board, Chief Executive Officer, and President (Principal Executive Officer)	February 26, 2021
/s/ CHARLES J. SIEGEL **Charles J. Siegel**	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 26, 2021
/s/ JOE E. DAVIS **Joe E. Davis**	Director	February 26, 2021
/s/ ROBERT C. DAVIS **Robert C. Davis**	Director	February 26, 2021
/s/ MARK S. MARON **Mark S. Maron**	Director	February 26, 2021
/s/ JOSEPH LLOYD MCADAMS **Joseph Lloyd McAdams**	Director	February 26, 2021
/s/ DOMINIQUE MIELLE **Dominique Mielle**	Director	February 26, 2021

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ANWORTH MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors
Anworth Mortgage Asset Corporation

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Anworth Mortgage Asset Corporation and its subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements and schedules (collectively, the financial statements). In our opinion, the financial statements and schedules present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Our report dated February 26, 2021 expressed an opinion that the Company had not maintained effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

Amortization of purchase premiums and discounts of Agency Mortgage-backed securities (MBS)

As described in Note 1 to the consolidated financial statements, premiums and discounts are amortized or accreted into interest income over the estimated lives of the securities using the effective yield method, adjusted for the effects of actual and estimated prepayments. To determine the effective yield, management is required to make significant assumptions related to prepayment speeds, taking into consideration, historical performance, street consensus prepayment speeds and current market conditions.

We identified the income recognition related to amortization of Agency MBS purchase premiums as a critical audit matter because auditing management's judgements regarding forecasts of future prepayment speeds, which are uncertain in nature, require significant auditor judgement. These assumptions have a significant effect on the timing of the amortization of net premiums on securities.

Our audit procedures related to the Company's estimate of prepayment speeds in determining the amount of amortization of purchase premiums include the following, among others:

- We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the Company's estimate of future prepayment speeds for its Agency MBS.
- We evaluated the Company's process and significant judgements in the establishment of the prepayment speeds, which included:
    - Evaluated the completeness and accuracy of the underlying data utilized by the Company to estimate prepayment speeds assumptions;
    - Evaluated the reasonableness of the qualitative and quantitative considerations utilized in the determination of the prepayment speed estimate, by comparing historical and current prepayment rates of the portfolio and also considering the qualitative impact of recent changes in mortgage interest rates.

We have served as the Company's auditor since 2008.

/s/ RSM US LLP
Los Angeles, California
February 26, 2021

ANWORTH MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

		December 31, 2020		December 31, 2019
ASSETS				
Available-for-sale Agency MBS at fair value (including $1,354,149 and $2,764,330 pledged to counterparties at December 31, 2020 and December 31, 2019, respectively); amortized cost of $1,455,422 and $2,799,448 at December 31, 2020 and December 31, 2019, respectively, net of allowance for credit losses of $0 and $0 at December 31, 2020 and December 31, 2019, respectively	$	1,519,652	$	2,853,131
Trading Agency MBS at fair value (including $83,416 and $655,045 pledged to counterparties at December 31, 2020 and December 31, 2019, respectively		104,702		656,920
Available-for-sale Non-Agency MBS at fair value (including $0 and $535,315 pledged to counterparties at December 31, 2020 and December 31, 2019, respectively); amortized cost of $0 and $613,576 at December 31, 2020 and December 31, 2019, respectively, net of allowance for credit losses of $0 and $0 at December 31, 2020 and December 31, 2019, respectively		—		643,610
Trading Non-Agency MBS at fair value (including $166,140 and $0 pledged to counterparties at December 31, 2020 and December 31, 2019, respectively		206,933		—
Residential mortgage loans held-for-securitization, net of allowance for credit losses of $56 and $0 at December 31, 2020 and December 31, 2019, respectively		109,312		152,922
Residential mortgage loans held-for-investment through consolidated securitization trusts, net of allowance of credit losses of $197 and $175 at December 31, 2020 and December 31, 2019, respectively[(1)]		267,107		458,348
Residential real estate		12,750		13,499
Cash and cash equivalents		34,050		8,236
Reverse repurchase agreements		—		15,000
Restricted cash		111,069		104,699
Interest receivable		6,554		16,398
Derivative instruments at fair value		6,974		5,833
Right to use asset-operating lease		718		1,256
Prepaid expenses and other assets		4,669		8,779
Total Assets	$	2,384,490	$	4,938,631
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Accrued interest payable	$	4,130	$	16,757
Repurchase agreements		1,470,620		3,657,873
Warehouse line of credit		90,185		133,811
Asset-backed securities issued by securitization trusts[(1)]		258,414		448,987
Junior subordinated notes		37,380		37,380
Derivative instruments at fair value		80,380		52,197
Derivative counterparty margin		5,257		367
Dividends payable on preferred stock		2,297		2,297
Dividends payable on common stock		4,962		8,897
Payable for purchased loans		—		5,545
Accrued expenses and other liabilities		1,653		1,312
Long-term lease obligation		718		1,256
Total Liabilities	$	1,955,996	$	4,366,679
Series B Cumulative Convertible Preferred Stock: par value $0.01 per share; liquidating preference $25.00 per share ($19,494 and $19,494, respectively); 780 and 780 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively	$	19,455	$	19,455
Stockholders' Equity:				
Series A Cumulative Preferred Stock: par value $0.01 per share; liquidating preference $25.00 per share ($47,984 and $47,984, respectively); 1,919 and 1,919 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively	$	46,537	$	46,537
Series C Cumulative Preferred Stock: par value $0.01 per share; liquidating preference $25.00 per share ($50,257 and $50,257, respectively); 2,010 and 2,010 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively		48,626		48,626
Common Stock: par value $0.01 per share; authorized 200,000 shares, 99,242 and 98,849 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively		992		988
Additional paid-in capital		984,174		983,401
Accumulated other comprehensive income consisting of unrealized gains and losses		54,480		65,984
Accumulated deficit		(725,770)		(593,039)
Total Stockholders' Equity	$	409,039	$	552,497
Total Liabilities and Stockholders' Equity	$	2,384,490	$	4,938,631

(1) The consolidated balance sheets include assets of consolidated variable interest entities, or VIEs, that can only be used to settle obligations and liabilities of the VIEs for which creditors do not have recourse to the Company. At December 31, 2020 and December 31, 2019, total assets of the consolidated VIEs were $268 million and $460 million (including accrued interest receivable of $0.9 million and $1.5 million), respectively (which is recorded above in the line item "Interest and dividends receivable"), and total liabilities were $259 million and $450 million (including accrued interest payable of $0.9 million and $1.4 million), respectively (which is recorded above in the line item "Accrued interest payable"). Please refer to Note 5, "Variable Interest Entities," to the accompanying audited consolidated financial statements for further discussion.

See accompanying notes to consolidated financial statements.

ANWORTH MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	For the Years Ended December 31, 2020	2019	2018
Interest and other income:			
Interest-Agency MBS	$ 46,520	$ 90,173	$ 95,656
Interest-Non-Agency MBS	15,673	38,038	40,733
Interest-securitized residential mortgage loans	14,665	20,443	23,463
Interest-residential mortgage loans held-for-securitization	6,034	4,314	—
Other interest income	193	1,427	120
	83,085	154,395	159,972
Interest expense:			
Interest expense on repurchase agreements	24,879	92,737	90,511
Interest expense on asset-backed securities	14,025	19,771	22,800
Interest expense on warehouse line of credit	4,457	4,148	—
Interest expense on junior subordinated notes	1,529	2,100	1,996
	44,890	118,756	115,307
Net interest income	38,195	35,639	44,665
Provision for credit losses on loans	(670)	—	—
Net interest income after provision for credit losses	37,525	35,639	44,665
Operating expenses:			
Management fee to related party	(5,591)	(6,699)	(7,098)
Rental properties depreciation and expenses	(1,987)	(1,517)	(1,525)
General and administrative expenses	(5,934)	(5,090)	(4,880)
Total operating expenses	(13,512)	(13,306)	(13,503)
Other income (loss):			
Income-rental properties	1,707	1,800	1,761
Realized net gain (loss) on sales of available-for-sale Agency MBS	15,805	(4,059)	(12,361)
Net gain (loss) on Agency MBS held as trading investments	3,629	11,249	(16,340)
Impairment charge on available-for-sale Non-Agency MBS	—	(2,108)	(2,869)
Net (loss) on Non-Agency MBS held as trading investments	(15,537)	—	—
Realized net (loss) gain on sales of available-for-sale Non-Agency MBS	(55,390)	76	175
Gain on sale of residential properties	201	31	54
Recovery on Non-Agency MBS	—	—	1
(Loss) on derivatives, net	(78,121)	(84,741)	(8,071)
Total other (loss)	(127,706)	(77,752)	(37,650)
Net (loss)	$ (103,693)	$ (55,419)	$ (6,488)
Dividends on preferred stock	(9,189)	(9,189)	(9,189)
Net (loss) to common stockholders	$ (112,882)	$ (64,608)	$ (15,677)
Basic (loss) per common share	$ (1.14)	$ (0.65)	$ (0.16)
Diluted (loss) per common share	$ (1.14)	$ (0.65)	$ (0.16)
Basic weighted average number of shares outstanding	99,048	98,684	98,314
Diluted weighted average number of shares outstanding	99,048	98,684	98,314

See accompanying notes to consolidated financial statements.

ANWORTH MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	For the Years Ended December 31, 2020	2019	2018
Net (loss)	$ (103,693)	$ (55,419)	$ (6,488)
Available-for-sale Agency MBS, fair value adjustment	31,005	68,355	(43,348)
Reclassification adjustment for (gain) loss on sales of Agency MBS included in net (loss)	(15,805)	4,059	12,361
Available-for-sale Non-Agency MBS, fair value adjustment	—	20,547	(20,463)
Reclassification adjustment due to transfer from available-for-sale to trading for Non-Agency MBS	(85,424)	—	—
Reclassification adjustment for loss (gain) on sales of Non-Agency MBS included in net (loss)	55,390	(76)	(175)
Amortization of unrealized gains on interest rate swaps remaining in other comprehensive income	3,330	3,891	4,025
Reclassification adjustment for interest (income) on interest rate swaps included in net (loss)	—	—	(212)
Other comprehensive (loss) income	(11,504)	96,776	(47,812)
Comprehensive (loss) income	$ (115,197)	$ 41,357	$ (54,300)

See accompanying notes to consolidated financial statements.

ANWORTH MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2020, 2019, and 2018
(in thousands, except per share amounts)

	Series A Preferred Stock Shares Outstanding	Series C Preferred Stock Shares Outstanding	Common Stock Shares Outstanding	Series A Preferred Stock Par Value	Series C Preferred Stock Par Value	Common Stock Par Value	Additional Paid-In Capital	Accum. Other Comp. Income Gain (Loss) Agency MBS	Accum. Other Comp. Income Gain (Loss) Non-Agency MBS	Accum. Other Comp. Income (Loss) Gain Derivatives	Accum. (Deficit)	Total
Balance, December 31, 2017	1,919	1,989	98,137	$ 46,537	$ 48,420	$ 981	$ 980,243	$ 2,163	$ 30,201	$ (15,344)	$(415,235)	$ 677,966
Issuance of Series C Preferred Stock		21			524							524
Issuance of common stock			346			4	1,623					1,627
Other comprehensive income, fair value adjustments and reclassifications								(30,987)	(20,638)	3,813		(47,812)
Net (loss)											(6,488)	(6,488)
Amortization of restricted stock							98					98
Dividend declared - $2.156252 per Series A preferred share											(4,140)	(4,140)
Dividend declared - $1.5625 per Series B preferred share											(1,220)	(1,220)
Dividend declared - $1.768578 per Series C preferred share											(3,833)	(3,833)
Dividend declared - $0.56 per common share											(55,072)	(55,072)
Balance, December 31, 2018	1,919	2,010	98,483	$ 46,537	$ 48,944	$ 985	$ 981,964	$ (28,824)	$ 9,563	$ (11,531)	$(485,988)	$ 561,650
Issuance of common stock			366			3	1,359					1,362
Other comprehensive income, fair value adjustments and reclassifications								72,414	20,471	3,891		96,776
Net (loss)											(55,419)	(55,419)
Amortization of shelf offering expenses					(318)							(318)
Amortization of restricted stock							78					78
Dividend declared - $2.156252 per Series A preferred share											(4,140)	(4,140)
Dividend declared - $1.5625 per Series B preferred share											(1,220)	(1,220)
Dividend declared - $1.768578 per Series C preferred share											(3,829)	(3,829)
Dividend declared - $0.43 per common share											(42,443)	(42,443)
Balance, December 31, 2019	1,919	2,010	98,849	$ 46,537	$ 48,626	$ 988	$ 983,401	$ 43,590	$ 30,034	$ (7,640)	$(593,039)	$ 552,497
Cumulative adjustment for adoption of ASC 326											(30)	(30)
Issuance of common stock			393			4	757					761
Other comprehensive income, fair value adjustments and reclassifications								15,200	(30,034)	3,330		(11,504)
Net (loss)											(103,693)	(103,693)
Amortization of restricted stock							16					16
Dividend declared - $2.156252 per Series A preferred share											(4,140)	(4,140)
Dividend declared - $1.5625 per Series B preferred share											(1,220)	(1,220)
Dividend declared - $1.768578 per Series C preferred share											(3,829)	(3,829)
Dividends declared - $0.20 per common share											(19,819)	(19,819)
Balance, December 31, 2020	1,919	2,010	99,242	$ 46,537	$ 48,626	$ 992	$ 984,174	$ 58,790	$ —	$ (4,310)	$(725,770)	$ 409,039

See accompanying notes to consolidated financial statements.

ANWORTH MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended December 31,		
	2020	2019	2018
Operating Activities:			
Net (loss)	$ (103,693)	$ (55,419)	$ (6,488)
Adjustments to reconcile net (loss) to net cash provided by operating activities:			
Amortization of premium on MBS	24,577	26,820	28,800
Amortization/accretion of market yield adjustments (Non-Agency MBS)	1,253	5,277	6,345
Accretion of discount (residential mortgage loans)	(116)	(116)	(112)
Depreciation on rental properties	476	478	473
Amortization of premium on residential loans	1,343	298	—
Realized (gain) loss on sales of available-for-sale MBS	(15,805)	3,983	12,186
(Gain) loss on sales of Agency MBS held as trading investments	(3,629)	(11,249)	16,340
Realized net loss on sales of available-for-sale Non-Agency MBS	55,390	—	—
Loss on Non-Agency MBS held as trading investments	15,537	—	—
Impairment charge on available-for-sale Non-Agency MBS	—	2,108	2,869
Impairment charge on residential mortgage loans held-for-investment through consolidated securitization trusts	—	—	18
(Gain) on sale of residential properties	(201)	(31)	(54)
Amortization of restricted stock	16	78	98
Recovery on Non-Agency MBS	—	—	(1)
Net settlements (paid) received on interest rate swaps, net of amortization	(7,607)	11,459	7,851
Unrealized loss (gain) on interest rate swaps, net	102,402	98,907	(585)
(Gain) loss on derivatives, net of derivative income - TBA Agency MBS	(28,837)	(14,166)	8,656
Provision for loan losses	670	—	—
Changes in assets and liabilities:			
Decrease in reverse repurchase agreements	15,000	5,000	(20,000)
Decrease (increase) in interest receivable	5,698	1,158	(983)
Decrease (increase) in prepaid expenses and other	10,601	(8,272)	387
(Decrease) increase in accrued interest payable	(6,460)	(3,836)	11,085
(Decrease) increase in accrued expenses and payables	(4,561)	2,190	(548)
Net cash provided by operating activities	$ 62,054	$ 64,667	$ 66,337
Investing Activities:			
MBS Portfolios:			
Proceeds from sales	$ 1,709,950	$ 2,950,885	$ 787,260
Purchases	(303,403)	(3,603,083)	(1,146,699)
Principal payments	825,797	909,244	937,075
Residential mortgage loans held-for-securitization:			
Purchases	(4,761)	(179,455)	—
Principal payments	41,379	30,992	—
Residential mortgage loans held-for-investment through consolidated securitization trusts:			
Principal payments	141	121	114
Residential properties purchases	(257)	(362)	(241)
Proceeds from sales of residential properties	663	95	203
Net cash provided by investing activities	$ 2,269,509	$ 108,437	$ 577,712
Financing Activities:			
Borrowings from repurchase agreements	$ 17,634,387	$ 32,300,305	$ 23,720,955
Repayments on repurchase agreements	(19,821,640)	(32,454,059)	(24,275,023)
Borrowings from warehouse line of credit	—	156,037	—
Repayments on warehouse line of credit	(43,895)	(22,210)	—
Net settlements of TBA Agency MBS Contracts	21,955	19,650	(15,956)
Termination of interest rate swaps	(62,895)	(39,226)	—
Derivative counterparty margin	4,890	367	—
Proceeds from common stock issued	761	1,361	1,627
Proceeds (amortization) of Series C Preferred Stock issued	—	(318)	525
Preferred stock dividends paid	(9,189)	(9,189)	(9,169)
Common stock dividends paid	(23,753)	(46,348)	(56,977)
Net cash (used in) financing activities	$ (2,299,379)	$ (93,630)	$ (634,018)
Net increase in cash, cash equivalents, and restricted cash	32,184	79,474	10,031
Cash, cash equivalents, and restricted cash at beginning of period	112,935	33,461	23,430
Cash, cash equivalents, and restricted cash at end of period	$ 145,119	$ 112,935	$ 33,461
Supplemental Disclosure of Cash Flow Information:			
Cash paid for interest	$ 52,877	$ 94,691	$ 75,318
Change in payables for residential mortgage loans purchased	$ (5,545)	$ (6,115)	$ —

See accompanying notes to consolidated financial statements.

