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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

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 001-36099

CHERRY HILL MORTGAGE INVESTMENT CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	**46-1315605**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1451 Route 34, Suite 303 **Farmingdale, New Jersey**	**07727**
(Address of Principal Executive Offices)	**(Zip Code)**

(877) 870 – 7005
(Registrant’s Telephone Number, Including Area Code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 per share	CHMI	New York Stock Exchange
8.20% Series A Cumulative Redeemable Preferred Stock, $0.01 par value per share	CHMI-PRA	New York Stock Exchange
8.250% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, $0.01 par value per share	CHMI-PRB	New York Stock Exchange

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

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

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

Large accelerated filer	☐	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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 9, 2022, there were 18,890,716 outstanding shares of common stock, $0.01 par value per share, of Cherry Hill Mortgage Investment Corporation.

CHERRY HILL MORTGAGE INVESTMENT CORPORATION

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GLOSSARY

This glossary defines some, but not all, of the terms that we use elsewhere in this Quarterly Report on Form 10-Q. In this Quarterly Report on Form 10-Q, unless specifically stated otherwise or the context otherwise indicates, references to “we,” “us,” “our,” the “Company” or “CHMI” refer to Cherry Hill Mortgage Investment Corporation, a Maryland corporation, together with its consolidated subsidiaries; references to the “Manager” refer to Cherry Hill Mortgage Management, LLC, a Delaware limited liability company; and references to the “Operating Partnership” refer to Cherry Hill Operating Partnership, LP, a Delaware limited partnership.

“Agency” means a U.S. Government agency, such as Ginnie Mae, or a GSE.

“Agency RMBS” means RMBS issued by an Agency or for which an Agency guarantees payments of principal and interest on the securities.

“ASC” means an Accounting Standards Codification.

“ARM” means an adjustable-rate residential mortgage loan.

“CFTC” means the U.S. Commodity Futures Trading Commission.

“CMO” means a collateralized mortgage obligation. CMOs are either loss share securities issued by a GSE or structured debt instruments representing interests in specified pools of mortgage loans subdivided into multiple classes, or tranches, of securities, with each tranche having different maturities or risk profiles.

“Code” means the Internal Revenue Code of 1986, as amended.

“credit enhancement” means techniques to improve the credit ratings of securities, including overcollateralization, creating retained spread, creating subordinated tranches and insurance.

“Excess MSR” means an interest in an MSR, representing a portion of the interest payment collected from a pool of mortgage loans, net of a basic servicing fee paid to the mortgage servicer.

“Fannie Mae” means the Federal National Mortgage Association.

“FHA” means the Federal Housing Administration.

“Freddie Mac” means the Federal Home Loan Mortgage Corporation.

“FRM” means a fixed-rate residential mortgage loan.

“GAAP” means U.S. generally accepted accounting principles.

“Ginnie Mae” means the Government National Mortgage Association, a wholly-owned corporate instrumentality of the United States of America within HUD.

“GSE” means a government-sponsored enterprise. When we refer to GSEs, we mean Fannie Mae or Freddie Mac.

"HUD" means the U.S. Department of Housing and Urban Development.

"hybrid ARM" means a residential mortgage loan that has an interest rate that is fixed for a specified period of time (typically three, five, seven or ten years) and thereafter adjusts to an increment over a specified interest rate index.

"inverse IO" means an inverse interest-only security, which is a type of stripped security. These debt securities receive no principal payments and have a coupon rate which has an inverse relationship to its reference index.

"IO" means an interest-only security, which is a type of stripped security. IO strips receive a specified portion of the interest on the underlying assets.

"MBS" means mortgage-backed securities.

"MSR" means a mortgage servicing right. An MSR provides a mortgage servicer with the right to service a mortgage loan or a pool of mortgages in exchange for a portion of the interest payments made on the mortgage or the underlying mortgages. An MSR is made up of two components: a basic servicing fee and an Excess MSR. The basic servicing fee is the amount of compensation for the performance of servicing duties.

"mortgage loan" means a loan secured by real estate together with the right to receive the payment of principal and interest on the loan (including the servicing fee).

"non-Agency RMBS" means CMOs that either are loss share securities issued by a GSE or are not issued or guaranteed by an Agency, including investment grade (AAA through BBB rated) and non-investment grade (BB rated through unrated) classes.

"non-conforming loan" means a residential mortgage loan that does not conform to the Agency underwriting guidelines and does not meet the funding criteria of Fannie Mae and Freddie Mac.

"non-QM loan" means a mortgage loan that does not satisfy the requirements for a qualified mortgage.

"prime mortgage loan" means a mortgage loan that generally conforms to GSE underwriting guidelines or is a non-QM loan with a FICO score generally above 700.

"qualified mortgage" means a mortgage that complies with the ability to repay rule and related requirements in Regulation Z.

"REIT" means a real estate investment trust under the Code.

"residential mortgage pass-through certificate" is a MBS that represents an interest in a "pool" of mortgage loans secured by residential real property where payments of both interest and principal (including principal prepayments) on the underlying residential mortgage loans are made monthly to holders of the security, in effect "passing through" monthly payments made by the individual borrowers on the mortgage loans that underlie the security, net of fees paid to the issuer/guarantor and servicer.

"RMBS" means a residential Agency RMBS or a non-Agency RMBS.

"Servicing Related Assets" means Excess MSRs and MSRs.

"SIFMA" means the Securities Industry and Financial Markets Association.

"stripped security" is an RMBS structured with two or more classes that receives different distributions of principal or interest on a pool of RMBS. Stripped securities include IOs and inverse IOs.

"TBA" means a forward-settling Agency RMBS where the pool is "to-be-announced." In a TBA, a buyer will agree to purchase, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date.

"TRS" means a taxable REIT subsidiary.

"UPB" means unpaid principal balance.

"U.S. Treasury" means the U.S. Department of Treasury.

"VA" means the Department of Veterans Affairs.

"VA mortgage loan" means a mortgage loan that is partially guaranteed by the VA in accordance with its regulations.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

Cherry Hill Mortgage Investment Corporation (together with its consolidated subsidiaries, the “Company,” “we,” “our” or “us”) makes forward-looking statements in this Quarterly Report on Form 10-Q within the meaning of the Private Securities Litigation Reform Act of 1995 (as set forth in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)). For these statements, the Company claims the protections of the safe harbor for forward-looking statements contained in such Sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the Company’s control. These forward-looking statements include information about possible or assumed future results of the Company’s business, financial condition, liquidity, results of operations, plans and objectives. When the Company uses the words “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “could,” “would,” “may,” “potential” or the negative of these terms or other comparable terminology, the Company intends to identify forward-looking statements. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ materially from our beliefs, expectations, estimates and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Statements regarding the following subjects, among others, may be forward-looking:

- the Company’s investment objectives and business strategy;
- the Company’s ability to raise capital through the sale of its equity and debt securities and to invest the net proceeds of any such offering in the target assets, if any, identified at the time of the offering;
- the Company’s ability to obtain future financing arrangements and refinance existing financing arrangements as they mature;
- the Company’s expected leverage;
- the Company’s expected investments and the timing thereof;
- the Company’s ability to acquire Servicing-Related Assets and mortgage and real estate-related securities;
- estimates and statements relating to, and the Company’s ability to make, future distributions to holders of the Company’s securities;
- the Company’s ability to compete in the marketplace;
- market, industry and economic trends;
- recent market developments and actions taken and to be taken by the U.S. Government, the U.S. Treasury and the Board of Governors of the Federal Reserve System, Fannie Mae, Freddie Mac, Ginnie Mae and the U.S. Securities and Exchange Commission (“SEC”), including actions such as forbearance programs and prohibitions on foreclosures taken in response to the ongoing coronavirus (“COVID-19”) pandemic;
- mortgage loan modification programs and future legislative actions;
- the Company’s ability to qualify and to maintain its qualification as a REIT under the Code and limitations on the Company’s business due to compliance with requirements for maintaining its qualification as a REIT under the Code;
- the Company’s ability to maintain an exception from the definitions of “investment company” under the Investment Company Act of 1940, as amended (the “Investment Company Act”), or otherwise not fall within those definitions;
- projected capital and operating expenditures;
- availability of qualified personnel; and
- projected prepayment and/or default rates.

The Company's beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to it or are within its control. If any such change occurs, the Company's business, financial condition, liquidity and results of operations may vary materially from those expressed in, or implied by, the Company's forward-looking statements. Important factors, among others, that may cause the Company's actual results, performance, liquidity or achievements to differ materially from those expressed or implied by the Company's forward-looking statements include:

- the factors discussed under "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q and "Part I, Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021;
- the uncertainty and economic impact of the COVID-19 pandemic and of responsive measures implemented by various governmental authorities, businesses and other third parties;
- general volatility of the capital markets;
- changes in the Company's investment objectives and business strategy;
- availability, terms and deployment of capital;
- availability of suitable investment opportunities;
- the Company's dependence on its external manager, Cherry Hill Mortgage Management, LLC, and the Company's ability to find a suitable replacement if the Company or the Manager were to terminate the management agreement the Company has entered into with the Manager;
- changes in the Company's assets, interest rates or the general economy;
- increased rates of default and/or decreased recovery rates on the Company's investments, including as a result of the effects of more severe weather and changes in traditional weather patterns;
- the ultimate geographic spread, severity and duration of pandemics, such as the outbreak of the COVID-19 pandemic and the emergence of new variants of the virus, actions that may be taken by governmental authorities to contain or address the impact of such pandemics, and the potential negative impacts of such pandemics on the U.S. and global economy generally and the U.S. residential mortgage market and our financial condition and results of operations specifically;
- changes in interest rates, interest rate spreads, the yield curve, prepayment rates or recapture rates;
- limitations on the Company's business due to compliance with requirements for maintaining its qualification as a REIT under the Code and the Company's exception from the definitions of "investment company" under the Investment Company Act (or of otherwise not falling within those definitions);
- the degree and nature of the Company's competition, including competition for the residential mortgage assets in which the Company invests; and
- other risks associated with acquiring, investing in and managing residential mortgage assets.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements apply only as of the date of this Quarterly Report on Form 10-Q. Except as otherwise may be required by law, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands — except share and par value data)

