



Fourth Quarter 2016
Earnings and Performance Highlights Presentation
March 16, 2017



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Performance Highlights: Fourth Quarter



Fourth Quarter 2016

- **Comprehensive loss of (\$0.6) million, or (\$0.04) per common share**
- **GAAP net income of \$10.6 million, or \$0.72 per common share**
- **Pro forma Book Value¹ declined \$0.19 cents to \$6.00**
- **Core earnings² of \$2.8 million, or \$0.19 per common share**
- **Economic return on book value³ of (2.5)%**
- **Generated 14% total common shareholder return⁴**
- **Reduced G&A expenses**
- **Continued rotation out of credit assets into hybrid Agency ARMs**

Footnotes:

1. September 30, 2016 book value of \$7.70 has been adjusted for the deficiency dividend paid on December 27, 2016. The deficiency dividend amount of \$19,384,684 was paid in a combination of cash and stock with an aggregate payment of 20% of the deficiency dividend, or \$3,878,042, in cash and 80% of the deficiency dividend, or \$15,506,642, in stock. Pursuant to this deficiency dividend, the Company issued 2,936,864 shares of common stock for \$5.28 per share
2. Reconciliations for non-GAAP measures are presented on page 6.
3. Equals sum of dividend of \$1.51 per common share less decline in book value of (\$1.70) divided by beginning book value per share for the quarter of \$7.70.
4. Source: Bloomberg and assumes reinvestment of dividends in Company stock.

Market Observations: Fourth Quarter 2016



- **Unanticipated election of Donald Trump was viewed positively for both equity and credit markets**
- **The election was seen as reflationary for fixed income markets sending the yield on the 10-yr treasury from a low of 1.59% to a high of 2.64% or a range of 105 bps in the quarter**
- **The yield curve steepened with the 2/10's treasury spread widening from a low of 81 bps to a high of 136 bps in the quarter**
- **The market clearly sees the new administrations focus upon lower and streamlined taxes, less regulation and fiscal infrastructure spending as pro-growth**
- **After the March 15th rate hike, we believe the market now expects the Federal Reserve to tighten two more times this year**
- **The steepening of the yield curve has improved the ROE on fixed rate investments**
- **Given political gridlock in Washington we would not be surprised to see the new administrations economic and fiscal plans take longer than what the markets appear to be pricing in**

- **As we communicated previously, we intend to focus on a business strategy that is simpler to understand and more cost efficient**
- **Our focus is now primarily upon Agency hybrid floating rate securities and Freddie Mac K-series Multi-family credit exposure**
- **Exiting our prime jumbo securitization platform has allowed us to meaningfully bring down our expense base which we believe will be substantially completed by the end of the first quarter**
- **We anticipate that our gross cost base will be reduced by approximately a third**
- **Investing in intermediate floating rate Agency hybrid securities allows us to capture yield along the curve while minimizing extension risk**
- **Agency intermediate term hybrid securities benefit from roll down the yield curve which is amplified as the yield curve steepens**
- **In our Freddie Mac credit investments we prefer term funded investments to those that require repo and as such have been selling credit securities funded by repo as those securities have rallied in spread**
- **We have employed an active hedging strategy in an attempt to minimize large price changes resulting from movements in rates and changes in the shape of the yield curve**
- **We booked our first meaningful volume of business (\$469 million) as a limited rep and warranty risk backstop guarantee provider on prime jumbo loans sold through MAXEX's LNET Exchange**

Core Earnings Analysis: Fourth Quarter 2016



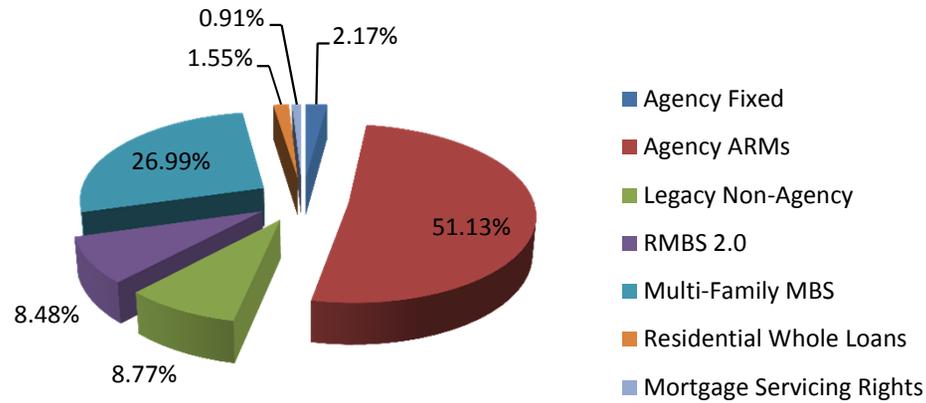
GAAP to Core Earnings Reconciliation

	<u>Quarter Ended December 31, 2016</u>
<i>Reconciliation of GAAP to non-GAAP Information</i>	
Net Income (loss) attributable to common shareholders	\$ 10,647,288
<i>Adjustments for non-core earnings</i>	
Realized (Gain) Loss on sale of investments, net	\$ 3,854,528
Unrealized Gain (Loss) on fair value option securities	\$ 1,113,666
Realized (Gain) Loss on derivative contracts, net	\$ (78,876)
Unrealized (Gain) Loss on derivative contracts, net	\$ (12,667,801)
Realized (Gain) Loss on mortgage loans held-for-sale	\$ 34,988
Unrealized (Gain) Loss on mortgage loans held-for-sale	\$ 148,138
Unrealized (Gain) Loss on mortgage servicing rights	\$ (415,376)
Unrealized (Gain) Loss on multi-family loans held in securitization trusts	\$ (385,309)
Unrealized (Gain) Loss on residential loans held in securitization trusts	\$ (324,209)
Other income	\$ (5,465)
Subtotal	\$ (8,725,716)
<i>Other Adjustments</i>	
Recognized compensation expense related to restricted common stock	\$ 6,771
Adjustment for consolidated securities/securitization costs	\$ 861,559
Core Earnings	<u>\$ 2,789,902</u>
Weighted average shares outstanding - Basic and Diluted	14,760,006
Core Earnings per weighted average share outstanding - Basic and Diluted	\$ 0.19

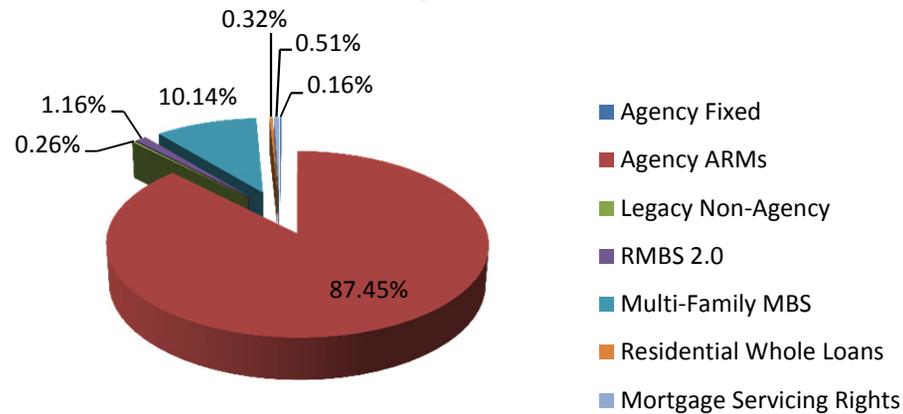
Portfolio Analysis: Fourth Quarter 2015 and 2016



4Q 2015



4Q 2016



End of Presentation