ANWORTH MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Our Company

We were incorporated in Maryland on October 20, 1997 and commenced operations on March 17, 1998. Our principal business is to invest in, finance and manage a leveraged portfolio of residential mortgage-backed securities and residential mortgage loans which presently include the following types of investments:

- *Agency mortgage-backed securities*, or Agency MBS, which include residential mortgage pass-through certificates and collateralized mortgage obligations, or CMOs, which are securities representing interests in pools of mortgage loans secured by residential property in which the principal and interest payments are guaranteed by a government-sponsored enterprise, or GSE, such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac;

- *Non-agency mortgage-backed securities*, or Non-Agency MBS, which are securities issued by companies that are not guaranteed by federally sponsored enterprises and that are secured primarily by first-lien residential mortgage loans; and

- *Residential mortgage loans*. We acquire non-Qualified Mortgage, or Non-QM, residential mortgage loans from independent loan originators with the intent of holding these loans for securitization. These loans are financed by a warehouse line of credit until securitization. We also hold residential mortgage loans through consolidated securitization trusts. We finance these loans through asset-backed securities, or ABS, issued by the consolidated securitization trusts. The ABS, which are held by unaffiliated third parties, are non-recourse financing. The difference in the amount of the loans in the trusts and the amount of the ABS represents our retained net interest in the securitization trusts.

Our principal business objective is to generate net income for distribution to our stockholders primarily based upon the spread between the interest income on our mortgage assets and our borrowing costs to finance our acquisition of those assets.

We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code. As long as we retain our REIT status, we generally will not be subject to federal or state income taxes to the extent that we distribute our taxable net income to our stockholders, and we routinely distribute to our stockholders substantially all of the taxable net income generated from our operations. In order to qualify as a REIT, we must meet various ongoing requirements under the tax law, including requirements relating to the composition of our assets, the nature of our gross income, minimum distribution requirements and requirements relating to the ownership of our stock.

At December 31, 2020, we believe we met all REIT requirements regarding the asset tests, income tests, the ownership of our common stock and the distributions of our taxable net income. Therefore, we believe that we continue to qualify as a REIT under the provisions of the Code.

Proposed Merger with Ready Capital Corporation

On December 6, 2020, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Ready Capital Corporation, a Maryland corporation (“Ready Capital”), and RC Merger Subsidiary, LLC, a Delaware limited liability company and a wholly owned subsidiary of Ready Capital (“Merger Sub”), pursuant to which, subject to the terms and conditions therein, our Company will be merged with and into Merger Sub, with Merger Sub remaining as a wholly owned subsidiary of Ready Capital (such transaction, the “Merger”).

Under the terms of the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of our common stock, par value $0.01 per share (“Anworth Common Stock”), issued and outstanding immediately prior to the Effective Time (excluding any shares held by Ready Capital, Merger Sub or any of their respective subsidiaries) will automatically be converted into the right to receive from Ready Capital (i) 0.1688 shares of common stock, par value $0.0001, of Ready Capital (“Ready Capital Common Stock”), plus (ii) $0.61 in cash minus the Per Share Excess Amount, in each case, subject to adjustment as provided in the Merger Agreement. The Per Share Excess Amount means an amount, if any, per share by which our termination expenses and transaction expenses exceed $32.5 million. Cash will be paid in lieu of any fractional shares of Ready Capital Common Stock that would have been received as a result of the Merger.

Additionally, at the Effective Time, each share of our 8.625% Series A Cumulative Preferred Stock, $0.01 par value per share, will be converted into the right to receive one share of a newly designated series of Ready Capital preferred stock, par value $0.0001 per share, which Ready Capital expects will be classified and designed as Ready Capital’s Series B Preferred Stock; each share of our 6.25% Series B Cumulative Convertible Preferred Stock, $0.01 par value per share, will be converted into the right to receive one share of a newly designated series of Ready Capital preferred stock, par value $0.0001 per share, which Ready Capital expects will be classified and designed as Ready Capital’s Series C Preferred Stock; and each share of our 7.625% Series C Cumulative Redeemable Preferred Stock, $0.01 par value per share, will be converted into the right to receive one share of a newly designated series of Ready Capital preferred stock, par value $0.0001 per share, which Ready Capital expects will be classified and designed as Ready Capital’s Series D Preferred Stock.

The Merger Agreement provides that each of our Company and Ready Capital will, until the Effective Time, operate their respective businesses in all material respects in the ordinary course and consistent with practice, and preserve substantially intact its current business organization and preserve key business relationships. Each of our Company and Ready Capital are subject to restrictions as specified in the Merger Agreement on certain actions each company may take prior to the Effective Time, including, among other things, actions related to amending organizational documents, declaring dividends, issuing or repurchasing capital stock, engaging in certain business transactions and incurring indebtedness.

Completion of the proposed Merger is subject to the satisfaction of certain customary conditions, and is subject to the approval of the stockholders of both Ready Capital and our Company. We cannot provide any assurance that the proposed Merger will close in a timely manner or at all.

Our Manager

We are externally managed and advised by Anworth Management, LLC, or our Manager. Effective as of December 31, 2011, we entered into a Management Agreement, or the Management Agreement, with our Manager, which effected the externalization of our management function, or the Externalization. Since the effective date, our day-to-day operations are being conducted by our Manager through the authority delegated to it under the Management Agreement and pursuant to the policies established by our board of directors.

Our Manager is supervised and directed by our board of directors and is responsible for administering our day-to-day operations. In addition, our Manager is responsible for (i) the selection, purchase and sale of our investment portfolio; (ii) our financing and hedging activities; and (iii) providing us with portfolio management and administrative services.

Our Manager will also perform such other services and activities relating to our assets and operations as may be appropriate. In exchange for these services, our Manager receives a management fee paid monthly in arrears in an amount equal to one-twelfth of 1.20% of our Equity (as defined in the Management Agreement).

The COVID-19 coronavirus pandemic has generally not affected our Manager's ability to manage our day-to-day operations and provide other services to us under the Management Agreement, as the Manager's key employees and personnel who manage our operations are able to effectively work from home and provide such services to us under applicable local and state shelter-in-place orders.

In connection with the execution of the Merger Agreement, we, our Manager, and Ready Capital entered into an amendment to the Management Agreement (the "Management Agreement Amendment"). The Management Agreement Amendment provides that upon the completion of the transactions contemplated by the Merger Agreement, the Management Agreement will terminate, and as a result of the completion of the transactions contemplated by the Merger Agreement and the termination of the Management Agreement, we will pay our Manager a termination fee of $20.3 million, and Ready Capital or Merger Sub (as the surviving company following the Merger) will reimburse our Manager for certain unpaid expenses and pay to our Manager all accrued and unpaid management fees then owed under the Management Agreement, as and when specified in the Management Agreement Amendment.

BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles utilized in the United States of America, or GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates that are susceptible to change relate to the determination of the fair value of investments and derivatives, cash flow projections for and credit performance of Non-Agency MBS and residential mortgage loans, amortization of security and loan premiums, accretion of security and loan discounts, and accounting for derivatives activities. Actual results could materially differ from these estimates. In the opinion of management, all material adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

Our consolidated financial statements include the accounts of all subsidiaries. Significant intercompany accounts and transactions have been eliminated. Our consolidated financial statements also include the consolidation of certain securitization trusts that meet the definition of a variable interest entity, or VIE, because the Company has been deemed to be the primary beneficiary of the securitization trusts. These securitization trusts hold pools of residential mortgage loans and issue series of ABS payable from the cash flows generated by the underlying pools of residential mortgage loans. These securitizations are nonrecourse financing for the residential mortgage loans held-for-investment through consolidated securitization trusts. Generally, a portion of the ABS issued by the securitization trusts are sold to unaffiliated third parties and the balance is purchased by the Company. The Company classifies the underlying residential mortgage loans owned by the securitization trusts as residential mortgage loans held-for-investment through consolidated securitization trusts in its consolidated balance sheets. The ABS issued to unaffiliated third parties are recorded as liabilities on the Company's consolidated balance sheets. The Company records interest income on the residential mortgage loans held-for-investment through consolidated securitization trusts and interest expense on the ABS issued to third parties in the Company's consolidated statements of operations. The Company records the initial underlying assets and liabilities of the consolidated securitization trusts at their fair value upon consolidation into the Company and, as such, no gain or loss is recorded upon consolidation. See Note 5, "Variable Interest Entities," to the accompanying audited consolidated financial statements for additional information regarding the impact of consolidation of securitization trusts.

The consolidated securitization trusts are VIEs because the securitization trusts do not have equity that meets the definition of U.S. GAAP equity at risk. In determining if a securitization trust should be consolidated, the Company evaluates (in accordance with the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 810-10) whether it has both (i) the power to direct the activities of the securitization trust that most significantly impact its economic performance and (ii) the right to receive benefits from the securitization trust or the obligation to absorb losses of the securitization trust that could be significant. The Company determined that it is the primary beneficiary of certain securitization trusts because it has certain delinquency and default oversight rights on residential mortgage loans. In addition, the Company owns the most subordinated class of ABS issued by the securitization trusts and has the obligation to absorb losses and right to receive benefits from the securitization trusts that could potentially be significant to the securitization trusts. The Company assesses modifications, if any, to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company's initial consolidation assessment.

On January 1, 2020, we adopted FASB Accounting Standards Update, or ASU, 2016-13, "Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (CECL). Please see the section in Note 1, "Organization and Significant Accounting Polices," under "Recently Adopted Accounting Pronouncements" to the accompanying audited consolidated financial statements for the effect of our adoption of this ASU on our retained earnings as of January 1, 2020. All prior periods are shown under the previously-existing GAAP. The cumulative effect on any change to accumulated deficit at January 1, 2020 is shown in our consolidated statements of stockholders' equity.

The following is a summary of our significant accounting policies:

Risks and Uncertainties

The outbreak of the COVID-19 Coronavirus pandemic around the globe continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The impact of the outbreak has been rapidly evolving around the globe, with several countries taking drastic measures to limit the spread of the virus by instituting quarantines or lockdown and imposing travel restrictions. While some of these restrictions have been relaxed or phased out, many of these or similar restrictions remain in place, continue to be implemented or additional restrictions are being considered. Such actions are creating significant disruptions to global supply chains, and adversely impacting several industries, including, but not limited to, airlines, hospitality, retail, and the broader real estate industry.

The major disruption caused by COVID-19 significantly reduced economic activity in most of the United States, resulting in a significant increase in unemployment claims. COVID-19 has had a continued and prolonged adverse impact on economic and market conditions and has triggered a period of global economic slowdown, which could have a material adverse effect on the Company's results and financial condition.

The full impact of COVID-19 on the real estate industry, the credit markets, and, consequently, on the Company's financial condition and results of operations is uncertain and cannot be predicted at the current time, as it depends on several factors beyond the control of the Company, including, but not limited to, (i) the uncertainty around the severity and duration of the outbreak, (ii) the effectiveness of the United States public health response, (iii) the pandemic's impact on the U.S. and global economies, (iv) the timing, scope, and effectiveness of additional governmental responses to the pandemic, (v) the timing and speed of economic recovery, (vi) the availability of a treatment or vaccination for COVID-19, and (vii) the negative impact on our borrowers, real estate values, and cost of capital.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less, including U.S. Treasury bills. The carrying amount of cash equivalents approximates their fair value. Restricted cash includes cash pledged as collateral to counterparties on various derivative transactions.

Reverse Repurchase Agreements

We use securities purchased under agreements to resell, or reverse repurchase agreements, as a means of investing excess cash. Although legally structured as a purchase and subsequent resale, reverse repurchase agreements are treated as financing transactions under which the counterparty pledges securities (principally U.S. treasury securities) and accrued interest as collateral to secure a loan. The difference between the purchase price that we pay and the resale price that we receive represents interest paid to us and is included in "Other interest income" on our consolidated statements of operations. It is our policy to generally take possession of securities purchased under reverse repurchase agreements at the time such agreements are made.

Mortgage-Backed Securities

Agency MBS are securities that are obligations (including principal and interest) guaranteed by the U.S. government, such as Ginnie Mae, or guaranteed by federally sponsored enterprises, such as Fannie Mae or Freddie Mac. Our investment-grade Agency MBS portfolio is invested primarily in fixed-rate and adjustable-rate mortgage-backed pass-through certificates and hybrid adjustable-rate MBS. Hybrid adjustable-rate MBS have an initial interest rate that is fixed for a certain period, typically one to ten years, and then adjusts annually for the remainder of the term of the asset. We structure our investment portfolio to be diversified with a variety of prepayment characteristics, investing in mortgage assets with prepayment penalties, investing in certain mortgage security structures that have prepayment protections and purchasing mortgage assets at a premium and at a discount. A portion of our portfolio consists of Non-Agency MBS. Our principal business objective is to generate net income for distribution to our stockholders primarily based upon the spread between the interest income on our mortgage assets and our borrowing costs to finance our acquisition of those assets.

We classify our Agency MBS as either trading investments or available-for sale, or AFS, investments. Our management determines the appropriate classification of the securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. We currently classify most of our Agency MBS as available-for-sale. We have also designated a portion of our Agency MBS as trading investments. All assets that are classified as available-for-sale are carried at fair value and unrealized gains or losses are generally included in "Accumulated other comprehensive income (loss)," or AOCI, as a component of stockholders' equity. For AFS Agency MBS that are in an unrealized loss position, we first assess whether we intend to sell, or if it is more likely than not that we will be required to sell the security before recovery of its amortized basis. If we do not intend to sell or expect recovery of the amortized cost basis, we evaluate if the decline in fair value resulted from credit losses or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, adverse conditions specifically related to the security, and other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected for the security are compared to its amortized cost basis. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, limited by the amount that the fair value is less than the amortized cost. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. As the payments of principal and interest on the AFS Agency MBS are guaranteed by Fannie Mae or Freddie Mac, which are under the conservatorship of the U.S. government, there is currently zero loss expectation and no allowance for credit losses is currently recorded for these securities. Agency MBS classified as trading investments are reported at fair value with unrealized gains and losses included in our consolidated statements of operations.

The most significant source of our income is derived from our investments in Agency MBS. Interest income on Agency MBS is accrued based on the actual coupon rate and the outstanding principal amount of the underlying mortgages. Premiums and discounts are amortized or accreted into interest income over the estimated lives of the securities using the effective interest yield method, adjusted for the effects of actual and estimated prepayments based on ASC 320-10. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, street consensus prepayment speeds, and current market conditions. If our estimate of prepayments is materially incorrect as compared to the aforementioned references, we may be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income, which could be material and adverse.

The vast majority of our Non-Agency MBS had previously been accounted for under "Loans and Debt Securities Acquired with Credit Deterioration" (ASC 310-30). Under the Current Expected Loss Methodology, or CECL, debt securities previously accounted for as assets acquired with credit impairment (PCI) are treated as assets acquired with credit deterioration (PCD). Under ASC 326, PCD assets that are also available-for-sale debt securities follow the available-for-sale debt security impairment model. This model compares the fair value of a security with its amortized cost. If the fair value of a security exceeds its amortized cost, there is no credit loss. If the fair value of a security is less than its amortized cost, then the security is impaired and further assessment needs to be done to determine if the decline in fair value is due to a credit loss or to other factors. The first step in this assessment process is for an entity to determine whether it had the intent to sell the security, or the ability to hold the security until the expected recovery of its amortized cost basis, or until maturity. If an entity did not have either the intent or the ability to hold the security until the expected recovery of the amortized cost basis, then the amortized cost basis is written down to the debt security's fair value through earnings.