	(unaudited) March 31, 2022	December 31, 2021
Assets		
RMBS, available-for-sale, at fair value (including pledged assets of $731,271 and $892,888, respectively)	$ 774,113	$ 953,496
Investments in Servicing Related Assets, at fair value (including pledged assets of $246,103 and $218,727, respectively)	246,103	218,727
Cash and cash equivalents	52,379	63,916
Restricted cash	26,974	12,861
Derivative assets	27,179	10,518
Receivables from unsettled trades	46,801	-
Receivables and other assets	38,471	43,344
Total Assets	**$ 1,212,020**	**$ 1,302,862**
Liabilities and Stockholders' Equity		
Liabilities		
Repurchase agreements	$ 764,885	$ 865,494
Derivative liabilities	15,147	1,278
Notes payable	159,068	145,268
Dividends payable	7,210	7,056
Due to manager	3,631	1,889
Accrued expenses and other liabilities	2,428	3,061
Total Liabilities	**$ 952,369**	**$ 1,024,046**
Stockholders' Equity		
Series A Preferred stock, $0.01 par value per share, 100,000,000 shares authorized and 2,781,635 shares issued and outstanding as of March 31, 2022 and 100,000,000 shares authorized and 2,781,635 shares issued and outstanding as of December 31, 2021, liquidation preference of $69,541 as of March 31, 2022 and liquidation preference of $69,541 as of December 31, 2021	$ 67,311	$ 67,311
Series B Preferred stock, $0.01 par value per share, 100,000,000 shares authorized and 2,000,000 shares issued and outstanding as of March 31, 2022 and 100,000,000 shares authorized and 2,000,000 shares issued and outstanding as of December 31, 2021, liquidation preference of $50,000 as of March 31, 2022 and liquidation preference of $50,000 as of December 31, 2021	48,068	48,068
Common stock, $0.01 par value per share, 500,000,000 shares authorized and 18,766,848 shares issued and outstanding as of March 31, 2022 and 500,000,000 shares authorized and 18,261,848 shares issued and outstanding as of December 31, 2021	192	187
Additional paid-in capital	315,354	311,255
Accumulated Deficit	(137,932)	(158,483)
Accumulated other comprehensive income (loss)	(37,008)	7,527
Total Cherry Hill Mortgage Investment Corporation Stockholders' Equity	**$ 255,985**	**$ 275,865**
Non-controlling interests in Operating Partnership	3,666	2,951
Total Stockholders' Equity	**$ 259,651**	**$ 278,816**
Total Liabilities and Stockholders' Equity	**$ 1,212,020**	**$ 1,302,862**

See accompanying notes to consolidated financial statements.

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Income (Loss)
(Unaudited)
(in thousands — except share and per share data)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Income		
Interest income	$ 5,519	$ 3,301
Interest expense	1,640	1,454
Net interest income	3,879	1,847
Servicing fee income	13,116	13,540
Servicing costs	3,193	3,082
Net servicing income	9,923	10,458
Other income (loss)		
Realized gain (loss) on RMBS, available-for-sale, net	(13,222)	2,094
Realized loss on derivatives, net	(10,638)	(540)
Realized gain on acquired assets, net	12	5
Unrealized gain (loss) on derivatives, net	24,456	(8,059)
Unrealized gain on investments in Servicing Related Assets	21,731	22,464
Total Income	**36,141**	**28,269**
Expenses		
General and administrative expense	1,744	1,617
Management fee to affiliate	1,793	1,961
Total Expenses	**3,537**	**3,578**
Income Before Income Taxes	**32,604**	**24,691**
Provision for corporate business taxes	3,875	3,463
Net Income	**28,729**	**21,228**
Net income allocated to noncontrolling interests in Operating Partnership	(633)	(434)
Dividends on preferred stock	2,463	2,463
Net Income Applicable to Common Stockholders	**$ 25,633**	**$ 18,331**
Net Income Per Share of Common Stock		
Basic	$ 1.40	$ 1.07
Diluted	$ 1.40	$ 1.07
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	18,252,523	17,065,735
Diluted	18,272,737	17,087,959

See accompanying notes to consolidated financial statements.

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2022	**2021**
Net income	$ 28,729	$ 21,228
Other comprehensive income (loss):		
Unrealized loss on RMBS, available-for-sale, net	(44,535)	(19,349)
Net other comprehensive loss	(44,535)	(19,349)
Comprehensive income (loss)	**$ (15,806)**	**$ 1,879**
Comprehensive income (loss) attributable to noncontrolling interests in Operating Partnership	(348)	38
Dividends on preferred stock	2,463	2,463
Comprehensive loss attributable to common stockholders	$ (17,921)	$ (622)

See accompanying notes to consolidated financial statements.

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)
(in thousands — except share and per share data)

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Non-Controlling Interest in Operating Partnership	Total Stockholders' Equity
Balance, December 31, 2020	**17,076,858**	**$ 175**	**4,781,635**	**$ 115,379**	**$ 300,997**	**$ 35,594**	**$(141,980)**	**$ 2,401**	**$ 312,566**
Issuance of common stock	16,378	-	-	-	200	-	-	-	200
Conversion of OP units	-	-	-	-	-	-	-	(147)	(147)
Net Income before dividends on preferred stock	-	-	-	-	-	-	20,794	434	21,228
Other Comprehensive Loss	-	-	-	-	-	(19,349)	-	-	(19,349)
LTIP-OP Unit awards	-	-	-	-	-	-	-	241	241
Distribution paid on LTIP-OP Units	-	-	-	-	-	-	-	(85)	(85)
Common dividends declared, $0.27 per share	-	-	-	-	-	-	(4,611)	-	(4,611)
Preferred Series A dividends declared, $0.5125 per share	-	-	-	-	-	-	(1,432)	-	(1,432)
Preferred Series B dividends declared, $0.5156 per share	-	-	-	-	-	-	(1,031)	-	(1,031)
Balance, March 31, 2021	**17,093,236**	**$ 175**	**4,781,635**	**$ 115,379**	**$ 301,197**	**$ 16,245**	**$(128,260)**	**$ 2,844**	**$ 307,580**
Balance, December 31, 2021	**18,261,848**	**$ 187**	**4,781,635**	**$ 115,379**	**$ 311,255**	**$ 7,527**	**$(158,483)**	**$ 2,951**	**$ 278,816**
Issuance of common stock	505,000	5	-	-	4,099	-	-	-	4,104
Net Income before dividends on preferred stock	-	-	-	-	-	-	28,096	633	28,729
Other Comprehensive Loss	-	-	-	-	-	(44,535)	-	-	(44,535)
LTIP-OP Unit awards	-	-	-	-	-	-	-	173	173
Distribution paid on LTIP-OP Units	-	-	-	-	-	-	-	(91)	(91)
Common dividends declared, $0.27 per share	-	-	-	-	-	-	(5,082)	-	(5,082)
Preferred Series A dividends declared, $0.5125 per share	-	-	-	-	-	-	(1,432)	-	(1,432)
Preferred Series B dividends declared, $0.5156 per share	-	-	-	-	-	-	(1,031)	-	(1,031)
Balance, March 31, 2022	**18,766,848**	**$ 192**	**4,781,635**	**$ 115,379**	**$ 315,354**	**$ (37,008)**	**$(137,932)**	**$ 3,666**	**$ 259,651**

See accompanying notes to consolidated financial statements.

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2022	**2021**
Cash Flows From Operating Activities		
Net income	$ 28,729	$ 21,228
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Realized (gain) loss on RMBS, available-for-sale, net	13,222	(2,094)
Unrealized gain on investments in Servicing Related Assets	(21,731)	(22,464)
Realized gain on acquired assets, net	(12)	(5)
Realized loss on derivatives, net	10,638	540
Unrealized (gain) loss on derivatives, net	(24,456)	8,059
Amortization of premiums on RMBS, available-for-sale	1,209	4,995
Amortization of deferred financing costs	-	50
LTIP-OP Unit awards	173	241
Changes in:		
Receivables and other assets, net	4,882	1,180
Due to affiliates	1,742	903
Accrued expenses and other liabilities, net	(633)	49
Net cash provided by operating activities	**$ 13,763**	**$ 12,682**
Cash Flows From Investing Activities		
Purchase of RMBS	(211,463)	(22,045)
Principal paydown of RMBS	35,054	81,483
Proceeds from sale of RMBS	250,026	144,863
Acquisition of MSRs	(5,645)	(20,295)
Payments for settlement of derivatives	(10,362)	(1,700)
Net cash provided by investing activities	**$ 57,610**	**$ 182,306**
Cash Flows From Financing Activities		
Borrowings under repurchase agreements	1,496,531	1,502,670
Repayments of repurchase agreements	(1,597,140)	(1,718,647)
Proceeds from derivative financing	21,390	(2,974)
Proceeds from bank loans	13,800	5,500
Dividends paid	(7,391)	(7,063)
LTIP-OP Units distributions paid	(91)	(85)
Conversion of OP units	-	(147)
Issuance of common stock, net of offering costs	4,104	200
Net cash used in financing activities	**$ (68,797)**	**$ (220,546)**
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	**$ 2,576**	**$ (25,558)**
Cash, Cash Equivalents and Restricted Cash, Beginning of Period	**76,777**	**130,218**
Cash, Cash Equivalents and Restricted Cash, End of Period	**$ 79,353**	**$ 104,660**
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest expense	$ 918	$ 172
Cash paid during the period for income taxes	2	6
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Dividends declared but not paid	$ 7,210	$ 6,736
Sale of RMBS, settled after period end	(46,801)	(16,702)
Purchase of RMBS, settled after period end	-	29,250

See accompanying notes to consolidated financial statements.

Cherry Hill Mortgage Investment Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2022
(Unaudited)

Note 1 — Organization and Operations

Cherry Hill Mortgage Investment Corporation (together with its consolidated subsidiaries, the “Company”) was incorporated in Maryland on October 31, 2012 and was organized to invest in residential mortgage assets in the United States. Under the Company’s charter, the Company is authorized to issue up to 500,000,000 shares of common stock and 100,000,000 shares of preferred stock, each with a par value of $0.01 per share.

The accompanying consolidated financial statements include the accounts of the Company’s subsidiaries, Cherry Hill Operating Partnership, LP (the “Operating Partnership”), CHMI Sub-REIT, Inc. (the “Sub-REIT”), Cherry Hill QRS I, LLC, Cherry Hill QRS II, LLC, Cherry Hill QRS III, LLC (“QRS III”), Cherry Hill QRS IV, LLC (“QRS IV”), Cherry Hill QRS V, LLC (“QRS V”), CHMI Solutions, Inc. (“CHMI Solutions”) and Aurora Financial Group, Inc. (“Aurora”).

The Company is party to a management agreement (the “Management Agreement”) with Cherry Hill Mortgage Management, LLC (the “Manager”), a Delaware limited liability company established by Mr. Stanley Middleman. The Manager is a party to a services agreement (the “Services Agreement”) with Freedom Mortgage Corporation (“Freedom Mortgage”) (in such capacity, the “Services Provider”), which is owned and controlled by Mr. Middleman. The Manager is owned by a “blind trust” for the benefit of Mr. Middleman. For a further discussion of the Management Agreement, see Note 7.

The Company has elected to be taxed as a REIT for U.S. federal income tax purposes, commencing with its short taxable year ended December 31, 2013. As long as the Company continues to comply with a number of requirements under federal tax law and maintains its qualification as a REIT, the Company generally will not be subject to U.S. federal income taxes to the extent that the Company distributes its taxable income to its stockholders on an annual basis and does not engage in prohibited transactions. However, certain activities that the Company may perform may cause it to earn income that will not be qualifying income for REIT purposes.

Effective January 1, 2020, the Operating Partnership, owned 97.8% by the Company, contributed substantially all of its assets to the Sub-REIT in exchange for all of the common stock of the Sub-REIT. As a result of this contribution, the Sub-REIT is a wholly-owned subsidiary of the Operating Partnership and operations formerly conducted by the Operating Partnership through its subsidiaries are now conducted by the Sub-REIT through those same subsidiaries. The Sub-REIT elected to be taxed as a REIT under the Code commencing with the taxable year ended December 31, 2020.

Note 2 — Basis of Presentation and Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. All significant intercompany transactions and balances have been eliminated. The Company consolidates those entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity. The consolidated financial statements reflect all necessary and recurring adjustments for fair presentation of the results for the periods presented herein.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make a number of significant estimates and assumptions. These include estimates of the fair value of Servicing Related Assets, RMBS and derivatives, estimates of credit losses and other estimates that affect the reported amounts of certain assets, revenues, liabilities and expenses as of the date of, and for the periods covered by, the consolidated financial statements. It is likely that changes in these estimates will occur in the near term. The Company's estimates are inherently subjective. Actual results could differ from the Company's estimates, and the differences may be material.

Risks and Uncertainties

In the normal course of business, the Company encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on the Company's investments in RMBS, Servicing Related Assets and derivatives that results from a borrower's or derivative counterparty's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of investments in RMBS, Servicing Related Assets and derivatives due to changes in interest rates, spreads or other market factors, including prepayment speeds on the Company's RMBS and Servicing Related Assets. The Company is subject to the risks involved with real estate and real estate-related debt instruments. These include, among others, the risks normally associated with changes in the general economic climate, changes in the mortgage market, changes in tax laws, interest rate levels, and the availability of financing.

The Company also is subject to certain risks relating to its status as a REIT for U.S. federal income tax purposes. If the Company were to fail to qualify as a REIT in any taxable year, the Company would be subject to U.S. federal income tax on its REIT income, which could be material. Unless entitled to relief under certain statutory provisions, the Company would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost.

The COVID-19 pandemic continues to create substantial uncertainty for government policy makers and the Federal Reserve Board with consequent effects of the economy in the United States. While the economy has largely reopened, the increased presence of highly contagious variants of the virus has exacerbated supply chain issues that arose during the shutdown of various economies. Certain forbearance programs and prohibitions on foreclosures have been extended while others have expired adding to the concern of the consequences once all such programs end. As of March 31, 2022, 1.3% of borrowers on loans underlying the MSRs owned by Aurora are reflected as being in an active forbearance program, with 10.6% of those borrowers continuing to make their regular scheduled monthly payment. The Company continues to maintain an elevated level of unrestricted cash due to the continuing uncertainty regarding government policy and the economy. Based on information currently available to the Company, the Company continues to believe that it will be able to satisfy all of its servicing obligations for the next twelve months.

Investments in RMBS

Classification – The Company classifies its investments in RMBS as securities available for sale. Although the Company generally intends to hold most of its securities until maturity, it may, from time to time, sell any of its securities as part of its overall management of its portfolio. Available-for-sale securities are carried at fair value.

Fair value is determined under the guidance of Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures* ("ASC 820"). Management's judgment is used to arrive at the fair value of the Company's RMBS investments, taking into account prices obtained from third-party pricing providers and other applicable market data. The third-party pricing providers use pricing models that generally incorporate such factors as coupons, primary and secondary mortgage rates, rate reset periods, issuer, prepayment speeds, credit enhancements and expected life of the security. The Company's application of ASC 820 guidance is discussed in further detail in Note 9.

Investment securities transactions are recorded on the trade date. At disposition, the net realized gain or loss is determined on the basis of the cost of the specific investment and is included in earnings. RMBS with a fair value of $46.8 million were sold during the three-month period ended March 31, 2022 and were settled after period end. All RMBS purchased and sold during the year ended December 31, 2021 were settled prior to year-end.

Revenue Recognition – Interest income from coupon payments is accrued based on the outstanding principal amount of the RMBS and their contractual terms. Premiums and discounts associated with the purchase of the RMBS are amortized and accreted, respectively, into interest income over the projected lives of the securities using the effective interest method. The Company's policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, consensus on prepayment speeds, and current market conditions. Adjustments are made for actual prepayment activity. We recognized interest receivable of approximately $2.1 million and $2.3 million at March 31, 2022 and December 31, 2021, respectively. Interest income receivable has been classified within "Receivables and other assets" on the consolidated balance sheets. For further discussion of Receivables and other assets, see Note 13.

Impairment – When the fair value of a security is less than its amortized cost basis as of the balance sheet date, the security's cost basis is considered impaired. If the Company determines that it intends to sell the security or it is more likely than not that it will be required to sell before recovery, the Company recognizes the difference between the fair value and amortized cost as a loss in the consolidated statements of income (loss). If the Company determines it does not intend to sell the security or it is not more likely than not it will be required to sell the security before recovery, the Company must evaluate the decline in the fair value of the impaired security and determine whether such decline resulted from a credit loss or non-credit related factors. In its assessment of whether a credit loss exists, the Company performs a qualitative assessment around whether a credit loss exists and if necessary, it compares the present value of estimated future cash flows of the impaired security with the amortized cost basis of such security. The estimated future cash flows reflect those that a "market participant" would use and typically include assumptions related to fluctuations in interest rates, prepayment speeds, default rates, collateral performance, and the timing and amount of projected credit losses, as well as incorporating observations of current market developments and events. Cash flows are discounted at an interest rate equal to the current yield used to accrete interest income. If the present value of estimated future cash flows is less than the amortized cost basis of the security, an expected credit loss exists and is included in provision for credit losses on securities in the consolidated statements of income (loss).

Investments in MSRs

Classification – MSRs represent the contractual right to service mortgage loans. The Company has elected the fair value option to record its investments in MSRs in order to provide users of the consolidated financial statements with better information regarding the effects of prepayment risk and other market factors on the MSRs. Under this election, the Company records a valuation adjustment on its investments in MSRs on a quarterly basis to recognize the changes in fair value of its MSRs in net income as described below.

Although transactions in MSRs are observable in the marketplace, the valuation includes unobservable market data inputs (prepayment speeds, delinquency levels, costs to service and discount rates). Changes in the fair value of MSRs are reported on the consolidated statements of income (loss). Fluctuations in the fair value of MSRs are recorded within "Unrealized gain (loss) on investments in Servicing Related Assets" on the consolidated statements of income (loss). Fair value is generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the MSRs and, therefore, may differ from their effective yields. In determining the valuation of MSRs in accordance with ASC 820, management uses internally developed pricing models that are based on certain unobservable market-based inputs. The Company classifies these valuations as Level 3 in the fair value hierarchy. The Company's application of ASC 820 guidance is discussed in further detail in Note 9.

Revenue Recognition – Mortgage servicing fee income represents revenue earned for servicing mortgage loans. The servicing fees are based on a contractual percentage of the outstanding principal balance and are recognized as revenue as the related mortgage payments are collected. Corresponding costs to service are charged to expense as incurred. Servicing fee income received and servicing expenses incurred are reported on the consolidated statements of income (loss). Float income from custodial accounts associated with MSRs of $192,000 and $230,000 for the three-month periods ended March 31, 2022 and March 31, 2021, respectively, is included in "Net interest income" on the consolidated statements of income (loss). Late fees and ancillary income of $494,000 and $321,000 for the three-month periods ended March 31, 2022 and March 31, 2021, respectively, are included in "Servicing fee income" on the consolidated statements of income (loss).

As an owner of MSRs, the Company may be obligated to fund advances of principal and interest payments due to third-party owners of the loans underlying the MSRs, but not yet received from the individual borrowers. These advances are reported as servicing advances within the "Receivables and other assets" line item on the consolidated balance sheets. Reimbursable servicing advances, other than principal and interest advances, also have been classified within "Receivables and other assets" on the consolidated balance sheets. Advances on Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") MSRs made in accordance with the relevant guidelines are generally recoverable. The Company's servicing related assets were composed entirely of Fannie Mae and Freddie Mac MSRs as of March 31, 2022 and December 31, 2021. As a result, the Company has determined that no reserves for unrecoverable advances for the related underlying loans are necessary at March 31, 2022 and December 31, 2021. For further discussion on the Company's receivables and other assets, including the Company's servicing advances, see Note 13.

Derivatives and Hedging Activities

Derivative transactions include swaps, swaptions, U.S. treasury futures and "to-be-announced" securities ("TBAs"). A TBA contract is an agreement to purchase or sell, for future delivery, an Agency RMBS with a specified issuer, term and coupon. Swaps and swaptions are entered into by the Company solely for interest rate risk management purposes. TBAs and U.S. treasury futures are used to manage duration risk as well as basis risk and pricing risk on the Company's financing facilities for MSRs. The decision as to whether or not a given transaction/position (or portion thereof) is economically hedged is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including restrictions imposed by the Code on REITs. In determining whether to economically hedge a risk, the Company may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as economic hedges are entered into with a view towards minimizing the potential for economic losses that could be incurred by the Company. Generally, derivatives entered into are not intended to qualify as hedges under GAAP, unless specifically stated otherwise.