Upon the adoption of CECL at January 1, 2020, we reviewed those Non-Agency MBS that were in an unrealized loss position to determine if there was any credit loss. In our Annual Report on Form 10-K for the year ended December 31, 2019, we stated the following: "On the Non-Agency MBS that were in an unrealized loss position, at December 31, 2019, we did not expect to sell these Non-Agency MBS at a price less than the amortized cost basis of our investments. Because the decline in market value on these Non-Agency MBS is attributable to changes in interest rate and not the credit quality of the Non-Agency MBS in our portfolio, and because we did not have the intent to sell these investments, nor is it more likely than not that we will be required to sell these investments before recovery of their amortized cost basis, which may be at maturity, we do not consider these investments to be other-than-temporarily impaired." On January 1, 2020, when we adopted CECL, we reviewed our assessment of the Non-Agency MBS in an unrealized loss position at December 31, 2019 and concluded that there was no credit loss on these securities. Our conclusion included a review of factors such as the ratings of these securities by rating agencies, the payment structure of these securities, whether the issuer has continued to make payments of principal and interest, and review of prepayment speeds, delinquency, and default rates.

At March 31, 2020, we changed the designation of our Non-Agency MBS from available-for-sale securities to trading securities. The reason for this change in designation was due to the negative effects on the economy resulting from the COVID-19 coronavirus pandemic and the high volatility in the market for Non-Agency MBS. Starting in the third week in March 2020, we began receiving requests from our repurchase agreement counterparties for margin calls, increases in the haircuts (the amount of coverage on the collateral securing the repurchase agreement financing), and higher interest rates. This all resulted from the perceived damage to the economy from the COVID-19 coronavirus pandemic. After the Federal Reserve stepped in and supported the Agency MBS market, the prices for Agency MBS stabilized. The Non-Agency MBS market was still volatile (with non-agency prices continuing to decline). We sold a substantial portion of our Non-Agency MBS in order to reduce leverage, maintain adequate liquidity, pay-down the balances on our repurchase agreement borrowings, and preserve over-collateralization for our repurchase agreement lenders. Due to the high volatility in the market for Non-Agency MBS, and the more restrictive terms by our repurchase agreement counterparties on these securities, we felt that we could no longer state that we had the intent and the ability to hold these securities until recovery of their amortized cost basis, or until maturity. Therefore, we changed the designation of these securities to trading securities as of March 31, 2020.

Once an entity elects to classify a security as a trading security, it should be prepared to maintain that classification until the security is sold or matures. Transfer of securities from available-for-sale to trading securities means that the unrealized gains and losses that were in accumulated other comprehensive income are reported through earnings as unrealized gains or losses as of the date of the change in designation. Trading securities are subsequently measured at fair value, with the changes in fair value reported in income in the period the change occurs.

Interest income on the Non-Agency MBS that were purchased at a discount to par value, and were rated below AA at the time of purchase, was previously recognized based on the security's effective interest rate. The effective interest rate on these securities was based on the projected cash flows from each security, which was estimated based on our observation of current information and events, and included assumptions related to interest rates, prepayment rates, and the timing and amount of credit losses. On at least a quarterly basis, we reviewed and, if appropriate, made adjustments to our cash flow projections based on input and analysis received from external sources, internal models, and our 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, resulted in a prospective change in the yield/interest income recognized on such securities. Actual maturities of these Non-Agency MBS were affected by the contractual lives of the associated mortgage collateral, periodic payments of principal, and prepayments of principal. Therefore, actual maturities of these securities are generally shorter than stated contractual maturities. Stated contractual maturities are generally greater than ten years. At March 31, 2020, we designated our Non-Agency MBS as trading securities. On a prospective basis, interest income is recognized based on the actual coupon rate and the outstanding principal amount.

Securities transactions are recorded on the date the securities are purchased or sold. Realized gains or losses from securities transactions are determined based on the specific identified cost of the securities.

Residential Mortgage Loans Held-for-Securitization

Residential mortgage loans held-for-securitization are held at our wholly-owned subsidiary, Anworth Mortgage Loans, Inc., in connection with our intent to sponsor our own securitizations. Loans purchased with the intent to securitize are recorded on the trade date. Any fees associated with acquiring the loans held-for-securitization, as well as any premium paid to acquire the loans, are deferred. These are included in the loan balance and amortized using the effective interest yield method. Interest income is recorded as income when earned and deemed collectible or until a loan becomes more than 90 days past due, at which point the loan is placed on non-accrual status. When a non-accrual loan has been cured, meaning when all delinquent principal and interest have been remitted by the borrower, the loan is placed back on accrual status. Alternatively, nonaccrual loans may be placed back on accrual status after the loan is considered re-performing, generally when the loan has been current for 6 months. We have elected not to measure an allowance for credit losses on accrued interest receivables.

We establish an allowance for residential loan losses based on our estimate of credit losses. These estimates for the allowance for loan losses require consideration of various observable inputs including, but not limited to, historical loss experience, delinquency status, borrower credit scores, geographic concentrations and loan-to-value ratios, and are adjusted for current economic conditions as deemed necessary by our management. Many of these factors are subjective and cannot be reduced to a mathematical formula. In addition, since we have not incurred any significant direct losses on our portfolio, we review national historical credit performance information from external sources to assist in our analysis. Changes in our estimates can significantly impact the allowance for loan losses and provision expense. The allowance reflects management's best estimate of the credit losses inherent in the loan portfolio at the balance sheet date.
It is also possible that we will experience credit losses that are different from our current estimates or that the timing of those losses may differ from our estimates.

The residential mortgage loans held-for-securitization are financed by a warehouse line of credit. The payment and performance of the obligations by Anworth Mortgage Loans under the warehouse line is guaranteed by Anworth Mortgage Asset Corporation. We may be required to remove a loan from a warehouse line of credit. We do not maintain a loan repurchase reserve, as any risk of loss due to loan repurchase would normally be covered by recourse to the companies from which we acquired the loans. Debt issuances costs incurred in connection with this line of credit (such as facility fees and legal costs) are deducted from the debt's carrying amount and amortized ratably to interest expense over the term of the debt.

Residential Mortgage Loans Held-for-Investment Through Consolidated Securitization Trusts

Residential mortgage loans held-for-investment through consolidated securitization trusts are carried at unpaid principal balances net of any premiums or discounts and allowance for loan losses. We expect that we will be required to continue to consolidate the securitization trusts that hold the residential mortgage loans.

We establish an allowance for residential loan losses based on our estimate of credit losses. These estimates for the allowance for loan losses require consideration of various observable inputs including, but not limited to, historical loss experience, delinquency status, borrower credit scores, geographic concentrations and loan-to-value ratios, and are adjusted for current economic conditions as deemed necessary by our management. Many of these factors are subjective and cannot be reduced to a mathematical formula. In addition, we review national historical credit performance information from external sources to assist in our analysis. Changes in our estimates can significantly impact the allowance for loan losses and provision expense. The allowance reflects management's best estimate of the credit losses inherent in the loan portfolio at the balance sheet date. It is also possible that we will experience credit losses that are different from our current estimates or that the timing of those losses may differ from our estimates. We have elected not to measure an allowance for credit losses on accrued interest receivables.

We recognize interest income from residential mortgage loans on an accrual basis. Any related premium or discount is amortized into interest income using the effective interest method over the estimated life of these loans. Coupon interest is recognized as revenue when earned and deemed collectable or until a loan becomes more than 90 days' past due, at which point the loan is placed on non-accrual status. Interest previously accrued for loans that have been placed on non-accrual status is reversed against interest income in the period the loan is placed in non-accrual status. Residential loans delinquent more than 90 days or in foreclosure are characterized as delinquent. Cash principal and interest that are advanced from servicers after a loan becomes greater than 90 days' past due are recorded as a liability due to the servicer. When a delinquent loan previously placed on non-accrual status has been cured, meaning when all delinquent principal and interest have been remitted by the borrower, the loan is placed back on accrual status. Alternatively, non-accrual loans may be placed back on accrual status after the loan is considered re-performing. A restructured loan is considered re-performing when the loan has been current for at least 6 months.

Residential Properties

Residential properties are stated at cost and consist of land, buildings and improvements, including other costs incurred during their acquisition, possession and renovation. Residential properties purchased that are not subject to an existing lease are treated as asset acquisitions and, as such, are recorded at their purchase price, including acquisition and renovation costs, all of which are allocated to land and building based upon their relative fair values at the date of acquisition.

Building depreciation is computed on a straight-line basis over the estimated useful lives of the assets. We will generally use a 27.5 year estimated life with no salvage value. We will incur costs to prepare our acquired properties to be leased. These costs will be capitalized and allocated to building costs. Costs related to the restoration, renovation, or improvement of our properties that improve and extend their useful lives are capitalized and depreciated over their estimated useful lives. Expenditures for ordinary repairs and maintenance are expensed as incurred. Costs incurred by us to lease the properties will be capitalized and amortized over the life of the lease. Escrow deposits include refundable and non-refundable cash and earnest money on deposit with independent third parties for property purchases.

Repurchase Agreements

We finance the acquisition of MBS primarily through the use of repurchase agreements. Under these repurchase agreements, we sell securities to a lender and agree to repurchase the same securities in the future for a price that is higher than the original sales price. The difference between the sale price that we receive and the repurchase price that we pay represents interest paid to the lender. Although structured as a sale and repurchase obligation, a repurchase agreement operates as a financing under which we pledge our securities and accrued interest as collateral to secure a loan which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. We retain beneficial ownership of the pledged collateral. Upon the maturity of a repurchase agreement, we are required to repay the loan and concurrently receive back our pledged collateral from the lender or, with the consent of the lender, we may renew such agreement at the then-prevailing financing rate. These repurchase agreements may require us to pledge additional assets to the lender in the event the estimated fair value of the existing pledged collateral declines.

Asset-Backed Securities Issued by Securitization Trusts

Asset-backed securities issued by the securitization trusts are recorded at principal balances net of unamortized premiums or discounts. This long-term debt is collateralized only by the assets held in the trusts and is otherwise non-recourse to the Company.

Derivative Financial Instruments

Risk Management

We primarily use short-term (less than or equal to 12 months) repurchase agreements to finance the purchase of MBS. These obligations expose us to variability in interest payments due to changes in interest rates. We continuously monitor changes in interest rate exposures and evaluate various opportunities to mitigate this risk. Our objective is to limit the impact of interest rate changes on earnings and cash flows. The principal instruments we use to achieve this are interest rate swaps. Interest rate swaps effectively convert a percentage of our repurchase agreements to fixed-rate obligations over a period of up to ten years. Under interest rate swaps, we agree to pay an amount equal to a specified fixed rate of interest times a notional principal amount and to receive in return an amount equal to a specified variable-rate of interest times a notional amount, generally based on the London Interbank Offered Rate, or LIBOR. The notional amounts are not exchanged. We do not issue or hold the interest rate swaps for speculative purposes.

We also enter into To-Be-Announced, or TBA, Agency MBS as either a means of investing in and financing Agency MBS or as a means of disposing of or reducing our exposure to agency securities. Pursuant to TBA contracts, we agree to purchase or sell, for future delivery, Agency MBS with certain principal and interest terms and certain types of collateral, but the particular Agency MBS to be delivered are not identified until shortly before the TBA settlement date. We also may choose, prior to settlement, to move the settlement of these MBS out to a later date by entering into an offsetting short or long position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing a similar TBA contract for a later settlement date. This transaction is commonly referred to as a "dollar roll." The Agency MBS purchased or sold for a forward settlement date are typically priced at a discount to agency securities for settlement in the current month. This difference (or discount) is referred to as the "price drop." The price drop represents compensation to us for foregoing net interest margin (interest income less repurchase agreement financing cost). TBA Agency MBS are accounted for as derivative instruments since they do not meet the exemption allowed for a "regular way" security trade under ASC 815, as either the TBA contracts do not settle in the shortest period of time possible or we cannot assess that it is probable at inception that we will take physical delivery of the security or that we will not settle on a net basis.

Accounting for Derivative and Hedging Activities

We account for derivative instruments in accordance with ASC 815, which requires recognition of all derivatives as either assets or liabilities and measurement of those instruments at fair value, which is typically based on values obtained from large financial institutions who are market makers for these types of instruments. The accounting for changes in the fair value of derivative instruments depends on whether the instruments are designated and qualify as hedges in accordance with ASC 815. Changes in fair value related to derivatives not designated as hedges are recorded in our consolidated statements of operations as "Loss on derivatives" and specifically identified as either relating to interest rate swaps or TBA Agency MBS. For a derivative to qualify for hedge accounting, we must anticipate that the hedge will be highly "effective" as defined by ASC 815-10. A hedge of the variability of cash flows that are to be received or paid in connection with a recognized asset or liability is known as a "cash flow" hedge. Changes in the fair value of a derivative that is highly effective and that is designated as a cash flow hedge, to the extent the hedge is effective, are recorded in AOCI and reclassified to income when the forecasted transaction affects income (e.g. when periodic settlement interest payments are due on repurchase agreements). Hedge ineffectiveness, if any, is recorded in current period income. Fair value hedges protect against exposures to changes in the fair value of a recognized asset. ASC 815 requires companies to recognize in income, in the period that the changes in fair value occur, any gains or losses from any ineffectiveness in the hedging relationship.

When we discontinue hedge accounting, the gain or loss on the derivative remains in AOCI and is reclassified into income when the forecasted transaction affects income. In all situations where hedge accounting is discontinued and the derivative remains outstanding, we carry the derivative at its fair value on our balance sheet, recognizing changes in fair value in current period income. All of our interest rate swaps had historically been accounted for as cash flow hedges under ASC 815. After August 22, 2014, none of our interest rate swaps were designated for hedge accounting. As a result of discontinuing hedge accounting for our interest rate swaps, changes in the fair value of these interest rate swaps are recorded in "Loss on interest rate swaps, net," which is included in "Loss on derivatives, net," in our consolidated statements of operations rather than in AOCI. Also, net interest paid or received on these interest rate swaps, which was previously recognized in interest expense, is instead recognized in "Loss on interest rate swaps, net." These continue to be reported as assets or liabilities on our consolidated balance sheets at their fair value.

As long as the forecasted transactions that were being hedged (i.e. rollovers of our repurchase agreement borrowings) are still expected to occur, the balance in AOCI from the activity in these interest rate swaps through the dates of de-designation will remain in AOCI and be recognized in our consolidated statements of operations as interest expense over the remaining term of these interest rate swaps.

For purposes of the consolidated statements of cash flows, cash flows hedges were classified with the cash flows from the hedged item. Cash flows from derivatives that are not hedges are classified according to the underlying nature or purpose of the derivative transaction.

For more details on the amounts and other qualitative information on all our derivative transactions, see Note 15, “Derivative Instruments,” to the accompanying audited consolidated financial statements. For more information on the fair value of our derivative instruments, see Note 9, “Fair Values of Financial Instruments.”

Credit Risk

At December 31, 2020, we had attempted to limit our exposure to credit losses on our Agency MBS by purchasing securities primarily through Freddie Mac and Fannie Mae. The payment of principal and interest on the Freddie Mac and Fannie Mae MBS are guaranteed by those respective enterprises. In September 2008, both Freddie Mac and Fannie Mae were placed in the conservatorship of the U.S. government. While it is the intent that the conservatorship will help stabilize Freddie Mac’s and Fannie Mae’s overall financial position, there can be no assurance that it will succeed or that, if necessary, Freddie Mac and Fannie Mae will be able to satisfy its guarantees of Agency MBS. There have also been concerns as to what the U.S. government will do regarding winding down the operations of Freddie Mac and Fannie Mae. There have also been concerns over the past several years regarding the credit standing of Freddie Mac, Fannie Mae, and U.S. sovereign debt. We do not know what effect any future ratings of Freddie Mac, Fannie Mae and U.S. sovereign debt may ultimately have on the U.S. economy, the value of our securities, or the ability of Freddie Mac and Fannie Mae to satisfy its guarantees of Agency MBS, if necessary.

Our adjustable-rate MBS are subject to periodic and lifetime interest rate caps. Periodic caps can limit the amount an interest rate can increase during any given period. Some adjustable-rate MBS subject to periodic payment caps may result in a portion of the interest being deferred and added to the principal outstanding.

We also invest in Non-Agency MBS, which are securities that are secured by pools of residential mortgages which are not issued by government-sponsored enterprises and are not guaranteed by any agency of the U.S. government or any federally chartered corporation. As we carry these securities at fair value, there is no allowance for credit losses. However, credit losses on the underlying collateral will affect the payments we receive and the accrual of income.

We also own residential mortgage loans held-for-investment through consolidated securitization trusts. As the majority of these loans (the senior tranches of the securitization trusts) are collateral for the asset-backed securities issued by the trusts, our potential credit risk is on the subordinated tranches that we own, as these tranches would be the first ones to absorb any losses resulting from defaults by the borrowers on the underlying mortgage loans. See the section below entitled “Credit Risk Related to Residential Mortgage Loans Held-for-Securitization” for many of the reasons why credit losses on real estate loans can occur.

For all interest rate swaps entered into on or after September 9, 2013, all swap participants are required by rules of the Commodities Futures Trading Commission under authority granted to it pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, to clear interest rate swaps through a registered derivatives clearing organization, or “swap execution facility,” through standardized documents under which each swap counterparty transfers its position to another entity whereby a central clearinghouse effectively becomes the counterparty on each side of the swap. It is the intent of the Dodd-Frank Act that the clearing of interest rate swaps in this manner is designed to avoid concentration of risk in any single entity by spreading and centralizing the risk in the clearinghouse and its members.