From time to time, the Company enters into a TBA dollar roll which represents a transaction where TBA contracts with the same terms but different settlement dates are simultaneously bought and sold. The TBA contract settling in the later month typically prices at a discount to the earlier month contract with the difference in price commonly referred to as the "drop". The drop is a reflection of the expected net interest income from an investment in similar Agency RMBS, net of an implied financing cost, that would be foregone as a result of settling the contract in the later month rather than in the earlier month. The drop between the current settlement month price and the forward settlement month price occurs because in the TBA dollar roll market, the party providing the financing is the party that would retain all principal and interest payments accrued during the financing period. Accordingly, drop income on TBA dollar rolls generally represents the economic equivalent of the net interest income earned on the underlying Agency RMBS less an implied financing cost. TBA dollar roll transactions are accounted for under GAAP as a series of derivatives transactions.

The Company's bi-lateral derivative financial instruments contain credit risk to the extent that its counterparties may be unable to meet the terms of the agreements. The Company reduces such risk by limiting its exposure to any one counterparty. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. The Company's interest rate swaps and U.S. treasury futures are required to be cleared on an exchange, which further mitigates, but does not eliminate, credit risk. Management does not expect any material losses as a result of default by other parties to its derivative financial instruments.

Classification – All derivatives, including TBAs, are recognized as either assets or liabilities on the consolidated balance sheets and measured at fair value. The fair value of TBA derivatives is determined using methods similar to those used to value Agency RMBS. Due to the nature of these instruments, they may be in a receivable/asset position or a payable/liability position at the end of an accounting period. Derivative amounts payable to, and receivable from, the same party under a contract may be offset as long as the following conditions are met: (i) each of the two parties owes the other determinable amounts; (ii) the reporting party has the right to offset the amount owed with the amount owed by the other party; (iii) the reporting party intends to offset; and (iv) the right to offset is enforceable by law. The Company reports the fair value of derivative instruments gross of cash paid or received pursuant to credit support agreements, and fair value may be reflected on a net counterparty basis when the Company believes a legal right of offset exists under an enforceable master netting agreement. For further discussion on offsetting assets and liabilities, see Note 8.

Revenue Recognition – With respect to derivatives that have not been designated as hedges, any payments under, or fluctuations in the fair value of, such derivatives have been recognized currently in "Realized gain (loss) on derivatives, net" and "Unrealized gain (loss) on derivatives, net" in the consolidated statements of income (loss). Interest rate swap periodic interest income (expense) is included in "Realized loss on derivatives, net" in the consolidated statements of income (loss).

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid short-term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits. Restricted cash represents the Company's cash held by counterparties (i) as collateral against the Company's derivatives (approximately $0 and $664,000 at March 31, 2022 and December 31, 2021, respectively) and (ii) as collateral for borrowings under its repurchase agreements (approximately $27.0 million and $12.2 million at March 31, 2022 and December 31, 2021, respectively).

The Company's centrally cleared interest rate swaps require that the Company post an "initial margin" amount determined by the clearing exchange, which is generally intended to be set at a level sufficient to protect the exchange from the interest rate swap's maximum estimated single-day price movement. The Company also exchanges "variation margin" based upon daily changes in fair value, as measured by the exchange. As a result of amendments to rules governing certain central clearing activities, the exchange of variation margin is a settlement of the interest rate swap, as opposed to pledged collateral. The Company has accounted for the receipt or payment of variation margin on interest rate swaps as a direct reduction or increase to the carrying value of the interest rate swap asset or liability. At March 31, 2022 and December 31, 2021, approximately $64.3 million and $45.6 million, respectively, of variation margin was reported as a decrease to the interest rate swap asset, at fair value.

Due to Manager

The sum under "Due to manager" on the consolidated balance sheets represents amounts due to the Manager pursuant to the Management Agreement. For further information on the Management Agreement, see Note 7.

Income Taxes

The Company elected to be taxed as a REIT under Code Sections 856 through 860 beginning with its short taxable year ended December 31, 2013. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate income tax rates to the extent that it annually distributes less than 100% of its taxable income. The Company's TRS, CHMI Solutions, as well as CHMI Solutions' wholly-owned subsidiary, Aurora, are subject to U.S. federal income taxes on their taxable income. To maintain qualification as a REIT, the Company must distribute at least 90% of its annual REIT taxable income to its stockholders and meet certain other requirements such as assets it may hold, income it may generate and its stockholder composition. In 2017, the Internal Revenue Service issued a revenue procedure permitting "publicly offered" REITs to make elective stock dividends (i.e., dividends paid in a mixture of stock and cash), with at least 20% of the total distribution being paid in cash, to satisfy their REIT distribution requirements. In December 2021, the Internal Revenue Service issued a revenue procedure that temporarily reduces the minimum amount of the total distribution that must be paid in cash to 10% for distributions declared on or after November 1, 2021, and on or before June 30, 2022, provided certain other parameters detailed in the Revenue Procedure are satisfied. Pursuant to these revenue procedures, the Company has in the past elected to make distributions of its taxable income in a mixture of stock and cash.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. ASC 740 requires the recording of deferred income taxes that reflect the net tax effect of temporary differences between the carrying amounts of the Company's assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, including operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date. The Company assesses its tax positions for all open tax years and determines if it has any material unrecognized liabilities in accordance with ASC 740. The Company records these liabilities to the extent it deems them more-likely-than-not to be incurred. The Company records interest and penalties related to income taxes within the provision for income taxes in the consolidated statements of income (loss). The Company has not incurred any interest or penalties.

Realized Gain (Loss) on RMBS

The following table presents realized gains and losses on RMBS for the periods indicated (dollars in thousands):

	Three Months Ended March 31,	
	2022	**2021**
Realized gain (loss) on RMBS, net		
Gain on RMBS	$ 50	$ 2,664
Loss on RMBS	(13,272)	(570)
Net realized gain (loss) on RMBS (A)	**$ (13,222)**	**$ 2,094**

(A) Reclassified from accumulated other comprehensive income into earnings.

Repurchase Agreements and Interest Expense

The Company finances its investments in RMBS with short-term borrowings under master repurchase agreements. Borrowings under the repurchase agreements are generally short-term debt due within one year. These borrowings generally bear interest rates offered by the "lending" counterparty from time to time for the term of the proposed repurchase transaction (e.g. 30 days, 60 days etc.) of a specified margin over one-month LIBOR. The repurchase agreements represent uncommitted financing. Borrowings under these agreements are treated as collateralized financing transactions and are carried at their contractual amounts, as specified in the respective agreements. Interest is recorded at the contractual amount on an accrual basis.

Dividends Payable

Because the Company is organized as a REIT under the Code, it is required by law to distribute annually at least 90% of its REIT taxable income, which it does in the form of quarterly dividend payments. The Company accrues the dividend payable on outstanding shares on the accounting date, which causes an offsetting reduction in retained earnings.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period resulting from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. For the Company's purposes, comprehensive income represents net income (loss), as presented in the consolidated statements of income (loss), adjusted for unrealized gains or losses on RMBS, which are designated as available for sale.

Recent Accounting Pronouncements

Reference Rate Reform - In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform*, which provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. While the Company currently does not have any hedging relationships, the Company's debt facilities incorporate LIBOR as the reference rate. Certain of these facilities mature prior to the phase out of LIBOR while others have provisions in place that provide for an alternative to LIBOR upon its phase out. If a facility is silent on a fall back, the transition will be governed by market approaches prevailing at the time. The ASU was effective immediately for all entities and expires after December 31, 2022. The Company's adoption of this ASU did not have an impact on the Company's financial condition, results of operations or financial statement disclosures.

Changes in Presentation

Certain prior period amounts have been reclassified to conform to current period presentation.

Note 3 — Segment Reporting

The Company conducts its business through the following segments: (i) investments in RMBS; (ii) investments in Servicing Related Assets; and (iii) "All Other," which consists primarily of general and administrative expenses, including fees paid to the Company's directors and management fees and reimbursements paid to the Manager pursuant to the Management Agreement (see Note 7). For segment reporting purposes, the Company does not allocate interest income on short-term investments or general and administrative expenses.

Summary financial data with respect to the Company's segments is given below, together with the data for the Company as a whole (dollars in thousands):

	Servicing Related Assets	RMBS	All Other	Total
Income Statement				
Three Months Ended March 31, 2022				
Interest income	$ -	$ 5,519	$ -	$ 5,519
Interest expense	1,253	387	-	1,640
Net interest income (expense)	(1,253)	5,132	-	3,879
Servicing fee income	13,116	-	-	13,116
Servicing costs	3,193	-	-	3,193
Net servicing income	9,923	-	-	9,923
Other income (expense)	(3,366)	25,705	-	22,339
Other operating expenses	522	228	2,787	3,537
Provision for corporate business taxes	3,875	-	-	3,875
Net Income (Loss)	$ 907	$ 30,609	$ (2,787)	$ 28,729
Three Months Ended March 31, 2021				
Interest income	$ 120	$ 3,181	$ -	$ 3,301
Interest expense	932	522	-	1,454
Net interest income (expense)	(812)	2,659	-	1,847
Servicing fee income	13,540	-	-	13,540
Servicing costs	3,082	-	-	3,082
Net servicing income	10,458	-	-	10,458
Other income (expense)	(4,762)	20,726	-	15,964
Other operating expenses	566	171	2,841	3,578
Provision for corporate business taxes	3,463	-	-	3,463
Net Income (Loss)	$ 855	$ 23,214	$ (2,841)	$ 21,228

	Servicing Related Assets	RMBS	All Other	Total
Balance Sheet				
March 31, 2022				
Investments	$ 246,103	$ 774,113	$ -	$ 1,020,216
Other assets	36,101	102,837	52,866	191,804
Total assets	282,204	876,950	52,866	1,212,020
Debt	159,068	764,885	-	923,953
Other liabilities	7,308	9,371	11,737	28,416
Total liabilities	166,376	774,256	11,737	952,369
Net assets	$ 115,828	$ 102,694	$ 41,129	$ 259,651
December 31, 2021				
Investments	$ 218,727	$ 953,496	$ -	$ 1,172,223
Other assets	44,506	21,611	64,522	130,639
Total assets	263,233	975,107	64,522	1,302,862
Debt	145,268	865,494	-	1,010,762
Other liabilities	1,847	1,411	10,026	13,284
Total liabilities	147,115	866,905	10,026	1,024,046
Net assets	$ 116,118	$ 108,202	$ 54,496	$ 278,816

Note 4 — Investments in RMBS

At March 31, 2022, the Company's investments in RMBS consist solely of Agency RMBS. The Company's investments in RMBS may also include, from time to time, any of the following: CMOs, which are either loss share securities issued by Fannie Mae or Freddie Mac; or non-Agency RMBS, sometimes called "private label MBS," which are structured debt instruments representing interests in specified pools of mortgage loans subdivided into multiple classes, or tranches, of securities, with each tranche having different maturities or risk profiles and different ratings by one or more nationally recognized statistical rating organizations. All of the Company's RMBS are classified as available-for-sale and are, therefore, reported at fair value. Beginning on January 1, 2020, upon the adoption of ASU 2016-13, *Financial Instruments-Credit Losses*, credit related impairment, if any, is included in provision (reversal) for credit losses on securities in the consolidated statements of income (loss). All other changes in fair value are recorded in other comprehensive income (loss).