Credit Risk Related to Residential Mortgage Loans Held-for-Securitization

Our strategy of acquiring, accumulating, and securitizing residential mortgage loans involves credit risk. We bear the risk of loss on these loans while they are being financed on warehouse lines of credit. These loans are secured by real property. Credit losses on real estate loans can occur for many reasons, including poor origination practices; fraud; poor underwriting; poor servicing practices; weak economic conditions; changes in legal protections for lenders; increases in payments required to be made by the borrowers; declines in the value or real estate; natural disaster (such as fires or earthquake), severe weather (such as flooding, hurricanes, drought, and tornados) and other acts of God, including global pandemics, such as the COVID-19 coronavirus pandemic; uninsured property loss; over-leveraging of the borrower; costs of remediation of environmental conditions; acts of war or terrorism; changes in legal protections for lenders and other changes in law or regulation (including lending disclosures and privacy); and personal events affecting borrowers, such as reduction in income, changes in employment status (such as job loss), divorce, or health problems. In addition, if the U.S. economy or the housing market were to weaken (and that weakening was in excess of what we anticipated), credit losses could increase beyond levels that we have anticipated. In the event of a default on any of our loans, we would bear the loss equal to the difference between the realizable value of the mortgaged property, after expenses, and the outstanding indebtedness, as well as the loss of interest.

Income Taxes

We have elected to be taxed as a REIT and to comply with the provisions of the Code with respect thereto. Accordingly, we will not be subject to federal income tax to the extent that our distributions to our stockholders, subject to certain restrictions contained in the Merger Agreement, satisfy the REIT requirements and that certain asset, income and stock ownership tests are met.

We have no unrecognized tax benefits and do not anticipate any increase in unrecognized benefits during 2020 relative to any tax positions taken prior to January 1, 2020. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in our income taxes accounts; and no such accruals existed at December 31, 2020. We file REIT U.S. federal and California income tax returns. These returns are generally open to examination by the IRS and the California Franchise Tax Board for all years after 2015 and 2014, respectively.

Cumulative Convertible Preferred Stock

We classify our Series B Cumulative Convertible Preferred Stock, or Series B Preferred Stock, on our balance sheets using the guidance in ASC 480-10-S99. Our Series B Preferred Stock contains certain fundamental change provisions that allow the holder to redeem the preferred stock for cash only if certain events occur, such as a change in control. As redemption under these circumstances is not solely within our control, we have classified our Series B Preferred Stock as temporary equity.

We have analyzed whether the conversion features in our Series B Preferred Stock should be bifurcated under the guidance in ASC 815-10 and have determined that bifurcation is not necessary.

Stock-Based Expense

In accordance with ASC 718-10, any expense relating to share-based payment transactions is recognized in the consolidated financial statements. Restricted stock is expensed over the vesting period (see Note 14, “Equity Compensation Plan,” to the accompanying audited consolidated financial statements).

Earnings Per Share

Basic earnings per share, or EPS, is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock equivalents (which includes stock options and convertible preferred stock) and the adding back of the Series B Preferred Stock dividends unless the effect is to reduce a loss or increase the income per share.

Accumulated Other Comprehensive Income

In accordance with ASC 220-10-55-2, total comprehensive income is divided into net income and other comprehensive income, which includes unrealized gains and losses on marketable securities classified as available-for-sale, and unrealized gains and losses on derivative financial instruments. In accordance with ASU 2013-02, we have identified, in our Statements of Comprehensive Income, items that are reclassified and included in our statements of operations.

Reclassifications and Presentation

In order to conform to current financial statement presentation, we have reclassified certain balances, but there has been no effect on net income and stockholders' equity.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could materially differ from those estimates.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

On January 1, 2020, we adopted ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. In addition, this ASU made changes to the accounting for available-for-sale debt securities and financial assets purchased with credit deterioration. This ASU requires entities to record the full amount of credit losses that are expected in their portfolios (known as the Current Expected Loss Methodology, or CECL) and to re-evaluate at each reporting period. The income statement will reflect the credit loss provision (or expense) necessary to adjust the allowance estimate since the previous reporting date. The expected credit loss estimate should consider available information relevant to assessing the collectability of contractual cash flows, including information about past events (i.e., historical loss experience), current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount.

For our AFS Agency MBS, we adopted this ASU using the prospective transition approach. The amortized cost basis of these assets was not adjusted. We believe that there is currently zero loss expectation on these assets, as the principal and interest on these securities are guaranteed by Fannie Mae and Freddie Mac, and these agencies are still under the conservatorship of the U.S. government.

Our Non-Agency MBS were formally treated as assets purchased with credit impairment (PCI) and accounted for under ASC 310-30. We elected to treat these assets upon adoption of this ASC as financial assets purchased with credit deterioration (PCD) and adopted this ASC using the prospective transition approach. These assets were reviewed at January 1, 2020, and we concluded that there was no credit loss at that time.

For our loans held-for-investment through consolidated securitization trusts, we adopted this ASU using the prospective transition approach. The amortized cost basis of these assets was not adjusted. The allowance for credit losses at December 31, 2019 of $175,000 was the same amount in effect at January 1, 2020.

For our loans held-for-securitization, we adopted this ASU using the modified retrospective approach. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326, while prior period amounts were reported in accordance with previously applicable GAAP. We recorded a decrease to retained earnings/accumulated deficit of $30,000 as of January 1, 2020 for the cumulative effect of adopting ASC 326.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820) – Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement." The following disclosure requirements were removed: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; and (3) the valuation processes for Level 3 fair value measurements. The following disclosure requirement was modified: the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The following disclosure requirements were added: (i) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and (ii) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that the other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. This ASU became effective for all entities beginning with the quarter ended March 31, 2020. Upon our adoption at January 1, 2020, this ASU did not have a material impact on our consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

The FASB recently issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This ASU provides temporary optional guidance intended to ease the burden of reference rate reform on financial reporting. This ASU applies to all entities that have contracts, hedging relationships and other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate that is expected to be discontinued. This ASU was effective upon its issuance on March 12, 2020. However, it cannot be applied to contract modifications that occur after December 31, 2022. With certain exceptions, this ASU also cannot be applied to hedging relationships entered into or evaluated after that date. The guidance provides optional expedients and exceptions for applying existing guidance to contract modifications, hedging relationships and other transactions that are expected to be affected by reference rate reform and meet certain scope guidance. For example, if a debt instrument that references LIBOR is modified to refer to a different reference rate, an entity could elect to account for that modification prospectively by adjusting the effective interest rate. In the United States, the Alternative Refinance Rates Committee has already selected the Secured Overnight Financing Rate, or SOFR, an overnight secured U.S. Treasury repurchase agreement rate, as the new rate. There have been indications that many lenders will making spread adjustments to minimize the difference between the SOFR rate and the LIBOR rate. We do not believe that, at the present time, this ASU will have a material impact on our financial statements.

In August 2020, the FASB issued ASU 2020-06, "Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40). This ASU simplifies the accounting for convertible instruments and contracts in an entity's own equity. The amendments eliminate the existing guidance requiring entities to account for the beneficial conversion and cash conversion features separately from the host convertible debt or preferred stock. For contracts in an entity's own equity, the contracts primarily affected are freestanding instruments and embedded features that are accounted for as derivatives under the current guidance because of failure to meet the settlement conditions of the derivatives scope exception related to certain requirements of the settlement assessment. The FASB simplified the settlement assessment by removing the requirements (i) to consider whether the contract would be settled in registered shares, (ii) to consider whether collateral is required to be posted, and (iii) to assess shareholder rights. Entities are also required to use the if-converted method in calculating diluted earnings per share, or EPS, for convertible instruments, and to presume share settlement when calculating EPS for instruments that can be settled in cash or shares. This ASU will become effective for all public entities with the quarter ending March 31, 2022. We do not believe that this ASU will have a material impact on our financial statements.

NOTE 2. RESTRICTED CASH

This includes cash pledged as collateral for interest rate swaps and TBA Agency MBS margin calls. The following table represents the Company's restricted cash balances at December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
	(in thousands)	
Restricted cash - interest rate swaps and TBA Agency MBS margin calls	$ 111,069	$ 104,699

NOTE 3. MORTGAGE-BACKED SECURITIES (MBS)

On March 31, 2020, we designated our Non-Agency MBS as trading securities and they are carried at fair value. See the section regarding Non-Agency MBS under the caption, "Mortgage-Backed Securities," in the "Organization and Significant Accounting Policies" section in Note 1 to the accompanying audited consolidated financial statements.

The following tables summarize our Agency MBS and Non-Agency MBS at December 31, 2020 and December 31, 2019, which are carried at their fair value:

December 31, 2020

By Agency	Freddie Mac	Fannie Mae	Total Agency MBS(1)	Non-Agency MBS	Total MBS
			(in thousands)		
Amortized cost/carrying value	$ 526,121	$ 1,033,213	$ 1,559,334	$ 206,933	$ 1,766,267
Paydowns receivable(2)	5,074	—	5,074	—	5,074
Unrealized gains	25,843	34,230	60,073	—	60,073
Unrealized losses	(59)	(68)	(127)	—	(127)
Fair value	$ 556,979	$ 1,067,375	$ 1,624,354	$ 206,933	$ 1,831,287

By Security Type	ARMs	Hybrids	15-Year Fixed-Rate	20-Year Fixed-Rate	30-Year Fixed-Rate	Total Agency MBS(1)	Non-Agency MBS	Total MBS
				(in thousands)				
Amortized cost/carrying value	$ 323,823	$ 172,460	$ 33,048	$ 148,227	$ 881,776	$ 1,559,334	$ 206,933	$ 1,766,267
Paydowns receivable(2)	2,842	2,232	—	—	—	5,074	—	5,074
Unrealized gains	5,750	4,648	1,707	8,142	39,826	60,073	—	60,073
Unrealized losses	(127)	—	—	—	—	(127)	—	(127)
Fair value	$ 332,288	$ 179,340	$ 34,755	$ 156,369	$ 921,602	$ 1,624,354	$ 206,933	$ 1,831,287

(1) Includes approximately $104.7 million in fair value of Agency Trading MBS. This has an amortized cost of approximately $103.9 million and an unrealized gain of approximately $0.8 million.
(2) Paydowns receivable on Agency MBS are generated when the Company receives notice from Freddie Mac of prepayments but does not receive the actual cash with respect to such prepayments until the 15th day of the following month.

During the year ended December 31, 2020, we sold available-for-sale Agency MBS (including Agency MBS trading securities) of approximately $1.4 billion and realized gross gains of approximately $19.8 million and gross losses of approximately $0.4 million. During the year ended December 31, 2019, we received proceeds of approximately $2.95 billion from the sales of Agency MBS (including Agency MBS trading securities) and recognized gross realized losses of approximately $21.7 million, gross realized gains of approximately $11.8 million, and an unrealized gain on Agency

MBS trading investments of approximately $17 million. During the years ended December 31, 2020 and 2019, we recognized a gain (including derivative income) of approximately $28.2 million and approximately $14.2 million, respectively, on TBA Agency MBS. During the years ended December 31, 2020 and 2019, we did not sell any of our residential mortgage loans. At March 31, 2020, we changed the designation of our Non-Agency MBS from available-for-sale to trading securities. The unrealized gain or loss on the Non-Agency securities, which had been formally recorded in AOCI, is now recorded as a net gain or loss on our consolidated statements of operations. During the year ended December 31, 2020, we had a net loss on the Non-Agency trading securities of approximately $15.5 million. During 2019, we did not classify our Non-Agency MBS as trading securities. During the year ended December 31, 2020, we also had a net loss on available-for-sale Non-Agency MBS of approximately $55.4 million. During the year ended December 31, 2019, we received proceeds of approximately $30 million from the sales (including calls) of Non-Agency available-for-sale MBS and recognized a gross gain of approximately $0.3 million and a gross loss of approximately $0.2 million.

At March 31, 2020, we changed the designation of our Non-Agency MBS from available-for-sale to trading securities. Unrealized changes in the fair value of these securities are recorded in earnings. At December 31, 2019, we had an unrealized gain in other comprehensive income of approximately $30 million. This was reclassified out of other comprehensive income at March 31, 2020.

December 31, 2019

By Agency	Freddie Mac	Fannie Mae	Total Agency MBS(1)	Non-Agency MBS	Total MBS
			(in thousands)		
Amortized cost	$ 864,452	$ 2,590,775	$ 3,455,227	$ 613,576	$ 4,068,803
Paydowns receivable(2)	9,727	—	9,727	—	9,727
Unrealized gains	19,487	27,256	46,743	34,188	80,931
Unrealized losses	(699)	(947)	(1,646)	(4,154)	(5,800)
Fair value	$ 892,967	$ 2,617,084	$ 3,510,051	$ 643,610	$ 4,153,661

By Security Type	ARMs	Hybrids	15-Year Fixed-Rate	20-Year Fixed-Rate	30-Year Fixed-Rate	Total Agency MBS(1)	Non-Agency MBS	Total MBS
					(in thousands)			
Amortized cost	$ 473,935	$ 296,890	$ 47,248	$ 193,303	$ 2,443,851	$ 3,455,227	$ 613,576	$ 4,068,803
Paydowns receivable(2)	8,328	1,399	—	—	—	9,727	—	9,727
Unrealized gains	10,279	202	978	1,274	34,010	46,743	34,188	80,931
Unrealized losses	(69)	(1,496)	—	—	(81)	(1,646)	(4,154)	(5,800)
Fair value	$ 492,473	$ 296,995	$ 48,226	$ 194,577	$ 2,477,780	$ 3,510,051	$ 643,610	$ 4,153,661

(1) Included in the 15-year fixed-rate MBS are Trading Agency MBS. These have an amortized cost of $655.8 million, an unrealized gain of $1.1 million, and a fair value of $656.9 million.
(2) Paydowns receivable on Agency MBS are generated when the Company receives notice from Freddie Mac of prepayments but does not receive the actual cash with respect to such prepayments until the 15th day of the following month.

The following tables show the gross unrealized losses and fair value of those individual securities in our MBS portfolio that have been in a continuous unrealized loss position at December 31, 2020 and December 31, 2019, aggregated by investment category and length of time:

December 31, 2020

Description of Securities	Less Than 12 Months Number of Securities	Fair Value	Unrealized Losses	12 Months or More Number of Securities	Fair Value	Unrealized Losses	Total Number of Securities	Fair Value	Unrealized Losses
		(in thousands)			(in thousands)			(in thousands)	
Agency MBS	26	$ 8,269	$ (64)	14	$ 5,046	$ (63)	40	$ 13,315	$ (127)

December 31, 2019

Description of Securities	Less Than 12 Months Number of Securities	Fair Value	Unrealized Losses	12 Months or More Number of Securities	Fair Value	Unrealized Losses	Total Number of Securities	Fair Value	Unrealized Losses
		(in thousands)			(in thousands)			(in thousands)	
Agency MBS	10	$ 270,737	$ (419)	38	$ 168,095	$ (1,227)	48	$ 438,832	$ (1,646)
Non-Agency MBS	18	$ 49,281	$ (1,507)	12	$ 75,926	$ (2,647)	30	$ 125,207	$ (4,154)

The unrealized losses on our investments in AFS MBS were caused by fluctuations in interest rates. We purchased the AFS MBS primarily at a premium relative to their face value and the contractual cash flows of those investments are guaranteed by the GSEs. Accordingly, there is currently zero loss expectation on these securities, and no allowance for credit loss has been recorded.

Upon the adoption of CECL on January 1, 2020, we determined that the unrealized losses on our investments in Non-Agency MBS were primarily caused by fluctuations in interest rates. We purchased the Non-Agency MBS primarily at a discount relative to their face value. At March 31, 2020, we designated these securities as trading securities. See the section regarding Non-Agency MBS under the caption, “Mortgage-Backed Securities,” in “Organization and Significant Accounting Policies” in Note 1 to the accompanying audited consolidated financial statements.

NOTE 4. RESIDENTIAL MORTGAGE LOANS HELD-FOR-SECURITIZATION

At December 31, 2020, we owned approximately $109.3 million of mortgage loans. At December 31, 2019, we owned approximately $152.9 million of mortgage loans. To date, all of the loans were acquired during 2019.