The following is a summary of the Company's investments in RMBS as of the dates indicated (dollars in thousands):

Summary of RMBS Assets

As of March 31, 2022

Asset Type	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)
RMBS										
Fannie Mae	$ 678,445	$ 476,781	$ 669	$ (22,459)	$ 454,991	68	(B)	3.10%	2.99%	27
Freddie Mac	422,127	334,222	383	(15,483)	319,122	42	(B)	3.08%	2.97%	28
Total/Weighted Average	**$ 1,100,572**	**$ 811,003**	**$ 1,052**	**$ (37,942)**	**$ 774,113**	**110**		**3.09%**	**2.98%**	**28**

As of December 31, 2021

Asset Type	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)
RMBS										
Fannie Mae	$ 772,607	$ 554,151	$ 9,276	$ (3,650)	$ 559,777	76	(B)	3.09%	2.96%	27
Freddie Mac	484,479	391,700	5,260	(3,241)	393,719	45	(B)	3.02%	2.89%	28
Total/Weighted Average	**$ 1,257,086**	**$ 945,851**	**$ 14,536**	**$ (6,891)**	**$ 953,496**	**121**		**3.06%**	**2.93%**	**28**

(A) See Note 9 regarding the estimation of fair value, which approximates carrying value for all securities.
(B) The Company used an implied AAA rating for the Agency RMBS.
(C) The weighted average yield is based on the most recent gross monthly interest income, which is then annualized and divided by the book value of settled securities.

Summary of RMBS Assets by Maturity

As of March 31, 2022

Years to Maturity	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)
Over 10 Years	$ 1,100,572	$ 811,003	$ 1,052	$ (37,942)	$ 774,113	110	(B)	3.09%	2.98%	28
Total/Weighted Average	**$ 1,100,572**	**$ 811,003**	**$ 1,052**	**$ (37,942)**	**$ 774,113**	**110**		**3.09%**	**2.98%**	**28**

As of December 31, 2021

Years to Maturity	Original Face Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value(A)	Number of Securities	Rating	Weighted Average Coupon	Weighted Average Yield(C)	Weighted Average Maturity (Years)
Over 10 Years	$ 1,257,086	$ 945,851	$ 14,536	$ (6,891)	$ 953,496	121	(B)	3.06%	2.93%	28
Total/Weighted Average	**$ 1,257,086**	**$ 945,851**	**$ 14,536**	**$ (6,891)**	**$ 953,496**	**121**		**3.06%**	**2.93%**	**28**

(A) See Note 9 regarding the estimation of fair value, which approximates carrying value for all securities.
(B) The Company used an implied AAA rating for the Agency RMBS.
(C) The weighted average yield is based on the most recent gross monthly interest income, which is then annualized and divided by the book value of settled securities.

At March 31, 2022 and December 31, 2021, the Company pledged Agency RMBS with a carrying value of approximately $731.3 million and $892.9 million, respectively, as collateral for borrowings under repurchase agreements. At March 31, 2022 and December 31, 2021, the Company did not have any securities purchased from and financed with the same counterparty that did not meet the conditions of ASC 860, *Transfers and Servicing*, to be considered linked transactions and, therefore, classified as derivatives.

Based on management’s analysis of the Company’s securities, the performance of the underlying loans and changes in market factors, management determined that unrealized losses as of the balance sheet date on the Company’s securities were primarily the result of changes in market factors, rather than issuer-specific credit impairment. The Company performed analyses in relation to such securities, using management’s best estimate of their cash flows, which support its belief that the carrying values of such securities were fully recoverable over their expected holding periods. Such market factors include changes in market interest rates and credit spreads and certain macroeconomic events, none of which will directly impact the Company’s ability to collect amounts contractually due. Management continually evaluates the credit status of each of the Company’s securities and the collateral supporting those securities. This evaluation includes a review of the credit of the issuer of the security (if applicable), the credit rating of the security (if applicable), the key terms of the security (including credit support), debt service coverage and loan to value ratios, the performance of the pool of underlying loans and the estimated value of the collateral supporting such loans, including the effect of local, industry and broader economic trends and factors. Significant judgment is required in this analysis for investments in RMBS that are not guaranteed by U.S. government agencies or U.S. government sponsored enterprises. All of the Company’s investments in RMBS are guaranteed by U.S. government agencies or U.S. government sponsored enterprises.

Both credit related and non-credit related unrealized losses on securities that the Company (i) intends to sell, or (ii) will more likely than not be required to sell before recovering their cost basis, are recognized in earnings. The Company did not record an allowance for credit losses on the balance sheet at March 31, 2022 and December 31, 2021, or any impairment charges in earnings during the three-month periods ended March 31, 2022 and March 31, 2021.

The following tables summarize the Company's securities in an unrealized loss position as of the dates indicated (dollars in thousands):

RMBS Unrealized Loss Positions

As of March 31, 2022

							Weighted Average		
Duration in Loss Position	**Original Face Value**	**Book Value**	**Gross Unrealized Losses**	**Carrying Value(A)**	**Number of Securities**	**Rating**	**Coupon**	**Yield(C)**	**Maturity (Years)**
Less than Twelve Months	$ 833,308	$ 704,077	$ (37,942)	$ 666,135	78	(B)	2.97%	2.85%	28
Total/Weighted Average	**$ 833,308**	**$ 704,077**	**$ (37,942)**	**$ 666,135**	**78**		**2.97%**	**2.85%**	**28**

As of December 31, 2021

							Weighted Average		
Duration in Loss Position	**Original Face Value**	**Book Value**	**Gross Unrealized Losses**	**Carrying Value(A)**	**Number of Securities**	**Rating**	**Coupon**	**Yield(C)**	**Maturity (Years)**
Less than Twelve Months	$ 612,547	$ 611,306	$ (6,783)	$ 604,523	56	(B)	2.76%	2.62%	29
Twelve or More Months	6,629	6,022	(108)	5,914	1	(B)	3.00%	2.83%	28
Total/Weighted Average	**$ 619,176**	**$ 617,328**	**$ (6,891)**	**$ 610,437**	**57**		**2.77%**	**2.62%**	**29**

(A) See Note 9 regarding the estimation of fair value, which approximates carrying value for all securities.
(B) The Company used an implied AAA rating for the Agency RMBS.
(C) The weighted average yield is based on the most recent gross monthly interest income, which is then annualized and divided by the book value of settled securities.

Note 5 — Investments in Servicing Related Assets

Aurora's portfolio of Servicing Related Assets consists of Fannie Mae and Freddie Mac MSRs with an aggregate UPB of approximately $20.4 billion as of March 31, 2022.

The following is a summary of the Company's Servicing Related Assets as of the dates indicated (dollars in thousands):

Servicing Related Assets Summary

As of March 31, 2022

	Unpaid Principal Balance	Carrying Value(A)	Weighted Average Coupon	Weighted Average Maturity (Years)(B)	Year to Date Changes in Fair Value Recorded in Other Income (Loss)
MSRs	$ 20,441,178	$ 246,103	3.48%	26.2	$ 21,731
MSR Total/Weighted Average	**$ 20,441,178**	**$ 246,103**	3.48%	26.2	**$ 21,731**

As of December 31, 2021

	Unpaid Principal Balance	Carrying Value(A)	Weighted Average Coupon	Weighted Average Maturity (Years)(B)	Year to Date Changes in Fair Value Recorded in Other Income (Loss)
MSRs	$ 20,773,278	$ 218,727	3.51%	26.3	$ (11,062)
MSR Total/Weighted Average	**$ 20,773,278**	**$ 218,727**	3.51%	26.3	**$ (11,062)**

(A) See Note 9 regarding the estimation of fair value, which approximates carrying value for all pools.
(B) Weighted average maturity of the underlying residential mortgage loans in the pool is based on the unpaid principal balance.

The tables below summarize the geographic distribution for the states representing 5% or greater of the aggregate UPB of the residential mortgage loans underlying the Servicing Related Assets as of the dates indicated:

Geographic Concentration of Servicing Related Assets

As of March 31, 2022

	Percentage of Total Outstanding Unpaid Principal Balance
California	14.1%
Virginia	9.2%
New York	8.8%
Maryland	6.9%
Texas	6.2%
North Carolina	5.6%
All other	49.2%
Total	100.0%

As of December 31, 2021

	Percentage of Total Outstanding Unpaid Principal Balance
California	13.8%
Virginia	9.3%
New York	8.8%
Maryland	6.9%
Texas	6.2%
North Carolina	5.6%
All other	49.4%
Total	100.0%

Geographic concentrations of investments expose the Company to the risk of economic downturns within the relevant states. Any such downturn in a state where the Company holds significant investments could affect the underlying borrower's ability to make the mortgage payment and, therefore, could have a meaningful, negative impact on the Company's Servicing Related Assets.

Note 6 — Equity and Earnings per Common Share

Common and Preferred Stock

On October 9, 2013, the Company completed an initial public offering (the "IPO") and a concurrent private placement of its common stock. The Company did not conduct any activity prior to the IPO and the concurrent private placement.

The Company's 8.20% Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock") ranks senior to the Company's common stock with respect to rights to the payment of dividends and the distribution of assets upon the Company's liquidation, dissolution or winding up. The Series A Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless repurchased or redeemed by the Company or converted by the holders of the Series A Preferred Stock into the Company's common stock in connection with certain changes of control. The Series A Preferred Stock is not redeemable by the Company prior to August 17, 2022, except under circumstances intended to preserve the Company's qualification as a REIT for U.S. federal income tax purposes and except upon the occurrence of certain changes of control. On and after August 17, 2022, the Company may, at its option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price equal to $25.00 per share, plus any accumulated and unpaid dividends to, but not including, the date fixed for redemption. If the Company does not exercise its rights to redeem the Series A Preferred Stock upon certain changes in control, the holders of the Series A Preferred Stock have the right to convert some or all of their shares of Series A Preferred Stock into a number of shares of the Company's common stock based on a defined formula, subject to a share cap, or alternative consideration. The share cap on each share of Series A Preferred Stock is 2.62881 shares of common stock, subject to certain adjustments. The Company pays cumulative cash dividends at the rate of 8.20% per annum of the $25.00 per share liquidation preference (equivalent to $2.05 per annum per share) on the Series A Preferred Stock, in arrears, on or about the 15th day of January, April, July and October of each year.

The Company's 8.250% Series B Fixed-to-Floating Rate Cumulative Redeemable Stock, par value $0.01 per share (the "Series B Preferred Stock") ranks senior to the Company's common stock with respect to rights to the payment of dividends and the distribution of assets upon the Company's liquidation, dissolution or winding up, and on parity with the Company's Series A Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon the Company's liquidation, dissolution or winding up. The Series B Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless repurchased or redeemed by the Company or converted by the holders of the Series B Preferred Stock into the Company's common stock in connection with certain changes of control. The Series B Preferred Stock is not redeemable by the Company prior to April 15, 2024, except under circumstances intended to preserve the Company's qualification as a REIT for U.S. federal income tax purposes and except upon the occurrence of certain changes of control. On and after April 15, 2024, the Company may, at its option, redeem the Series B Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price equal to $25.00 per share, plus any accumulated and unpaid dividends to, but not including, the date fixed for redemption. If the Company does not exercise its rights to redeem the Series B Preferred Stock upon certain changes in control, the holders of the Series B Preferred Stock have the right to convert some or all of their shares of Series B Preferred Stock into a number of shares of the Company's common stock based on a defined formula, subject to a share cap, or alternative consideration. The share cap on each share of Series B Preferred Stock is 2.68962 shares of common stock, subject to certain adjustments. Holders of Series B Preferred Stock will be entitled to receive cumulative cash dividends (i) from and including February 11, 2019 to, but excluding, April 15, 2024 at a fixed rate equal to 8.250% per annum of the $25.00 per share liquidation preference (equivalent to $2.0625 per annum per share) and (ii) from and including April 15, 2024, at a floating rate equal to three-month LIBOR plus a spread of 5.631% per annum. Dividends are payable quarterly in arrears on the 15th day of each January, April, July and October, when and as authorized by the Company's board of directors and declared by the Company.

Common Stock ATM Program

In August 2018, the Company instituted an at-the-market offering program (the "Common Stock ATM Program") of up to $50.0 million of its common stock, of which, approximately $16.0 million was remaining as of March 31, 2022. Under the Common Stock ATM Program, the Company may, but is not obligated to, sell shares of common stock from time to time through one or more selling agents. The Common Stock ATM Program has no set expiration date and may be renewed or terminated by the Company at any time. During the three-month period ended March 31, 2022 the Company issued and sold 505,000 shares of common stock under the Common Stock ATM Program. The shares were sold at a weighted average price of $8.19 per share for gross proceeds of approximately $4.1 million before fees of approximately $83,000. During the year ended December 31, 2021, the Company issued and sold 1,148,398 shares of common stock under the Common Stock ATM Program. The shares were sold at a weighted average price of $8.88 per share for gross proceeds of approximately $10.2 million before fees of approximately $200,000.

Preferred Stock ATM Program

In April 2018, the Company instituted an at-the-market offering program (the “Preferred Series A ATM Program”) of up to $35.0 million of its Series A Preferred Stock. Under the Preferred Series A ATM Program, the Company may, but is not obligated to, sell shares of Series A Preferred Stock from time to time through one or more selling agents. The Preferred Series A ATM Program has no set expiration date and may be renewed or terminated by the Company at any time. During the three-month period ended March 31, 2022 and the year ended December 31, 2021, the Company did not issue any shares of Series A Preferred Stock under the Preferred Series A ATM Program.

Share Repurchase Program

In September 2019, the Company instituted a share repurchase program that allows for the repurchase of up to an aggregate of $10.0 million of the Company’s common stock. Shares may be repurchased from time to time through privately negotiated transactions or open market transactions, pursuant to a trading plan in accordance with Rules 10b5-1 and 10b-18 under the Exchange Act or by any combination of such methods. The manner, price, number and timing of share repurchases are subject to a variety of factors, including market conditions and applicable SEC rules. The share repurchase program does not require the purchase of any minimum number of shares, and, subject to SEC rules, purchases may be commenced or suspended at any time without prior notice. During the three-month period ended March 31, 2022 and the year ended December 31, 2021, the Company did not repurchase any shares under the share repurchase program.

Equity Incentive Plan

During 2013, the board of directors approved and the Company adopted the Cherry Hill Mortgage Investment Corporation 2013 Equity Incentive Plan (the “2013 Plan”). The 2013 Plan provides for the grant of options to purchase shares of the Company’s common stock, stock awards, stock appreciation rights, performance units, incentive awards and other equity-based awards, including long term incentive plan units (“LTIP-OP Units”) of the Operating Partnership.

LTIP-OP Units are a special class of partnership interest in the Operating Partnership. LTIP-OP Units may be issued to eligible participants for the performance of services to or for the benefit of the Operating Partnership. Initially, LTIP-OP Units do not have full parity with the Operating Partnership’s common units of limited partnership interest (“OP Units”) with respect to liquidating distributions; however, LTIP-OP Units receive, whether vested or not, the same per-unit distributions as OP Units and are allocated their pro-rata share of the Operating Partnership’s net income or loss. Under the terms of the LTIP-OP Units, the Operating Partnership will revalue its assets upon the occurrence of certain specified events, and any increase in the Operating Partnership’s valuation from the time of grant of the LTIP-OP Units until such event will be allocated first to the holders of LTIP-OP Units to equalize the capital accounts of such holders with the capital accounts of the holders of OP Units. Upon equalization of the capital accounts of the holders of LTIP-OP Units with the other holders of OP Units, the LTIP-OP Units will achieve full parity with OP Units for all purposes, including with respect to liquidating distributions. If such parity is reached, vested LTIP-OP Units may be converted into an equal number of OP Units at any time and, thereafter, enjoy all the rights of OP Units, including redemption rights. Each LTIP-OP Unit awarded is deemed equivalent to an award of one share of the Company’s common stock under the 2013 Plan and reduces the 2013 Plan’s share authorization for other awards on a one-for-one basis.

An LTIP-OP Unit and a share of common stock of the Company have substantially the same economic characteristics in as much as they effectively share equally in the net income or loss of the Operating Partnership. Holders of LTIP-OP Units that have reached parity with OP Units have the right to redeem their LTIP-OP Units, subject to certain restrictions. The redemption is required to be satisfied in cash, or at the Company’s option, the Company may purchase the OP Units for common stock, calculated as follows: one share of the Company’s common stock, or cash equal to the fair value of a share of the Company’s common stock at the time of redemption, for each LTIP-OP Unit. When an LTIP-OP Unit holder redeems an OP Unit (as described above), non-controlling interest in the Operating Partnership is reduced and the Company’s equity is increased.

LTIP-OP Units vest ratably over the first three annual anniversaries of the grant date. The fair value of each LTIP-OP Unit was determined based on the closing price of the Company's common stock on the applicable grant date in all other cases.

The following table sets forth the number of shares of the Company's common stock as well as LTIP-OP Units and the values thereof (based on the closing prices on the respective dates of grant) granted under the 2013 Plan. Except as otherwise indicated, all shares are fully vested.

Equity Incentive Plan Information

	LTIP-OP Units				Shares of Common Stock		Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans	Weighted Average Issuance Price
	Issued	**Forfeited**	**Converted**	**Redeemed**	**Issued**	**Forfeited**		
December 31, 2020	(341,847)	916	28,417	-	(108,388)	3,155	1,082,253	
Number of securities issued or to be issued upon exercise	(49,800) (A)	-	-	-	-	-	(49,800)	$ 8.81
Number of securities issued or to be issued upon exercise	-	-	16,378	-	(16,378)	-	-	$ 9.00
March 31, 2021	(391,647)	916	44,795	-	(124,766)	3,155	1,032,453	
December 31, 2021	(391,647)	916	44,795	9,054	(144,980)	3,155	1,012,239	
Number of securities issued or to be issued upon exercise	(68,250) (B)	-	-		-	-	(68,250)	$ 8.40
March 31, 2022	(459,897)	916	44,795		(144,980)	3,155	943,989	

(A) Subject to forfeiture in certain circumstances prior to January 4, 2024.
(B) Subject to forfeiture in certain circumstances prior to January 3, 2025.

The Company recognized approximately $225,000 and $294,000 in share-based compensation expense in the three-month periods ended March 31, 2022 and March 31, 2021, respectively. There was approximately $862,000 of total unrecognized share-based compensation expense as of March 31, 2022, which was related to unvested LTIP-OP Units and directors compensation paid in stock subject to forfeiture. This unrecognized share-based compensation expense is expected to be recognized ratably over the remaining vesting period of up to three years. The aggregate expense related to the LTIP-OP Unit grants is presented as "General and administrative expense" in the Company's consolidated statements of income (loss).

Non-Controlling Interests in Operating Partnership

Non-controlling interests in the Operating Partnership in the accompanying consolidated financial statements relate to LTIP-OP Units and OP Units issued upon conversion of LTIP-OP Units, in either case, held by parties other than the Company.

As of March 31, 2022, the non-controlling interest holders in the Operating Partnership owned 402,857 LTIP-OP Units, or approximately 2.2% of the units of the Operating Partnership. Pursuant to ASC 810, *Consolidation*, changes in a parent's ownership interest (and transactions with non-controlling interest unit holders in the Operating Partnership) while the parent retains its controlling interest in its subsidiary should be accounted for as equity transactions. The carrying amount of the non-controlling interest will be adjusted to reflect the change in its ownership interest in the subsidiary, with the offset to equity attributable to the Company.