The following table details the carrying value for residential mortgage loans held-for-securitization at December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
	(in thousands)	
Principal balance	$ 106,607	$ 148,908
Unamortized premium and costs	2,761	4,014
Allowance for loan losses	(56)	—
Carrying value	$ 109,312	$ 152,922

The following table provides a reconciliation of the carrying value of residential mortgage loans held-for-securitization at December 31, 2020 and December 31, 2019:

	For the Years Ended December 31, 2020	For the Years Ended December 31, 2019
	(in thousands)	
Balance at beginning of period	$ 152,922	$ 11,660
Loan acquisitions	—	168,850
Premium and deferred transaction costs on new mortgage loans	—	3,702
Deductions during period:		
Collections of principal	(41,379)	(30,992)
Amortization of premium and costs	(1,253)	(298)
Allowance for credit losses	(56)	—
Other	(922)	—
Balance at end of period	$ 109,312	$ 152,922

The following table details various portfolio characteristics of the residential mortgage loans held-for-securitization at December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
	(dollar amounts in thousands)	
Portfolio Characteristics:		
12-months bank statements	11	17
24-months bank statements	39	56
Alt documentation	69	97
Full documentation	10	15
Written Verification of Employment	93	115
Number of loans outstanding	222	300
Current principal balance	$ 106,607	$ 148,908
Simple Average loan balance	$ 480	$ 496
Net weighted average coupon rate	5.39 %	5.40 %
Weighted average FICO score	744	744
Weighted average LTV (loan-to-value)	70	70
Weighted average DTI (debt-to-income)	38	38
Performance:		
Current	$ 98,944	$ 146,999
30-days delinquent[1]	1,946	1,909
60-days delinquent[1]	1,963	—
90-days+ delinquent[1]	3,754	—
Bankruptcy/foreclosure	—	—
Total	$ 106,607	$ 148,908

(1) Of the delinquent amounts presented, the percentages that are related to the COVID-19 forbearance agreements are as follows: 30-days delinquent: 58%; 60-days delinquent: 100%; 90-days+ delinquent: 77%.

The following table summarizes the geographic concentrations of residential mortgage loans held-for-securitization at December 31, 2020 and December 31, 2019, based on principal balance outstanding:

State	December 31, 2020	December 31, 2019
California	71 %	74 %
Florida	7	7
New York	7	6
Other states (none greater than 5%)	15	13
Total	100 %	100 %

The following table summarizes the activity in the allowance for loan losses for the years ended December 31, 2020 and 2019:

	For the Years Ended	
	December 31, 2020	December 31 2019
	(in thousands)	
Balance at beginning of period	$ —	$ —
Impact of adopting ASC-326	30	—
Provision for loan losses	26	—
Charge-offs, net	—	—
Balance at end of period	$ 56	$ —

NOTE 5. VARIABLE INTEREST ENTITIES

As discussed in Note 1, "Summary of Significant Accounting Policies," we have determined that we are the primary beneficiary of certain securitization trusts. The following table presents a summary of the assets and liabilities of our consolidated securitization trusts as of December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
	(in thousands)	
Residential mortgage loans held-for-investment through consolidated securitization trusts	$ 267,107	$ 458,348
Accrued interest receivable	899	1,495
Total assets	$ 268,006	$ 459,843
Accrued interest payable	$ 857	$ 1,448
Asset-backed securities issued by securitization trusts	258,414	448,987
Total liabilities	$ 259,271	$ 450,435

Our risk with respect to each investment in a securitization trust is limited to our direct ownership in the securitization trust. We own the most subordinated classes on all of the trusts. The residential mortgage loans held by the consolidated securitization trusts are held solely to satisfy the liabilities of the securitization trusts and the investors in the securitization trusts have no recourse to the general credit of the Company for the ABS issued by the securitization trusts. The assets of a consolidated securitization trust can only be used to satisfy the obligations of that trust. ABS are not paid down according to any schedule but rather as payments are made on the underlying mortgages. The final distribution dates for the three trusts are all at various dates in 2045. We are not contractually required and have not provided any additional financial support to the securitization trusts for the year ended December 31, 2020.

Residential Mortgage Loans Held-for-Investment Through Consolidated Securitization Trusts

Residential mortgage loans held-for-investment through consolidated securitization trusts are carried at unpaid principal balances net of any premiums or discounts and allowances for loan losses. The residential mortgage loans are secured by first liens on the underlying residential properties. As we still retain the most subordinated tranches in these trusts, we continue to be the primary beneficiary of these trusts and believe that we are still required to consolidate these trusts. During the years ended December 31, 2020 and December 31, 2019, we did not sell any of our investment in these trusts.

The following table details the carrying value for residential mortgage loans held-for-investment through consolidated securitization trusts at December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
	(in thousands)	
Principal balance	$ 266,789	$ 456,768
Unamortized premium and deferred transaction costs	515	1,755
Allowance for credit losses	(197)	(175)
Carrying value	$ 267,107	$ 458,348

The following table provides a reconciliation of the carrying value of residential mortgage loans held-for-investment through consolidated securitization trusts at December 31, 2020 and December 31, 2019:

	For the Years Ended December 31,	
	2020	2019
	(in thousands)	
Balance at beginning of period	$ 458,348	$ 549,016
Deductions during period:		
Collections of principal	(189,979)	(89,113)
Amortization of premium and transaction costs	(1,240)	(1,566)
Provision for credit losses	(644)	0
Charge-offs, net	622	11
Balance at end of period	$ 267,107	$ 458,348

The following table details various portfolio characteristics of the residential mortgage loans held-for-investment through consolidated securitization trusts at December 31, 2020 and December 31, 2019:

	December 31, 2020	December 31, 2019
	(dollar amounts in thousands)	
Portfolio Characteristics:		
Number of loans	421	704
Current principal balance	$ 266,789	$ 456,768
Simple average loan balance	$ 635	$ 649
Net weighted average coupon rate	3.83 %	3.87 %
Weighted average maturity (years)	23.2	24.3
Weighted average FICO score	760	762
Current Performance:		
Current	$ 256,426	$ 452,875
30-days delinquent	1,241	2,122
60-days delinquent	762	726
90+ days delinquent	7,502	1,045
Bankruptcy/foreclosure	858	—
Total	$ 266,789	$ 456,768

The following table summarizes the geographic concentrations of residential mortgage loans held-for-investment through consolidated securitization trusts at December 31, 2020 and December 31, 2019, based on principal balance outstanding:

State	December 31, 2020	December 31, 2019
California	42 %	43 %
Florida	7	7
New York	6	3
Other states (none greater than 5%)	45	47
Total	100 %	100 %

Allowance for Loan Losses on Residential Mortgage Loans Held by Consolidated Securitization Trusts

As discussed in Note 1, "Summary of Significant Accounting Policies," the Company establishes and maintains an allowance for loan losses on residential mortgage loans held by consolidated securitization trusts based on the Company's estimate of credit losses.

The following table summarizes the activity in the allowance for loan losses for the years ended December 31, 2020 and December 31, 2019:

	For the Years Ended December 31, 2020	December 31, 2019
	(in thousands)	
Balance at beginning of period	$ 175	$ 186
Impact of adopting ASC 326	—	—
Provision for credit losses	644	—
Charge-offs, net	(622)	(11)
Balance at end of period	$ 197	$ 175

Asset-Backed Securities Issued by Securitization Trusts

Asset-backed securities issued by securitization trusts are recorded at principal balances net of unamortized premiums and discounts. Asset-backed securities issued by securitization trusts are issued in various tranches and have a carrying value of $258.4 million at December 31, 2020 and $449.0 million at December 31, 2019. The investors in the asset-backed securities are not affiliated with the Company and have no recourse to the general credit of the Company.

NOTE 6. RESIDENTIAL PROPERTIES

At December 31, 2020, we owned 82 single-family residential properties which are all located in Southeastern Florida and are carried at a total cost, net of accumulated depreciation, of approximately $12.7 million. At December 31, 2019, we owned 85 single-family residential properties that were carried at a total cost, net of accumulated depreciation, of approximately $13.5 million. The income from these properties is included in our consolidated statements of operations as "Income on rental properties." The expenses on these properties are included in our consolidated statements of operations in "Rental properties depreciation and expenses." During the year ended December 31, 2020, we sold three properties and realized a gain of approximately $201 thousand.

NOTE 7. SHORT-TERM DEBT

We have entered into repurchase agreements and a warehouse line of credit with a large financial institution. The repurchase agreements that we use to finance most of our MBS are short-term borrowings that are secured by the market value of our MBS and bear fixed interest rates that have historically been based upon LIBOR. Warehouse lines of credit are short-term borrowings (generally less than 1-year) that are used to finance the residential mortgage loans that are held-for-securitization. At December 31, 2020, we had borrowed $90.2 million (including warehouse line costs) against the warehouse line of credit. At December 31, 2019, we had borrowed $133.8 million against the warehouse line of credit. The mortgage loans held-for-securitization are held as collateral for this warehouse line of credit. At December 31, 2020, we were in compliance with the revised covenants under this warehouse line of credit, and we currently expect to maintain compliance with the covenants under this agreement.

Repurchase Agreements

At December 31, 2020 and December 31, 2019, the repurchase agreements had the following balances, weighted average interest rates, and remaining weighted average maturities based on collateral type:

December 31, 2020

	Agency MBS		Non-Agency MBS		Total MBS	
	Balance (in thousands)	Weighted Average Interest Rate	Balance (in thousands)	Weighted Average Interest Rate	Balance (in thousands)	Weighted Average Interest Rate
Overnight	$ —	— %	$ —	— %	$ —	— %
Less than 30 days	710,000	0.21	48,936	2.01	758,936	0.32
30 days to 90 days	655,000	0.21	56,684	1.85	711,684	0.34
Over 90 days	—	—	—	—	—	—
Demand	—	—	—	—	—	—
	$ 1,365,000	0.21 %	$ 105,620	1.92 %	$ 1,470,620	0.33 %
Weighted average maturity	29 days		49 days		30 days	
Weighted average interest rate after adjusting for interest rate swaps					1.38 %	
Weighted average maturity after adjusting for interest rate swaps					1,047 days	
MBS pledged as collateral under the repurchase agreements and interest rate swaps	$ 1,437,565		$ 166,140		$ 1,603,705	

December 31, 2019

	Agency MBS		Non-Agency MBS		Total MBS	
	Balance	Weighted Average Interest Rate	Balance	Weighted Average Interest Rate	Balance	Weighted Average Interest Rate
	(in thousands)		(in thousands)		(in thousands)	
Overnight	$ —	— %	$ —	— %	$ —	— %
Less than 30 days	1,680,000	2.04	427,873	2.80	2,107,873	2.20
30 days to 90 days	1,550,000	1.89	—	—	1,550,000	1.89
Over 90 days	—	—	—	—	—	—
Demand	—	—	—	—	—	—
	$ 3,230,000	1.97 %	$ 427,873	2.80 %	$ 3,657,873	2.07 %
Weighted average maturity	30 days		11 days		28 days	
Weighted average interest rate after adjusting for interest rate swaps						2.13 %
Weighted average maturity after adjusting for interest rate swaps					978 days	
MBS pledged as collateral under the repurchase agreements and interest rate swaps	$ 3,419,375		$ 535,315		$ 3,954,690	

For additional information about repurchase agreements, see the section in Note 1 entitled “Repurchase Agreements” to the accompanying audited consolidated financial statements.

The following tables present information about certain assets and liabilities at December 31, 2020 and December 31, 2019 that are subject to master netting arrangements (or similar agreements) only in the event of default on a contract. See Notes 1, 9, and 15 to the accompanying audited consolidated financial statements for more information on the Company’s interest rate swaps and other derivative instruments.

December 31, 2020

	Gross Amounts of Recognized Assets or Liabilities	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets or Liabilities Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets(1)		Net Amounts
				Financial Instruments	Cash Collateral Received	
			(in thousands)			
Derivative assets at fair value(2)	$ 6,974	$ —	$ 6,974	$ (6,974)	$ 5,257	$ (1,717)
Total	$ 6,974	$ —	$ 6,974	$ (6,974)	$ 5,257	$ (1,717)
Repurchase agreements(3)	$ 1,470,620	$	$ 1,470,620	$ (1,470,620)	$ —	$ —
Warehouse line of credit	90,185	—	90,185	(90,185)	—	—
Derivative liabilities at fair value(2)	80,380	—	80,380	(80,380)	—	—
Total	$ 1,641,185	$ —	$ 1,641,185	$ (1,641,185)	$ —	$ —

December 31, 2019

	Gross Amounts of Recognized Assets or Liabilities	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets or Liabilities Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets[(1)]		Net Amounts
				Financial Instruments	Cash Collateral Received	
			(in thousands)			
Derivative assets at fair value[(2)]	$ 5,833	$ —	$ 5,833	$ (5,833)	$ 367	$ (5,466)
Total	$ 5,833	$ —	$ 5,833	$ (5,833)	$ 367	$ (5,466)
Repurchase agreements[(3)]	$ 3,657,873	$ —	$ 3,657,873	$ (3,657,873)	$ —	$ —
Warehouse line of credit	133,811	—	133,811	(133,811)	—	—
Derivative liabilities at fair value[(2)]	52,197	—	52,197	(52,197)	—	—
Total	$ 3,843,881	$ —	$ 3,843,881	$ (3,843,881)	$ —	$ —

(1) Amounts presented are limited to collateral pledged sufficient to reduce the related net amount to zero in accordance with ASU No. 2011-11, as amended by ASU No. 2013-01.

(2) At December 31, 2020, we had paid approximately $111.1 million on swap and TBA Agency MBS margin calls (included in "Restricted cash"), and we had received cash from counterparties of approximately $5.3 million, which is shown as "Derivative counterparty margin" on our consolidated balance sheets. Our TBA Agency MBS derivatives were approximately $6.8 million in derivative assets at December 31, 2020. Our swap derivatives were approximately $0.2 million in derivative assets and approximately $80.4 million in derivative liabilities at December 31, 2020. At December 31, 2019, we had paid approximately $104.7 million on swap and TBA Agency MBS margin calls (included in "Restricted cash") and we had received cash from counterparties of approximately $367 thousand, which is shown as "Derivative counterparty margin" on our consolidated balance sheets. Our swap derivatives were approximately $5.3 million in derivative assets and approximately $52.2 million in derivative liabilities at December 31, 2019.

(3) At December 31, 2020, we had pledged approximately $1.44 billion in Agency MBS and approximately $166.1 million of Non-Agency MBS as collateral on our repurchase agreements. At December 31, 2019, we had pledged approximately $3.42 billion in Agency MBS and approximately $535 million of Non-Agency MBS as collateral on our repurchase agreements.

NOTE 8. JUNIOR SUBORDINATED NOTES

On March 15, 2005, we issued $37,380,000 of junior subordinated notes to a newly-formed statutory trust, Anworth Capital Trust I, organized by us under Delaware law. The trust issued $36,250,000 in trust preferred securities to unrelated third party investors. Both the notes and the trust preferred securities require quarterly payments and bear interest at the prevailing three-month LIBOR rate plus 3.10%, reset quarterly. The first interest payments were made on June 30, 2005. Both the notes and the trust preferred securities will mature in 2035 and are currently redeemable, at our option, in whole or in part, without penalty. We used the net proceeds of this private placement to invest in Agency MBS. We have reviewed the structure of the transaction under ASC 810-10 and concluded that Anworth Capital Trust I does not meet the requirements for consolidation. As of the date of this filing, we have not redeemed any of the notes or trust preferred securities.

NOTE 9. FAIR VALUES OF FINANCIAL INSTRUMENTS

As defined in ASC 820-10, fair value is the price that would be received from the sale of an asset or paid to transfer or settle a liability in an orderly transaction between market participants in the principal (or most advantageous) market for the asset or liability. ASC 820-10 establishes a fair value hierarchy that ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the three following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data. This includes those financial instruments that are valued using models or other valuation methodologies where substantially all of the assumptions are observable in the marketplace, can be derived from observable market data or are supported by observable levels at which transactions are executed in the marketplace. The valuation techniques, including the judgments or assumptions that are used by us in arriving at the fair value of our MBS and derivative instruments, are as follows:

The fair values for Agency MBS and TBA Agency MBS are based primarily on independent third-party pricing service quotes, which are deemed indicative of market activity. The third-party pricing services use commonly used market pricing methodology that generally incorporate such factors as coupons, primary and secondary mortgage rates, rate reset period, issuer, loan age, collateral type, periodic and life cap, geography, and prepayment speeds. We evaluate the pricing information we receive taking into account factors such as coupon, prepayment experience, fixed/adjustable rate, coupon index, time to reset and issuing agency, among other factors. Based on these factors and our market knowledge and expertise, bond prices are compared to prices of similar securities and our own observations of trading activity in the marketplace.

The fair values for Non-Agency MBS are based primarily on prices from independent pricing services and from independent well-known major financial brokers that make markets in these instruments. We understand that these market participants use pricing models that not only consider the characteristics of the type of security and its underlying collateral from observable market data but also consider the historical performance data of the underlying collateral of the security, including loan delinquency, loan losses, and credit enhancement. To validate the prices the Company obtains, we consider and review a number of observable market data points including trading activity in the marketplace, and current market intelligence on all major markets, including benchmark security evaluations and bid list results from various sources. We compare the prices received from brokers against the prices received from pricing services and vice-versa and also against our own internal models for reasonableness and make inquiries to the brokers and pricing services about the prices received from these parties and their methods.

For derivative instruments, the fair value is determined as follows: For all centrally cleared interest rate swaps (those entered into after September 9, 2013) pricing is provided by the central counterparty (large central clearing exchanges such as the Chicago Mercantile Exchange, or the CME, and LCH). These entities use pricing models that reference the underlying rates including the overnight index swap rate and LIBOR forward rate to produce the daily settlement price. To validate the prices for all interest rate swaps, we compare to other sources such as Bloomberg. At December 31, 2020, we did not have any non-centrally cleared swaps.

Accordingly, our MBS and derivative instruments are classified as Level 2 in the fair value hierarchy.

Level 3: Unobservable inputs that are not corroborated by market data. This is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable from objective sources.

In determining the appropriate levels, we perform a detailed analysis of the assets and liabilities that are subject to ASC 820-10. At each reporting period, all assets and liabilities, for which the fair value measurement is based (on significant unobservable inputs) are classified as Level 3.

At December 31, 2020 and December 31, 2019, fair value measurements on a recurring basis were as follows:

December 31, 2020

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets:				
Agency MBS[1]	$ —	$ 1,624,354	$ —	$ 1,624,354
Non-Agency MBS[1]	$ —	$ 206,933	$ —	$ 206,933
Derivative instruments[2]	$ —	$ 6,974	$ —	$ 6,974
Liabilities:				
Derivative instruments[2]	$ —	$ 80,380	$ —	$ 80,380

December 31, 2019

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Assets:				
Agency MBS[1]	$ —	$ 3,510,051	$ —	$ 3,510,051
Non-Agency MBS[1]	$ —	$ 643,610	$ —	$ 643,610
Derivative instruments[2]	$ —	$ 5,833	$ —	$ 5,833
Liabilities:				
Derivative instruments[2]	$ —	$ 52,197	$ —	$ 52,197

(1) For more detail about the fair value of our MBS by agency and type of security, see Notes 1 and 3.
(2) Derivative instruments include discontinued hedges under ASC 815-10. For more detail about our derivative instruments, see Notes 1 and 15.

At December 31, 2020 and December 31, 2019, cash and cash equivalents, investments in U.S. Treasury bills, restricted cash, interest receivable, repurchase agreements, reverse repurchase agreements, warehouse line of credit, and interest payable are reflected in our consolidated financial statements at cost, which approximates fair value because of the nature and short term of these instruments.

Junior subordinated notes are variable-rate debt and, as we believe the spread would be consistent with the expectations of market participants as of December 31, 2020 and December 31, 2019, the carrying value approximates fair value.

The following table presents the carrying value and estimated fair value of the Company's financial instruments that are not carried at fair value on our consolidated balance sheets at December 31, 2020 and December 31, 2019:

	December 31, 2020		December 31, 2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
		(in thousands)		
Financial Assets:				
Residential mortgage loans held-for-investment through consolidated securitization trusts	$ 267,107	$ 271,715	$ 458,348	$ 461,606
Residential mortgage loans held-for-securitization	$ 109,312	$ 110,112	$ 152,922	$ 154,442
Financial Liabilities:				
Asset-backed securities issued by securitization trusts	$ 258,414	$ 261,674	$ 448,987	$ 450,501

The residential mortgage loans held-for-investment through consolidated securitization trusts or held-for-securitization are carried at unpaid principal balances net of any premiums or discounts and allowances for loan losses. Asset-backed securities issued by securitization trusts are carried at principal balances net of unamortized premiums or discounts. For both of these items, fair values are obtained by an independent broker and/or independent pricing services and are considered Level 2 in the fair value hierarchy.

NOTE 10. INCOME TAXES

We have elected to be taxed as a REIT and to comply with the provisions of the Code with respect thereto. Accordingly, we will not be subject to federal or state income taxes to the extent that our distributions to stockholders satisfy the REIT requirements and certain asset, income and stock ownership tests are met. We believe we currently meet all REIT requirements regarding the ownership of our common stock and the distribution of our taxable net income. Therefore, we believe that we continue to qualify as a REIT under the provisions of the Code.

Income tax expense (benefit) for the years ended December 31, 2020, 2019, and 2018 was zero. None of the components of income tax expense are significant on a separately stated basis.

At December 31, 2020 and December 31, 2019, there were no significant deferred tax assets and deferred tax liabilities.

The tables below present tax information regarding our dividend distributions for our fiscal year ended December 31, 2020:

8.625% Series A Cumulative Preferred Stock (CUSIP 03747 20 0)

Declaration Date	Record Date	Payable Date	2020 Total Distribution Per Share	2020 Ordinary Income	2020 Return of Capital	Short-Term Capital Gains	Carry-Over to 2021
11/06/19	12/31/19	01/15/20	$ 0.539063	$ —	$ 0.539063	$ —	$ —
02/27/20	03/31/20	04/15/20	0.539063	—	0.539063	—	—
05/06/20	06/30/20	07/15/20	0.539063	—	0.539063	—	—
08/05/20	09/30/20	10/15/20	0.539063	—	0.539063	—	—
11/05/20	12/30/20	01/15/21	0.539063	—	—	—	0.539063
		Total	$ 2.695315	$ —	$ 2.156252	$ —	$ 0.539063

6.25% Series B Cumulative Convertible Preferred Stock (CUSIP 03747 30 9)

Declaration Date	Record Date	Payable Date	2020 Total Distribution Per Share(1)	2020 Ordinary Income	2020 Return of Capital	Short-Term Capital Gains	Carry-Over to 2021
11/06/19	12/31/19	01/15/20	$ 0.393469	$ —	$ 0.393469	$ —	$ —
02/27/20	03/31/20	04/15/20	0.390710	—	0.390710	—	—
05/06/20	06/30/20	07/15/20	0.390789	—	0.390789	—	—
08/05/20	09/30/20	10/15/20	0.392057	—	0.392057	—	—
11/05/20	12/30/20	01/15/21	0.390625	—	—	—	0.390625
		Total	$ 1.957650	$ —	$ 1.567025	$ —	$ 0.390625

(1) The Series B Preferred Stock is convertible into shares of our common stock. The conversion rate is adjusted per a stated formula when distributions are made to our common stockholders. The value of any conversion rate increase is a deemed distribution for tax purposes and is taxable to holders of our Series B Preferred Stock to the extent supported by earnings and profits and is included in the table above. See Forms 8937 on our Company website for additional details.

7.625% Series C Cumulative Redeemable Preferred Stock (CUSIP 03747 40 8)

Declaration Date	Record Date	Payable Date	2020 Total Distribution Per Share	2020 Ordinary Income	2020 Return of Capital	Short-Term Capital Gains	Carry-Over to 2021
11/06/19	12/31/19	01/15/20	$ 0.476563	$ —	$ 0.476563	$ —	$ —
02/27/20	03/31/20	04/15/20	0.476563	—	0.476563	—	—
05/06/20	06/30/20	07/15/20	0.476563	—	0.476563	—	—
08/05/20	09/30/20	10/15/20	0.476563	—	0.476563	—	—
11/05/20	12/30/20	01/15/21	0.476563	—	—	—	0.476563
		Total	$ 2.382815	$ —	$ 1.906252	$ —	$ 0.476563

Common Stock (CUSIP 03747 10 1)

Declaration Date	Record Date	Payable Date	2020 Total Distribution Per Share	2020 Ordinary Income	2020 Return of Capital	Short-Term Capital Gains	Carry-Over to 2021
12/17/19	12/31/19	01/29/20	$ 0.090000	$ —	$ 0.090000	$ —	$ —
04/21/20	05/12/20	05/29/20	0.050000	—	0.050000	—	—
06/16/20	06/30/20	07/29/20	0.050000	—	0.050000	—	—
09/16/20	09/30/20	10/29/20	0.050000	—	0.050000	—	—
12/16/20	12/31/20	01/29/21	0.050000	—	—	—	0.050000
		Total	$ 0.290000	$ —	$ 0.240000	$ —	$ 0.050000

NOTE 11. SERIES B CUMULATIVE CONVERTIBLE PREFERRED STOCK

Our Series B Preferred Stock has a par value of $0.01 per share and a liquidation preference of $25.00 per share plus accrued and unpaid dividends (whether or not declared). The holders of our Series B Preferred Stock receive dividends at a rate of 6.25% per year on the $25.00 liquidation preference before holders of our common stock are entitled to receive any dividends. Our Series B Preferred Stock is senior to our common stock and on parity with our Series A Preferred Stock and Series C Preferred Stock with respect to the payment of distributions and amounts, upon liquidation, dissolution or winding up. So long as any shares of our Series B Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of our Series B Preferred Stock outstanding at the time, authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking senior to our Series B Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution, or winding up.

Our Series B Preferred Stock has no maturity date, is not redeemable and is convertible at the then-current conversion rate into shares of our common stock per $25.00 liquidation preference. The conversion rate is adjusted in any fiscal quarter in which the cash dividends paid to common stockholders results in an annualized common stock dividend yield that is greater than 6.25%. The conversion ratio is also subject to adjustment upon the occurrence of certain specific events such as a change in control. Our Series B Preferred Stock is convertible into shares of our common stock at the option of the holder(s) of Series B Preferred Stock at any time at the then-prevailing conversion rate. At December 31, 2020, the conversion rate was 6.1874. On or after January 25, 2012, we may, at our option, under certain circumstances, convert each share of Series B Preferred Stock into a number of shares of our common stock at the then-prevailing conversion rate. We may exercise this conversion option only if our common stock price equals or exceeds 130% of the then-prevailing conversion price of our Series B Preferred Stock for at least twenty (20) trading days in a period of thirty (30) consecutive trading days (including the last trading day of such period) ending on the trading day immediately prior to our issuance of a press release announcing the exercise of the conversion option. During the year ended December 31, 2020, we did not, at our option, convert any shares of Series B Preferred Stock. Our Series B Preferred Stock contains certain fundamental change provisions that allow the holder to redeem our Series B Preferred Stock for cash if certain events occur, such as a change in control. Our Series B Preferred Stock generally does not have voting rights, except if dividends on the Series B Preferred Stock are in arrears for six or more quarterly periods (whether or not consecutive). Under such circumstances, the holders of Series B Preferred Stock, together with the holders of Series A Preferred Stock and Series C Preferred Stock, would be entitled to elect two additional directors to our board of directors to serve until all unpaid dividends have been paid or declared and set aside for payment. In addition, certain material and adverse changes to the terms of our Series B Preferred Stock may not be taken without the affirmative vote of at least two-thirds of the outstanding shares of Series B Preferred Stock, Series A Preferred Stock and Series C Preferred Stock voting together as a single class. Through December 31, 2020, we have declared and set aside for payment the required dividends for our Series B Preferred Stock.

During the year ended December 31, 2020, there were no transactions to convert shares of our Series B Preferred Stock.

NOTE 12. PUBLIC OFFERINGS AND CAPITAL STOCK

At December 31, 2020, our authorized capital included 200,000,000 shares of common stock, of which 99,241,549 shares were issued and outstanding.

At December 31, 2020, our authorized capital included 20,000,000 shares of $0.01 par value preferred stock, of which 5,150,000 shares had been designated 8.625% Series A Cumulative Preferred Stock (liquidation preference $25.00 per share), 3,150,000 shares had been designated 6.25% Series B Cumulative Convertible Preferred Stock (liquidation preference $25.00 per share), and 5,000,000 shares had been designated 7.625% Series C Cumulative Redeemable Preferred Stock (liquidation preference $25.00 per share), or Series C Preferred Stock. The undesignated shares of preferred stock may be issued in one or more classes or series, with such distinctive designations, rights and preferences as determined by our board of directors. At December 31, 2020, there were 1,919,378 shares of Series A Preferred Stock issued and outstanding, 779,743 shares of Series B Preferred Stock issued and outstanding, and 2,010,278 shares of Series C Preferred Stock issued and outstanding.

On January 27, 2015, we completed a public offering of 300,000 shares of our Series C Preferred Stock at a public offering price of $24.50 per share and received net proceeds of approximately $7 million. The shares were sold pursuant to the Company's effective shelf registration statement on Form S-3. The Series C Preferred Stock has no maturity date and is not subject to any sinking fund or mandatory redemption. On or after January 27, 2020, we may, at our option, redeem the Series C Preferred Stock for cash, in whole or from time to time in part, at a redemption price of $25.00 per share plus accrued and unpaid dividends, if any, to the redemption date.

On August 10, 2016, we entered into an At Market Issuance Sales Agreement, or the FBR Sales Agreement, with FBR Capital Markets & Co., or FBR, pursuant to which we may offer and sell from time to time through FBR, as our agent, up to $196,615,000 maximum aggregate amount of our common stock, Series B Preferred Stock, and Series C Preferred Stock, in such amounts as we may specify by notice to FBR, in accordance with the terms and conditions set forth in the FBR Sales Agreement. During the year ended December 31, 2020, we did not sell any shares of Series C Preferred Stock under the FBR Sales Agreement. At December 31, 2020, there was approximately $152.7 million available for sale and issuance under the FBR Sales Agreement.

On October 3, 2011, we announced that our Board authorized a share repurchase program which permits us to acquire up to 2,000,000 shares of our common stock. The shares are expected to be acquired at prevailing prices through open market transactions. The manner, price, number and timing of share repurchases will be subject to market conditions and applicable SEC rules. Our Board also authorized the Company to purchase an amount of our common stock up to the amount of common stock sold through our 2015 Dividend Reinvestment and Stock Purchase Plan. Subsequently, our Board authorized the Company to acquire an aggregate of an additional 45,000,000 shares (pursuant to six separate authorizations) between December 13, 2013 and January 22, 2016. In December 2019, our Board decided to no longer include the amount of common stock sold through our Dividend Reinvestment and Stock Purchase Plan as an amount of stock available for repurchase under our share repurchase program. During the year ended December 31, 2020, we did not repurchase any shares of our common stock.

Our Dividend Reinvestment and Stock Purchase Plan allows stockholders and non-stockholders to purchase shares of our common stock and to reinvest dividends therefrom to acquire additional shares of our common stock. On March 15, 2018, we filed a shelf registration statement on Form S-3 with the SEC, which was declared effective on March 26, 2018, registering up to 15,303,119 shares of our common stock for our 2018 Dividend Reinvestment and Stock Purchase Plan, or the 2018 DRP Plan. During the year ended December 31, 2020, we issued an aggregate of 392,166 shares of our common stock at a weighted average price of $2.00 per share under the 2018 DRP Plan, resulting in net proceeds to us of approximately $763 thousand.

On April 4, 2019, we filed a shelf registration statement on Form S-3 with the SEC, offering up to $490,236,182 maximum offering price of our capital stock. The registration statement was declared effective on April 19, 2019. At December 31, 2020, approximately $490.2 million of our capital stock was available for future issuance under the registration statement.

On August 5, 2014, we filed a registration statement on Form S-8 with the SEC to register an aggregate of up to 2,000,000 shares of our common stock to be issued pursuant to the Anworth Mortgage Asset Corporation 2014 Equity Compensation Plan, or the 2014 Equity Plan. During the year ended December 31, 2020, we issued an aggregate of 8,000 restricted stock units (or phantom shares) under the 2014 Equity Plan.

NOTE 13. TRANSACTIONS WITH AFFILIATES

Management Agreement and Externalization

Effective as of December 31, 2011, we entered into the Management Agreement with our Manager, pursuant to which our day-to-day operations are being conducted by our Manager. Our Manager is supervised and directed by our board of directors and is responsible for (i) the selection, purchase and sale of our investment portfolio; (ii) our financing and hedging activities; and (iii) providing us with portfolio management and administrative services. Our Manager will also perform such other services and activities relating to our assets and operations as may be appropriate. In exchange for services, our Manager receives a management fee, paid monthly in arrears, in an amount equal to one-twelfth of 1.20% of our Equity (as defined in the Management Agreement).

On the effective date of the Management Agreement, the employment agreements with our executives were terminated, our employees became employees of our Manager, and we took such other actions as we believed were reasonably necessary to implement the Management Agreement and externalize our management function.

Mr. Joseph E. McAdams, our Chief Executive Officer and President, and the Chief Investment Officer of our Manager, beneficially owns 47.4% of the outstanding membership interests of our Manager; Mr. Lloyd McAdams, one of our directors, beneficially owns 47.4% of the outstanding membership interests of our Manager; and Ms. Heather U. Baines, an Executive Vice President of our Manager, beneficially owns 5.2% of the outstanding membership interests of our Manager.

The Management Agreement may only be terminated without cause, as defined in the agreement, after the expiration of any annual renewal term. We are required to provide 180-days prior notice of non-renewal of the Management Agreement and must pay a termination fee on the last day of any automatic renewal term equal to three times the average annual management fee earned by our Manager during the prior 24-month period immediately preceding the most recently completed month prior to the effective date of termination. We may only not renew the Management Agreement with or without cause with the consent of the majority of our independent directors. These provisions make it difficult to terminate the Management Agreement and increase the effective cost to us of not renewing the Management Agreement.