Earnings per Common Share

The Company is required to present both basic and diluted earnings per common share ("EPS"). Basic EPS is calculated by dividing net income applicable to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is calculated by dividing net income applicable to common stockholders by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period. In accordance with ASC 260, *Earnings Per Share*, if there is a loss from continuing operations, the common stock equivalents are deemed anti-dilutive and earnings (loss) per share is calculated excluding the potential common shares.

The following table presents basic and diluted earnings per share of common stock for the periods indicated (dollars in thousands, except per share data):

Earnings per Common Share Information

	Three Months Ended March 31,	
	2022	**2021**
Numerator:		
Net income	$ 28,729	$ 21,228
Net income allocated to noncontrolling interests in Operating Partnership	(633)	(434)
Dividends on preferred stock	2,463	2,463
Net income applicable to common stockholders	$ 25,633	$ 18,331
Denominator:		
Weighted average common shares outstanding	18,252,523	17,065,735
Weighted average diluted shares outstanding	18,272,737	17,087,959
Basic and Diluted EPS:		
Basic	$ 1.40	$ 1.07
Diluted	$ 1.40	$ 1.07

There were no participating securities or equity instruments outstanding that were anti-dilutive for purposes of calculating earnings per share for the periods presented.

Note 7 — Transactions with Related Parties

Manager

The Company has entered into the Management Agreement with the Manager, pursuant to which the Manager provides for the day-to-day management of the Company's operations. The Management Agreement requires the Manager to manage the Company's business affairs in conformity with the policies that are approved and monitored by the Company's board of directors. Pursuant to the Management Agreement, the Manager, under the supervision of the Company's board of directors, formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of the Company's assets and provides certain advisory, administrative and managerial services in connection with the operations of the Company. For performing these services, the Company pays the Manager the management fee which is payable in cash quarterly in arrears, in an amount equal to 1.5% per annum of the Company's stockholders' equity (as defined in the Management Agreement). The term of the Management Agreement expires on October 22, 2022 and will be automatically renewed for a one-year term on such date and on each anniversary of such date thereafter unless terminated or not renewed as described below. Either the Company or the Manager may elect not to renew the Management Agreement upon expiration of its initial term or any renewal term by providing written notice of non-renewal at least 180 days, but not more than 270 days, before expiration. No such written notice of non-renewal was provided in 2021. In the event the Company elects not to renew the term, the Company will be required to pay the Manager a termination fee equal to three times the average annual management fee amount earned by the Manager during the two four-quarter periods ending as of the end of the most recently completed fiscal quarter prior to the non-renewal. The Company may terminate the Management Agreement at any time for cause effective upon 30 days prior written notice of termination from the Company to the Manager, in which case no termination fee would be due. The Company's board of directors will review the Manager's performance prior to the automatic renewal of the Management Agreement and, as a result of such review, upon the affirmative vote of at least two-thirds of the members of the Company's board of directors or of the holders of a majority of the Company's outstanding common stock, the Company may terminate the Management Agreement based upon unsatisfactory performance by the Manager that is materially detrimental to the Company or a determination by the Company's independent directors that the management fees payable to the Manager are not fair, subject to the right of the Manager to prevent such a termination by agreeing to a reduction of the management fees payable to the Manager. Upon any termination of the Management Agreement based on unsatisfactory performance or unfair management fees, the Company would be required to pay the Manager the termination fee described above. The Manager may terminate the Management Agreement in the event that the Company becomes regulated as an investment company under the Investment Company Act of 1940, as amended, in which case the Company would not be required to pay the termination fee described above. The Manager may also terminate the Management Agreement upon 60 days' written notice if the Company defaults in the performance of any material term of the Management Agreement and the default continues for a period of 30 days after written notice to the Company, whereupon the Company would be required to pay the Manager the termination fee described above.

The Manager is a party to the Services Agreement with the Services Provider, pursuant to which the Services Provider provides to the Manager personnel and payroll and benefits administration services as needed by the Manager to carry out its obligations and responsibilities under the Management Agreement. The Company is a named third-party beneficiary to the Services Agreement and, as a result, has, as a non-exclusive remedy, a direct right of action against the Services Provider in the event of any breach by the Manager of any of its duties, obligations or agreements under the Management Agreement that arise out of or result from any breach by the Services Provider of its obligations under the Services Agreement. The Services Agreement will terminate upon the termination of the Management Agreement.

The Management Agreement between the Company and the Manager was negotiated between related parties, and the terms, including fees payable, may not be as favorable to the Company as if it had been negotiated with an unaffiliated third party. At the time the Management Agreement was negotiated, both the Manager and the Services Provider were controlled by Mr. Stanley Middleman. In 2016, ownership of the Manager was transferred to CHMM Blind Trust, a grantor trust for the benefit of Mr. Middleman.

The Management Agreement provides that the Company will reimburse the Manager for (i) various expenses incurred by the Manager or its officers, and agents on the Company's behalf, including costs of software, legal, accounting, tax, administrative and other similar services rendered for the Company by providers retained by the Manager and (ii) an agreed upon portion of the compensation paid to specified officers of the Company. The amounts under "Due to Manager" on the consolidated balance sheets consisted of the following for the periods indicated (dollars in thousands):

Management Fees and Compensation Reimbursement to Manager

	Three Months Ended March 31,	
	2022	**2021**
Management fees	$ 1,678	$ 1,711
Compensation reimbursement	115	250
Total	**$ 1,793**	**$ 1,961**

Subservicing Agreements

In August 2020, Freedom Mortgage acquired RoundPoint Mortgage Servicing Corporation ("RoundPoint"), one of Aurora's subservicers and a seller of Fannie Mae and Freddie Mac MSRs pursuant to a flow purchase agreement with Aurora. The subservicing agreement with RoundPoint had an initial term of two years and is subject to automatic renewal for additional terms equal to the initial term unless either party chooses not to renew. The subservicing agreement may be terminated without cause by either party by giving notice as specified in the agreement. If the agreement is not renewed by Aurora or terminated by Aurora without cause, de-boarding fees will be due to the subservicer. Under the subservicing agreement, the sub-servicer agrees to service the applicable mortgage loans in accordance with applicable law. During the three-month periods ended March 31, 2022 and March 31, 2021, Aurora paid RoundPoint $1.7 million and $1.3 million, respectively, in servicing costs. Aurora had servicing receivables of $4.1 million and $493,000 from RoundPoint as of March 31, 2022 and December 31, 2021, respectively. The flow purchase agreement provides that RoundPoint may offer, and Aurora may purchase mortgage servicing rights from time to time on loans originated through RoundPoint's network of loan sellers. RoundPoint's sellers sell the loans to Fannie Mae or Freddie Mac and sell the mortgage servicing rights to RoundPoint which sells the MSR to Aurora. RoundPoint then subservices the loans for Aurora pursuant to the subservicing agreement.

During the three-month periods ended March 31, 2022 and March 31, 2021, Aurora purchased MSRs with an aggregate UPB of approximately $57.0 million and $1.8 billion, respectively from RoundPoint pursuant to the flow agreement for purchase prices of $650,000 and $14.0 million, respectively.

Joint Marketing Recapture Agreements

In May 2018, Aurora entered into a recapture purchase and sale agreement with RoundPoint, one of Aurora's subservicers and since August 2020, a wholly-owned subsidiary of Freedom Mortgage. Pursuant to this agreement, RoundPoint attempts to refinance certain mortgage loans underlying Aurora's MSR portfolio subserviced by RoundPoint as directed by Aurora. If a loan is refinanced, Freedom Mortgage will sell the loan to Fannie Mae or Freddie Mac, as applicable, retain the sale proceeds and transfer the related MSR to Aurora. The agreement continues in effect while the subservicing agreement remains in effect.

Other Transactions with Related Parties

Aurora leases three employees from Freedom Mortgage and reimburses Freedom Mortgage on a monthly basis.

Note 8 — Derivative Instruments

Interest Rate Swap Agreements, Swaptions, TBAs and U.S. Treasury Futures

In order to help mitigate exposure to higher short-term interest rates in connection with borrowings under its repurchase agreements, the Company enters into interest rate swap agreements and swaption agreements. Interest rate swap agreements establish an economic fixed rate on related borrowings because the variable-rate payments received on the interest rate swap agreements largely offset interest accruing on the related borrowings, leaving the fixed-rate payments to be paid on the interest rate swap agreements as the Company’s effective borrowing rate, subject to certain adjustments including changes in spreads between variable rates on the interest rate swap agreements and actual borrowing rates. A swaption is an option granting its owner the right but not the obligation to enter into an underlying swap. The Company’s interest rate swap agreements and swaptions have not been designated as qualifying hedging instruments for GAAP purposes.

In order to help mitigate duration risk and manage basis risk and the pricing risk under the Company’s financing facilities, the Company utilizes U.S. treasury futures and forward-settling purchases and sales of RMBS where the underlying pools of mortgage loans are TBAs. Pursuant to these TBA transactions, the Company agrees to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. Unless otherwise indicated, references to U.S. treasury futures include options on U.S. treasury futures.

The following table summarizes the outstanding notional amounts of derivative instruments as of the dates indicated (dollars in thousands):

Derivatives	**March 31, 2022**	**December 31, 2021**
Notional amount of interest rate swaps	$ 1,395,000	$ 1,448,000
Notional amount of swaptions	40,000	40,000
Notional amount of TBAs, net	166,600	439,000
Notional amount of U.S. treasury futures	(271,300)	(80,600)
Notional amount of options on U.S. treasury futures	70,000	-
Total notional amount	**$ 1,400,300**	**$ 1,846,400**

The following table presents information about the Company’s interest rate swap agreements as of the dates indicated (dollars in thousands):

	Notional Amount	**Fair Value**	**Weighted Average Pay Rate**	**Weighted Average Receive Rate**	**Weighted Average Years to Maturity**
March 31, 2022	$ 1,395,000	$ 13,883	0.63%	0.98%	5.8
December 31, 2021	$ 1,448,000	$ 9,883	0.50%	0.73%	6.1

The following table presents information about the Company's interest rate swaption agreements as of the dates indicated (dollars in thousands):

	Notional Amount	Fair Value	Weighted Average Underlying Pay Rate	Weighted Average Underlying Receive Rate(A)	Weighted Average Underlying Years to Maturity(B)	Weighted Average Years to Expiration
March 31, 2022	$ 40,000	$ 1,417	1.90%	LIBOR-BBA%	7.7	0.1
December 31, 2021	$ 40,000	$ 183	1.90%	LIBOR-BBA%	8.0	0.4

(A) Floats in accordance with LIBOR.
(B) Weighted average years to maturity of the underlying swaps from the reporting date.