Certain of our former officers were previously granted restricted stock and other equity awards (see Note 14, "Equity Compensation Plan"), including dividend equivalent rights, in connection with their service to us, and certain of our former officers had agreements under which they would receive payments if the Company is subject to a change in control (discussed later in this Note 13). In connection with the Externalization, certain of the agreements under which our officers were granted equity awards and would be paid payments in the event of a change in control were modified so that such agreements will continue with respect to our former officers and employees after they became officers and employees of our Manager. In addition, as officers and employees of our Manager, they will continue to be eligible to receive equity awards under equity compensation plans in effect now or in the future.

Messrs. Joseph E. McAdams, Charles J. Siegel, John T. Hillman, and Ms. Heather U. Baines and others are officers and employees of PIA Farmland, Inc. and its external manager, PIA, where they devote a portion of their time. PIA Farmland, Inc., a privately-held real estate investment trust investing in U.S. farmland properties to lease to independent farm operators, was incorporated in February 2013. These officers and employees are under no contractual obligations to PIA Farmland, Inc., its external manager, PIA, or to Anworth or its external manager, Anworth Management, LLC, as to their time commitment.

Change in Control and Arbitration Agreements

We entered into Change in Control and Arbitration Agreements with Mr. Charles J. Siegel, our Chief Financial Officer, and with various officers of our Manager including Ms. Bistra Pashamova, a Senior Vice President and Portfolio Manager of our Manager. These agreements provide that should a change in control (as defined in the agreements) occur, each of these officers will receive certain severance and other benefits valued as of December 31, 2011. Under these agreements, in the event that a change in control occurs, each of these officers will receive a lump sum payment equal to (i) 12 months annual base salary in effect on December 31, 2011, plus (ii) the average annual incentive compensation received for the two complete fiscal years prior December 31, 2011, plus (iii) the average annual bonus received for the two complete fiscal years prior to December 31, 2011, as well as other benefits. For Mr. Brett Roth, a Senior Vice President and Portfolio Manager of our Manager, in the event that a change in control occurs, he will receive a lump sum payment equal to (i) 12 months annual base salary paid by the Manager in effect on September 18, 2014 plus (ii) $350,000, as well as other benefits. The Change in Control and Arbitration Agreements also provide for accelerated vesting of equity awards granted to these officers upon a change in control.

Agreements with Pacific Income Advisers, Inc.

On January 26, 2012, we entered into a sublease agreement that became effective on July 1, 2012 with PIA. Under the sublease agreement, we lease, on a pass-through basis, 7,300 square feet of office space from PIA at the same location and pay rent at an annual rate equal to PIA's obligation, which is currently $73.65 per square foot. The base monthly rental for us is $44,802.57, which will be increased by 3% per annum on July 1, 2021. The sublease agreement runs through June 30, 2022 unless earlier terminated pursuant to the master lease. During the years ended

December 31, 2020, 2019, and 2018, we expensed $574 thousand, $565 thousand, and $557 thousand, respectively, in rent and related expenses to PIA under this sublease agreement.

At December 31, 2020, the future minimum lease commitment was as follows:

	2021	2022	Total Commitment
		(in thousands)	
Commitment (undiscounted cash flows)	$ 545	$ 277	$ 822
Discounted cash flows on the lease commitment(1)	$ 516	$ 257	$ 773

(1) The difference between the total commitment amount and the amount on the consolidated balance sheets is due to the amortization of the lease asset and lease liability being done on a straight-line basis rather than by the discounted cash flows.

Under our administrative services agreement with PIA, it provides administrative services and equipment to us including human resources, operational support and information technology, and we pay an annual fee of 5 basis points on the first $225 million of stockholders' equity and 2.25 basis points thereafter (paid quarterly in arrears) for those services. The administrative services agreement had an initial term of one year and renews for successive one-year terms thereafter unless either party gives notice of termination no less than 30 days before the expiration of the then-current annual term. We may also terminate the administrative services agreement upon 30 days' prior written notice for any reason and immediately if there is a material breach by PIA. During the years ended December 31, 2020, 2019, and 2018, we paid fees of $143 thousand, $181 thousand, and $181 thousand, respectively, to PIA in connection with this agreement.

NOTE 14. EQUITY COMPENSATION PLAN

2014 Equity Compensation Plan

At our annual meeting of stockholders held on May 22, 2014, our stockholders approved the adoption of the 2014 Equity Compensation Plan, or the 2014 Equity Plan, which replaced the Anworth Mortgage Asset Corporation 2004 Equity Compensation Plan, or the 2004 Equity Plan, due to its expiration. We filed a registration statement on Form S-8 on August 5, 2014 to register up to an aggregate of 2,000,000 shares of our common stock to be issued pursuant to the 2014 Equity Plan. The 2014 Equity Plan decreases the aggregate share reserve from 3,500,000 shares that were available under the 2004 Equity Plan to 2,000,000 shares of our registered common stock available under the 2014 Equity Plan. The 2014 Equity Plan authorizes our board of directors, or a committee of our board of directors, to grant DERs or phantom shares, which qualify as performance-based awards under Section 162(m) of the Code. Unlike the 2004 Equity Plan, however, the 2014 Equity Plan does not provide for automatic increases in the aggregate share reserve or the number of shares remaining available for grant and only provides for the granting of DERs or phantom shares. During the year ended December 31, 2020, we issued to our independent directors an aggregate of 8,000 restricted stock units (or phantom shares) with associated grants of 8,000 DERs in the aggregate under the 2014 Equity Plan. These restricted stock units (or phantom shares) do not vest until our independent directors terminate their service on our Board. At December 31, 2020, there was a total of 70,000 restricted stock units issued over several years to our independent directors. These restricted stock units were expensed in the years they were granted.

In August 2016, we granted to various officers and employees an aggregate of 146,552 performance-based restricted stock units (or phantom shares) with no associated grants of DERs. During the period commencing on the day immediately following the three-year anniversary of the grant date and ending on the ten-year anniversary of the grant date, the restricted stock units will vest on the last day of any month when the total return to stockholders (meaning the aggregate of our common stock price appreciation and dividends declared, assuming full reinvestment of such dividends) exceeds 10% per annum. During the period commencing on the grant date and ending on the last day of the calendar month after the three-year anniversary of the grant date, the restricted stock units will vest immediately upon the grantee's involuntary termination of service for any reason other than for cause. The closing price of the Company's common stock on the grant date was $4.96. At December 31, 2019, these grants had been fully expensed. The amount expensed on these grants during 2019 was approximately $62 thousand.

In December 2017, we issued to various officers and employees an aggregate of 162,613 performance-based restricted stock units (or phantom shares) with no associated grants of DERs. During the period commencing on the day immediately following the three-year anniversary of the grant date and ending on the ten-year anniversary of the grant date, the restricted stock units shall vest on the last day of any month when the total return to stockholders (meaning the aggregate of our common stock price appreciation and dividends declared, assuming full reinvestment of such dividends) exceeds 10% per annum. During the period commencing on the grant date and ending on the last day of the calendar month after the three-year anniversary of the grant date, the restricted stock units will vest immediately upon the grantee's involuntary termination of service for any reason other than for cause. The closing price of the Company's common stock on the grant date was $5.66. During the year ended December 31, 2020, the amount expensed on these grants was approximately $16 thousand. The unrecognized stock expense on these grants at December 31, 2020 was approximately $120 thousand.

Certain of our former officers have previously been granted restricted stock and other equity incentive awards, including dividend equivalent rights, in connection with their service to us. In connection with the Externalization, certain of the agreements under which our former officers have been granted equity awards were modified so that such agreements will continue with respect to our former officers after they became officers and employees of our Manager. As a result, these awards and any future grants will be accounted for as non-employee awards. In addition, as officers and employees of our Manager, they will continue to be eligible to receive equity incentive awards under equity incentive plans in effect now or in the future. In accordance with the Externalization effective as of December 31, 2011, the DERs previously granted to all of our officers were terminated under the 2007 Dividend Equivalent Rights Plan and were reissued under the 2004 Equity Plan with the same amounts, terms and conditions. The 2004 Equity Plan was subsequently replaced by the 2014 Equity Plan.

There have been no stock option transactions that are outstanding under the 2014 Equity Plan during 2020, 2019, and 2018.

The following table summarizes information about restricted stock unit transactions to certain officers and employees of our Manager during the year ended December 31, 2020:

Grant Date Fair Value	Unvested Units at December 31, 2019	Restricted Units Granted	Units Vested in 2020	Units Forfeited	Unvested Units at December 31, 2020	Weighted Average Remaining Contractual Life (Years)
$ 4.96 (1)	146,552			—	146,552	—
$ 5.66	162,613	—	—	—	162,613	7
	309,165	—	—	—	309,165	

(1) This grant has been fully expensed.

The fair value of the aforementioned stock-based award was estimated using the Black-Scholes model with the following weighted-average assumptions:

	2016 Grant	2017 Grant
Assumptions:		
Dividend yield	13.1 %	13.1 %
Expected volatility	27.7 %	27.7 %
Risk-free interest rate	3.8 %	3.8 %
Expected lives	3 years	10 years

We recognize the expense related to these restricted stock units over a vesting period ranging from three to ten years. During the years ended December 31, 2020, 2019, and 2018, we expensed approximately $16 thousand, $78 thousand, and $98 thousand, respectively, related to the restricted stock units grants. In addition to the above restricted stock units, there was a total of 70,000 restricted stock units issued over several years to our independent directors, which were expensed in the years they were granted.

At our May 24, 2007 annual meeting of stockholders, our stockholders adopted the Anworth Mortgage Asset Corporation 2007 Dividend Equivalent Rights Plan, or the 2007 DER Plan. A dividend equivalent right, or DER, is a right to receive amounts equal in value to the dividend distributions paid on a share of our common stock. DERs are paid in either cash or shares of our common stock, whichever is specified by our Compensation Committee at the time of grant, at such times as dividends are paid on shares of our common stock during the period between the date a DER is issued and the date the DER expires or earlier terminates. The Compensation Committee may impose such other conditions to the grant of DERs as it may deem appropriate. The maximum term for DERs is ten years from the date of grant. On December 16, 2020, our Board approved a grant of 369,030 DERs to replace an equal amount of DERs that were scheduled to expire in December 2020, which were issued under the 2014 Equity Plan. This grant has only a one-year term, whereas most of the prior grants have a five-year term from the date of the grant. These DERs are not attached to any stock and only have the right to receive the same cash distribution per common share distributed to our common stockholders during the term of the grant. At December 31, 2020, there were 710,264 DERs issued and outstanding, which are held by the directors and officers of our Company and employees of our Manager. During the years ended December 31, 2020, 2019, and 2018, we paid or accrued $137 thousand, $301 thousand, and $392 thousand, respectively, related to DERs granted.

NOTE 15. DERIVATIVE INSTRUMENTS

The table below presents the fair value of our derivative instruments as well as their classification in our consolidated balance sheets as of December 31, 2020 and December 31, 2019:

Derivative Instruments	Balance Sheet Location	December 31, 2020	December 31, 2019
		(in thousands)	
Interest rate swaps	Derivative Assets	$ 185	$ 5,302
TBA Agency MBS	Derivative Assets	6,789	531
		$ 6,974	$ 5,833
Interest rate swaps	Derivative Liabilities	80,380	52,197
		$ 80,380	$ 52,197

Interest Rate Swap Agreements

At December 31, 2020, we were a counterparty to interest rate swaps, which are derivative instruments as defined by ASC 815-10, with an aggregate notional amount of $715 million and a weighted average maturity of approximately 71 months. Additionally, we received six OIS interest rate swaps for a total notional amount of approximately $162.5 million as part of the transition from LIBOR to OIS. We utilize interest rate swaps to manage interest rate risk relating to our repurchase agreements and do not anticipate entering into derivative transactions for speculative or trading purposes. In accordance with the swap agreements, we will pay a fixed-rate of interest during the term of the swap agreements (ranging from 1.5455% to 3.2205%) and receive a payment that varies with the three-month LIBOR rate. During the year ended December 31, 2020, 39 swap agreements with an aggregate notional amount of $1.786 billion matured or were terminated.

At December 31, 2020, the amount in AOCI relating to interest rate swaps was approximately $4.3 million. The estimated net amount of the existing losses that were reported in AOCI at December 31, 2020 that is expected to be reclassified into earnings within the next twelve months is approximately $2.2 million.

At December 31, 2020 and December 31, 2019, our interest rate swaps (excluding the OIS interest rate swaps) had the following notional amounts, weighted average fixed rates, and remaining terms:

Maturity	December 31, 2020 Notional Amount (in thousands)	Weighted Average Fixed Rate	Remaining Term in Months	December 31, 2019 Notional Amount (in thousands)	Weighted Average Fixed Rate	Remaining Term in Months
Less than 1 year	$ —	— %	—	$ 541,000	1.70 %	7
1 year to 2 years	—	—	—	190,000	1.63	21
2 years to 3 years	50,000	1.55	34	335,000	1.65	34
3 years to 4 years	100,000	1.63	47	295,000	1.71	45
4 years to 5 years	190,000	2.21	65	550,000	2.18	61
5 years to 7 years	375,000	2.77	86	390,000	2.51	85
7 years to 10 years	—	—	—	200,000	2.94	103
	$ 715,000	2.38 %	71	$ 2,501,000	2.02 %	48

TBA Agency MBS

We also enter into TBA contracts and will recognize a gain or loss on the sale of the contracts or dollar roll income. See the section in Note 1 on "Derivative Financial Instruments – TBA Agency MBS" for more information on TBA Agency MBS. During the year ended December 31, 2020, we recognized a gain on derivatives-TBA Agency MBS, net of derivative income, of approximately $28.2 million. During the year ended December 31, 2019, we recognized a loss on derivatives-TBA Agency MBS, net of derivative income, of approximately $14.2 million. The types of securities involved in these TBA contracts are Fannie Mae 15-year and 30-year fixed-rate securities with coupons generally ranging from 2.0% to 3.0%. At December 31, 2020, the notional amount of the TBA Agency MBS was $700 million. At December 31, 2019, the notional amount of the TBA Agency MBS was $250 million.

For more information on our accounting policies, the objectives and risk exposures relating to derivatives and hedging agreements, see the section on "Derivative Financial Instruments" in Note 1. For more information on the fair value of our derivative instruments, see Note 9, "Fair Values of Financial Instruments," to the accompanying audited consolidated financial statements.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Lease Commitment and Administrative Services Commitment — We sublease office space and use administrative services from PIA, as more fully described in Note 13, "Transactions with Affiliates," to the accompanying audited consolidated financial statements.

Legal Proceedings

See Note 19, *"Subsequent Events—Litigation Relating to the Merger,"* below for a description of legal actions relating to the Merger that have been filed by purported stockholders of the Company. These are the only legal actions in which the Company is currently involved. In the opinion of management, such matters will not have a material effect upon the financial position of the Company.

NOTE 17. EARNINGS PER SHARE

The computation of EPS for the years ended December 31, 2020, 2019, and 2018 are as follows:

	Net (Loss) to Common Stockholders		Average Shares	(Loss) per Common Share	
	(in thousands)				
For the year ended December 31, 2020					
Basic EPS	$	(112,882)	99,048	$	(1.14)
Effect of dilutive securities		—	—		—
Diluted EPS	$	(112,882)	99,048	$	(1.14)
For the year ended December 31, 2019					
Basic EPS	$	(64,608)	98,684	$	(0.65)
Effect of dilutive securities		—	—		—
Diluted EPS	$	(64,608)	98,684	$	(0.65)
For the year ended December 31, 2018					
Basic EPS	$	(15,677)	98,314	$	(0.16)
Effect of dilutive securities		—	—		—
Diluted EPS	$	(15,677)	98,314	$	(0.16)

For the years ended December 31, 2020, 2019, and 2018, there were no options outstanding to purchase shares of our common stock.

NOTE 18. SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following tables summarize quarterly results for the years ended December 31, 2020 and 2019. Earnings per share amounts for each quarter and the full years have been calculated separately. Accordingly, quarterly amounts may not add to the annual amounts because of substantial differences in the average shares outstanding during each period and, with regard to diluted earnings per share amounts, they may also differ because of the inclusion of the effect of potentially dilutive securities only in the periods in which such effect would have been dilutive. Dilutive EPS assumes the conversion, exercise, or issuance of all potential common stock equivalents (which includes stock options and convertible preferred stock) and adding back the Series B Preferred Stock dividends, unless the effect is to reduce a loss or increase the income per share.

For the year ended December 31, 2020 (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest and other income:				
Interest-Agency MBS	$ 21,258	$ 12,466	$ 5,099	$ 7,698
Interest-Non-Agency MBS	8,120	2,595	2,518	2,440
Interest-residential mortgage loans	4,391	3,948	3,408	2,918
Interest-residential mortgage loans held-for-securitization	1,820	1,403	1,617	1,193
Other interest income	174	—	10	9
	35,763	20,412	12,652	14,258
Interest expense:				
Interest expense on repurchase agreements	17,278	4,877	1,478	1,245
Interest expense on asset-backed securities	4,225	3,781	3,258	2,761
Interest expense of warehouse line of credit	1,412	979	1,039	1,027
Interest expense on junior subordinated notes	472	410	332	316
	23,387	10,047	6,107	5,349
Net interest income	12,376	10,365	6,545	8,909
Provision for loan losses	(56)	(564)	—	(50)
Net interest income after provision for loan losses	12,320	9,801	6,545	8,859
Total operating expenses	(3,060)	(3,005)	(2,835)	(4,613)
Other (loss) income:				
Income-rental properties	454	384	416	452
Realized net gain on sale of available-for-sale Agency MBS	5,710	10,095	—	—
Net gain on Agency MBS held as trading investments	2,840	—	—	789
Realized net (loss) on sales of available-for-sale Non-Agency MBS	(55,390)	—	—	—
Net (loss) gain on Non-Agency MBS held as trading investments	(59,982)	25,687	13,679	5,080
Gain on sales of residential properties	78	45	78	—
(Loss) gain on derivatives, net	(88,791)	(6,168)	3,986	12,852
Total other (loss) income	(195,081)	30,043	18,159	19,173
Net (loss) income	$ (185,821)	$ 36,839	$ 21,869	$ 23,419
Dividends on preferred stock	(2,297)	(2,297)	(2,297)	(2,297)
Net (loss) income to common stockholders	$ (188,118)	$ 34,542	$ 19,572	$ 21,122
Basic (loss) earnings per common share	$ (1.90)	$ 0.35	$ 0.20	$ 0.21
Diluted (loss) earnings per common share	$ (1.90)	$ 0.34	$ 0.19	$ 0.21
Basic weighted average number of shares outstanding	98,823	98,977	99,108	99,208
Diluted weighted average number of shares outstanding	98,823	103,525	103,788	104,033

For the year ended December 31, 2019 (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest and other income:				
Interest-Agency MBS	$ 25,711	$ 24,137	$ 20,335	$ 19,990
Interest-Non-Agency MBS	10,466	9,659	9,299	8,614
Interest-residential mortgage loans	5,368	5,259	5,049	4,767
Interest-residential mortgage loans held-for-securitization	86	1,036	1,574	1,618
Other interest income	19	20	679	253
	41,650	40,111	36,936	35,242
Interest expense:				
Interest expense on repurchase agreements	27,136	25,979	21,132	18,489
Interest expense on asset-backed securities	5,200	5,091	4,880	4,600
Interest expense of warehouse line of credit	234	1,057	1,381	1,477
Interest expense on junior subordinated notes	547	542	520	492
	33,117	32,669	27,913	25,058
Net interest income	8,533	7,442	9,023	10,184
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses	8,533	7,442	9,023	10,184
Total operating expenses	(3,046)	(3,113)	(3,258)	(3,263)
Other (loss) income:				
Income-rental properties	436	453	469	441
Realized net (loss) gain on sale of available-for-sale MBS	(6,147)	444	214	1,338
Realized net (loss) gain on sale of Agency MBS held as trading investments	(7,363)	234	—	1,342
Impairment charge on Non-Agency MBS	—	(606)	(1,145)	(357)
Unrealized (loss) gain on Agency MBS held as trading investments	14,906	989	1,939	(798)
Gain on sales of residential properties	—	—	—	31
Gain (loss) on derivatives, net	(27,289)	(53,543)	(24,734)	20,824
Total other (loss) income	(25,457)	(52,029)	(23,257)	22,821
Net (loss) income	$ (19,970)	$ (47,700)	$ (17,492)	$ 29,742
Dividends on preferred stock	(2,297)	(2,297)	(2,297)	(2,297)
Net (loss) income to common stockholders	$ (22,267)	$ (49,997)	$ (19,789)	$ 27,445
Basic (loss) earnings per common share	$ (0.23)	$ (0.51)	$ (0.20)	$ 0.28
Diluted (loss) earnings per common share	$ (0.23)	$ (0.51)	$ (0.20)	$ 0.27
Basic weighted average number of shares outstanding	98,537	98,635	98,684	98,823
Diluted weighted average number of shares outstanding	98,537	98,635	98,684	103,141

NOTE 19. SUBSEQUENT EVENTS

Special Meeting of Stockholders

We have set March 17, 2021 as the date for the special meeting of our stockholders to, among other things, consider and vote on a proposal to approve the Merger. Stockholders of record as of the close of business on February 4, 2021 are entitled to vote at the special meeting. The Merger is subject to certain customary closing conditions and the receipt of approvals of the respective stockholders of the Company and Ready Capital.

Litigation Relating to the Merger

Seven putative class action lawsuits have been filed by purported stockholders of the Company relating to the Merger.

On January 7, 2021, Shiva Stein, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Shiva Stein v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00122 (referred to as the "Stein Action"). The Stein Action was filed against the Company and our board of directors in connection with the Merger Agreement. The complaint in the Stein Action asserts that the Form S-4 Registration Statement initially filed on January 4, 2021 in connection with the Merger (referred to as the "Initial S-4 Filing") contained materially incomplete and misleading information concerning financial projections and financial analyses in violation of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-9 promulgated thereunder. The Stein Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, compensatory damages against the defendants, and an award of attorneys' and experts' fees.

On January 12, 2021, Giuseppe Alescio, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Southern District of New York, styled *Giuseppe Alescio v. Anworth Mortgage Asset Corporation, et al.*, No. 1:21-cv-00258 (referred to as the "Alescio Action"). The Alescio Action was filed against the Company, our board of directors, Ready Capital, and Merger Sub. The complaint in the Alescio Action asserts that the Initial S-4 Filing omitted material information concerning financial forecasts and financial analyses in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Alescio Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, the filing of an amendment to the registration statement that does not contain any untrue statements of material fact and that states all material facts required in it or necessary to make the statements contained therein not misleading, and an award of attorneys' and experts' fees.

On January 19, 2021, Joseph Sheridan, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Southern District of New York, styled *Joseph Sheridan v. Anworth Mortgage Asset Corporation, et al.*, No. 1:21-cv-00465 (referred to as the "Sheridan Action"). The Sheridan Action was filed against the Company, our board of directors, Ready Capital, and Merger Sub. The complaint in the Sheridan Action asserts that the Initial S-4 Filing contained materially incomplete and misleading information concerning the sales process, financial projections, and financial analyses in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Sheridan Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, and an award of attorneys' and experts' fees.

On January 20, 2021, Ken Bishop, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Eastern District of New York, styled *Ken Bishop v. Anworth Mortgage Asset Corporation, et al.*, No. 1:21-cv-00331 (referred to as the "Bishop Action"). The Bishop Action was filed against the Company and our board of directors. The complaint in the Bishop Action asserts that the Initial S-4 Filing contained materially false and misleading statements and omissions concerning financial projections, financial analyses, the sales process and potential conflicts of interest involving the Company's financial advisor, Credit Suisse Securities (USA) LLC ("Credit Suisse"), in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Bishop Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, and an award of attorneys' and experts' fees.

On January 21, 2021, Samuel Carlisle, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Samuel Carlisle v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00566 (referred to as the "Carlisle Action"). The Carlisle Action was filed against the Company and our board of directors. The complaint in the Carlisle Action asserts that the Initial S-4 Filing omitted or misrepresented material information concerning financial projections, potential conflicts of interest involving Credit Suisse, and the background of the Merger, in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Carlisle Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, and an award of attorneys' and experts' fees.

On January 26, 2021, Reginald Padilla, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Reginald Padilla v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00702 (referred to as the "Padilla Action"). The Padilla Action was filed against the Company and our board of directors. The complaint in the Padilla Action asserts that the Initial S-4 Filing was materially deficient and misleading in regards to financial projections, potential conflicts of interest involving Credit Suisse, and the background of the Merger, in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Padilla Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, the filing of an amendment to the registration statement that does not contain any untrue statements of material fact and that states all material facts required in it or necessary to make the statements contained therein not misleading, and an award of attorneys' and experts' fees.

On February 1, 2021, Diane Antasek, as Trustee for The Diane R. Antasek Trust Agreement, April 8, 1997, and Ronald Antasek, as Trustee for the Ronald J. Antasek Sr. Trust Agreement, April 8, 1997, purported shareholders of the Company, filed a lawsuit in the United States District Court for the Central District of California, styled *Antasek et al. v. Anworth Mortgage Asset Corporation, et al.*, No. 2:21-cv-00917 (referred to as the "Antasek Action," and collectively with the Stein Action, Alescio Action, Sheridan Action, Bishop Action, Carlisle Action, and the Padilla Action, the "Actions"). The Antasek Action was filed against the Company and our board of directors. The complaint in the Antasek Action asserts that the Initial S-4 Filing was materially deficient in regards to potential conflicts of interest involving Credit Suisse, financial projections and financial valuation analyses in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder, and that our board of directors violated their fiduciary duty as a result of an unfair process for an unfair price. The Antasek Action seeks, among other things, an injunction enjoining the Merger from closing, rescission of the Merger or rescissory damages if the Merger is consummated, an order directing our board of directors to exercise their fiduciary duties to commence a sale process that is reasonably designed to secure the best possible consideration for the Company and obtain a transaction which is in the best interests of the Company and its stockholders, an award of damages sustained, and an award of attorneys' and experts' fees.

We intend to vigorously defend the Company and our board of directors against the Actions.

ANWORTH MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

SCHEDULE IV – MORTGAGE LOANS ON REAL ESTATE
As of December 31, 2020
(dollar amounts in thousands)

Residential Mortgage Loans Held-for-Investment Through Consolidated Securitization Trusts	Number of Loans	Interest Rate(1)	Final Maturity Date(2)	Periodic Payment Terms(3)	Prior Liens	Face Amount	Carrying Amount	Principal Amount Subject to Delinquent Principal or Interest(4)
By Product Type:								
30-year fixed-rate loans	367	3.91 %	2045	P&I	—	$ 237,685	$ 237,685	$ 7,446
20-year fixed-rate loans	1	4.00	2045	P&I	—	699	699	—
15-year fixed-rate loans	43	3.12	2045	P&I	—	20,172	20,172	—
5-year to 10-year hybrid ARMs	10	2.93	2045	P&I	—	8,233	8,233	—
Unamortized premium, net of discount						515	515	
Allowance for loan losses						(197)	(197)	
	421	3.83 %				$ 267,107	$ 267,107	$ 7,446
By Original Balance Stratification:								
$100,000 - $300,000	10	3.65 %	2045	P&I	—	$ 2,235	$ 2,235	$ —
$300,001 - $500,000	116	3.78	2045	P&I	—	48,505	48,505	1,340
$500,001 - $700,000	163	3.83	2045	P&I	—	97,032	97,032	3,087
$700,001 - $900,000	91	3.89	2045	P&I	—	72,054	72,054	3,019
> $900,000	41	3.77	2045	P&I	—	46,963	46,963	—
Unamortized premium, net of discount						515	515	
Allowance for loan losses						(197)	(197)	
	421	3.83 %				$ 267,107	$ 267,107	$ 7,446

(1) This represents the weighted average net coupon rate.
(2) Represents the Final Maturity Date of the securitization trusts.
(3) Principal and interest ("P&I") is generally payable at level amounts over life to maturity.
(4) Does not include any amounts that are delinquent less than 90 days.

NOTE TO SCHEDULE IV – RECONCILIATION OF MORTGAGE LOANS ON REAL ESTATE

Residential Mortgage Loans Held-for-Investment Through Consolidated Securitization Trusts	Year Ended December 31, 2020 (in thousands)
Balance at beginning of period	$ 458,348
Deductions during period:	
Collections of principal	(189,979)
Amortization of premium	(1,240)
Provision for credit losses	(644)
Charge-offs, net	622
Balance at end of period	$ 267,107

ANWORTH MORTGAGE ASSET CORPORATION AND SUBSIDIARIES

SCHEDULE IV – MORTGAGE LOANS ON REAL ESTATE
As of December 31, 2020
(dollar amounts in thousands)

Residential Mortgage Loans Held-for-Securitization	Number of Loans	Interest Rate(1)	Final Maturity Date(2)	Periodic Payment Terms(3)	Prior Liens	Face Amount	Carrying Amount	Principal Amount Subject to Delinquent Principal or Interest(4)
By Product Type:								
30-year fixed-rate loans	53	5.57 %	2048	P&I	—	$ 18,365	$ 18,365	$ 170
20-year fixed-rate loans	—	—	—	P&I	—	—	—	—
15-year fixed-rate loans	2	5.38	2033	P&I	—	411	411	—
5-year to 10-year hybrid ARMs	167	5.35	2048	P&I	—	87,831	87,831	3,584
Unamortized premium and deferred transaction costs						2,761	2,761	
Allowance for loan losses						(56)	(56)	
	222	5.39 %				$ 109,312	$ 109,312	$ 3,754
By Original Balance Stratification:								
$10,000 - $160,000	18	5.82 %	2048	P&I	—	$ 1,944	$ 1,944	$ —
$160,001 - $360,000	76	5.60	2048	P&I	—	18,320	18,320	450
$360,001 - $560,000	61	5.26	2048	P&I	—	26,555	26,555	880
$560,001 - $760,000	34	5.38	2048	P&I	—	21,262	21,262	1,289
$760,001 - $960,000	10	5.57	2048	P&I	—	8,475	8,475	—
> $960,001	23	5.29	2048	P&I	—	30,051	30,051	1,135
Unamortized premium and deferred transaction costs						2,761	2,761	
Allowance for loan losses						(56)	(56)	
	222	5.39 %				$ 109,312	$ 109,312	$ 3,754

(1) This represents the weighted average net coupon rate.
(2) Represents the Final Average Maturity Date of the loans, based on the Weighted Average Remaining Term to Maturity.
(3) Principal and interest ("P&I") is generally payable at level amounts over life to maturity.
(4) Does not include any amounts that are delinquent less than 90 days.

NOTE TO SCHEDULE IV – RECONCILIATION OF MORTGAGE LOANS ON REAL ESTATE

Residential Mortgage Loans Held-for-Securitization	Year Ended December 31, 2020 (in thousands)
Balance at beginning of period	$ 152,922
Additions during period:	
New loans	—
Premium and deferred transaction costs on new loans	—
Deductions during period:	
Collections of principal	(41,379)
Amortization of premium and costs	(1,253)
Allowance for loan losses	(56)
Other	(922)
Balance at end of period	$ 109,312

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Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements on Form S-3 (Nos. 333-230724 and 333-223697) and on Form S-8 (No. 333-197880) of Anworth Mortgage Asset Corporation and its subsidiaries, and on Form S-4 (No. 333-251863) of Ready Capital Corporation, of our reports dated February 26, 2021, relating to the consolidated financial statements, the financial statement schedules and the effectiveness of internal control over financial reporting of Anworth Mortgage Asset Corporation and its subsidiaries, appearing in the Annual Report on Form 10-K of Anworth Mortgage Asset Corporation and its subsidiaries for the year ended December 31, 2020.

/s/ RSM US LLP
Los Angeles, California
February 26, 2021

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Joseph E. McAdams, certify that:

1. I have reviewed this Annual Report on Form 10-K of Anworth Mortgage Asset Corporation;

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

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

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

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

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

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

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

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

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

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

Dated: February 26, 2021

/s/ JOSEPH E. MCADAMS

Joseph E. McAdams
Chief Executive Officer and President
(Principal Executive Officer)
(authorized officer of registrant)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Charles J. Siegel, certify that:

1. I have reviewed this Annual Report on Form 10-K of Anworth Mortgage Asset Corporation;

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

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

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

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

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

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

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

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

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

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

Dated: February 26, 2021

/s/ CHARLES J. SIEGEL

Charles J. Siegel
Chief Financial Officer
(Principal Financial Officer)
(authorized officer of registrant)

EXHIBIT 32.1

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

In connection with the annual report of Anworth Mortgage Asset Corporation (the “Company”) on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on February 26, 2021 (the “Report”), I, Joseph E. McAdams, Chairman, President, and Chief Executive Officer (Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

February 26, 2021

/s/ JOSEPH E. MCADAMS

Joseph E. McAdams
Chief Executive Officer and President
(Principal Executive Officer)
(authorized officer of registrant)

EXHIBIT 32.2

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

In connection with the annual report of Anworth Mortgage Asset Corporation (the "Company") on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on February 26, 2021 (the "Report"), I, Charles J. Siegel, Chief Financial Officer (Principal Financial Officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

February 26, 2021

/s/ CHARLES J. SIEGEL

Charles J. Siegel
Chief Financial Officer
(Principal Financial Officer)
(principal accounting officer)