The following tables present information about the Company's TBA derivatives as of the dates indicated (dollars in thousands):

As March 31, 2022

Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Fair Value	Net Carrying Value
Purchase contracts	$ 1,075,500	$ 1,069,521	$ 1,053,940	$ (15,581)
Sale contracts	(908,900)	(895,704)	(887,491)	8,213
Net TBA derivatives	$ 166,600	$ 173,817	$ 166,449	$ (7,368)

As of December 31, 2021

Purchase and sale contracts for derivative TBAs	Notional	Implied Cost Basis	Implied Fair Value	Net Carrying Value
Purchase contracts	$ 970,500	$ 988,173	$ 987,146	$ (1,026)
Sale contracts	(531,500)	(544,346)	(544,327)	19
Net TBA derivatives	$ 439,000	$ 443,827	$ 442,819	$ (1,007)

The following tables present information about the Company's U.S. treasury futures agreements as of the dates indicated (dollars in thousands):

As of March 31, 2022

Maturity	Notional Amount - Long	Notional Amount - Short	Fair Value
5 years	$ -	$ (104,300)	$ 1,720
10 years	-	(167,000)	4,200
Total	$ -	$ (271,300)	$ 5,920

As of December 31, 2021

Maturity	Notional Amount - Long	Notional Amount - Short	Fair Value
2 years	$ -	$ (85,000)	$ 63
5 years	-	(15,000)	(53)
10 years	19,400	-	(63)
Total	$ 19,400	$ (100,000)	$ (53)

The following table presents information about the Company's U.S. treasury futures options agreements as of the dates indicated (dollars in thousands):

As of March 31, 2022

Maturity	Notional Amount - Long	Notional Amount - Short	Fair Value
10 years	$ 90,000	$ (20,000)	$ 47
Total	$ 90,000	$ (20,000)	$ 47

As of December 31, 2021

Maturity	Notional Amount - Long	Notional Amount - Short	Fair Value
10 years	$ 60,000	$ (60,000)	$ 234
Total	$ 60,000	$ (60,000)	$ 234

The following table presents information about realized gain (loss) on derivatives, which is included on the consolidated statements of income (loss) for the periods indicated (dollars in thousands):

Realized Gains (Losses) on Derivatives

Derivatives	Three Months Ended March 31, 2022	2021
Interest rate swaps[(A)]	$ (1,191)	$ 57
Swaptions	-	(273)
TBAs	(15,443)	(582)
U.S. Treasury futures	5,270	(1,084)
U.S. Treasury futures options	(190)	-
Total	**$ (11,554)**	**$ (1,882)**

(A) Excludes interest rate swap periodic interest income of $915,000 and $1.3 million, for the three-month periods ended March 31, 2022 and March 31, 2021, respectively.

Offsetting Assets and Liabilities

The Company has netting arrangements in place with all of its derivative counterparties pursuant to standard documentation developed by the International Swaps and Derivatives Association and the Securities Industry and Financial Markets Association. Under GAAP, if the Company has a valid right of offset, it may offset the related asset and liability and report the net amount. The Company presents interest rate swaps, swaptions and U.S. treasury futures assets and liabilities on a gross basis in its consolidated balance sheets, but in the case of interest rate swaps, net of variation margin. The Company presents TBA assets and liabilities on a net basis in its consolidated balance sheets. The Company presents repurchase agreements in this section even though they are not derivatives because they are subject to master netting arrangements. However, repurchase agreements are presented on a gross basis. Additionally, the Company does not offset financial assets and liabilities with the associated cash collateral on the consolidated balance sheets.

The following tables present information about the Company's assets and liabilities that are subject to master netting arrangements or similar agreements and can potentially be offset on the Company's consolidated balance sheets as of the dates indicated (dollars in thousands):

Offsetting Assets and Liabilities

As of March 31, 2022

	Gross Amounts of Recognized Assets or Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets and Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash Collateral Received (Pledged) (A)	Net Amount
Assets						
Interest rate swaps	$ 19,796	$ -	$ 19,796	$ (19,796)	$ -	$ -
Interest rate swaptions	1,417	-	1,417	(1,417)	-	-
TBAs	9,082	(9,082)	-	-	-	-
U.S. treasury futures	5,919	-	5,919	(5,919)	-	-
U.S. treasury futures options	47	-	47	(47)	-	-
Total Assets	**$ 36,261**	**$ (9,082)**	**$ 27,179**	**$ (27,179)**	**$ -**	**$ -**
Liabilities						
Repurchase agreements	$ 764,885	$ -	$ 764,885	$ (737,911)	$ (26,974)	$ -
Interest rate swaps	5,914	-	5,914	(5,914)	-	-
TBAs	16,450	(9,082)	7,368	(7,368)	-	-
U.S. treasury futures	1,865	-	1,865	(1,865)	-	-
Total Liabilities	**$ 789,114**	**$ (9,082)**	**$ 780,032**	**$ (753,058)**	**$ (26,974)**	**$ -**

(A) Includes cash pledged / received as collateral. Amounts presented are limited to collateral pledged sufficient to reduce the net amount to zero for individual counterparties, as applicable.

As of December 31, 2021

	Gross Amounts of Recognized Assets or Liabilities		Gross Amounts Offset in the Consolidated Balance Sheet		Net Amounts of Assets and Liabilities Presented in the Consolidated Balance Sheet		Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments		Gross Amounts Not Offset in the Consolidated Balance Sheet: Cash Collateral Received (Pledged) (A)		Net Amount
Assets											
Interest rate swaps	$	10,101	$	-	$	10,101	$	(10,101)	$	-	$	-
Interest rate swaptions		183		-		183		(183)		-		-
TBAs		338		(338)		-		-		-		-
U.S. treasury futures options		234		-		234		430		(664)		-
Total Assets	**$**	**10,856**	**$**	**(338)**	**$**	**10,518**	**$**	**(9,854)**	**$**	**(664)**	**$**	**-**
Liabilities												
Repurchase agreements	$	865,494	$	-	$	865,494	$	(853,297)	$	(12,197)	$	-
Interest rate swaps		218		-		218		(218)		-		-
TBAs		1,345		(338)		1,007		(1,007)		-		-
U.S. treasury futures		53		-		53		(53)		-		-
Total Liabilities	**$**	**867,110**	**$**	**(338)**	**$**	**866,772**	**$**	**(854,575)**	**$**	**(12,197)**	**$**	**-**

(A) Includes cash pledged / received as collateral. Amounts presented are limited to collateral pledged sufficient to reduce the net amount to zero for individual counterparties, as applicable.

Note 9 – Fair Value

Fair Value Measurements

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices available in active markets (i.e., observable inputs) and the lowest priority to data lacking transparency (i.e., unobservable inputs). Additionally, ASC 820 requires an entity to consider all aspects of nonperformance risk, including the entity's own credit standing, when measuring the fair value of a liability.

ASC 820 establishes a three-level hierarchy to be used when measuring and disclosing fair value. An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. Following is a description of the three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the measurement date under current market conditions. Additionally, the entity must have the ability to access the active market and the quoted prices cannot be adjusted by the entity.

- Level 2 inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs that are observable or can be corroborated by observable market data by correlation or other means for substantially the full-term of the assets or liabilities.

- Level 3 unobservable inputs are supported by little or no market activity. The unobservable inputs represent the assumptions that management believes market participants would use to price the assets and liabilities, including risk. Generally, Level 3 assets and liabilities are valued using pricing models, discounted cash flow methodologies, or similar techniques that require significant judgment or estimation.

Recurring Fair Value Measurements

The following is a description of the methods used to estimate the fair values of the Company's assets and liabilities measured at fair value on a recurring basis, as well as the basis for classifying these assets and liabilities as Level 2 or 3 within the fair value hierarchy. The Company's valuations consider assumptions that it believes a market participant would consider in valuing the assets and liabilities, the most significant of which are disclosed below. The Company reassesses and periodically adjusts the underlying inputs and assumptions used in the valuations for recent historical experience, as well as for current and expected relevant market conditions.

RMBS

The Company holds a portfolio of RMBS that are classified as available for sale and are carried at fair value in the consolidated balance sheets. The Company determines the fair value of its RMBS based upon prices obtained from third-party pricing providers. The third-party pricing providers develop their pricing based on transaction prices of recent trades for similar financial instruments. If recent trades for similar financial instruments are unavailable, the third-party pricing providers use cash flow or other pricing models, which utilize observable inputs. As a result, the Company classified 100% of its RMBS as Level 2 fair value assets at March 31, 2022 and December 31, 2021.

MSRs

The Company, through its subsidiary Aurora, holds a portfolio of MSRs that are reported at fair value in the consolidated balance sheets. The Company uses a discounted cash flow model to estimate the fair value of these assets. Although MSR transactions are observable in the marketplace, the valuation includes unobservable market data inputs (prepayment speeds, delinquency levels, costs to service and discount rates). As a result, the Company classified 100% of its MSRs as Level 3 fair value assets at March 31, 2022 and December 31, 2021.

Derivative Instruments

The Company enters into a variety of derivative instruments as part of its economic hedging strategies. The Company executes interest rate swaps, swaptions, TBAs and U.S. treasury futures. The Company utilizes third-party pricing providers to value its derivative instruments. The third-party pricing providers develop their pricing based on transaction prices of recent trades for similar financial instruments. If recent trades for similar financial instruments are unavailable, the third-party pricing providers use cash flow or other pricing models, which utilize observable inputs. As a result, the Company classified 100% of its derivative instruments as Level 2 fair value assets and liabilities at March 31, 2022 and December 31, 2021.

Both the Company and the derivative counterparties under their netting arrangements are required to post cash collateral based upon the net underlying market value of the Company's open positions with the counterparties. Posting of cash collateral typically occurs daily, subject to certain dollar thresholds. Due to the existence of netting arrangements, as well as frequent cash collateral posting at low posting thresholds, credit exposure to the Company and/or counterparties is considered materially mitigated. The Company's interest rate swaps and U.S. treasury futures are required to be cleared on an exchange, which further mitigates, but does not eliminate, credit risk. Based on the Company's assessment, there is no requirement for any additional adjustment to derivative valuations specifically for credit.

The following tables present the Company's assets and liabilities measured at fair value on a recurring basis as of the dates indicated (dollars in thousands).

Recurring Fair Value Measurements

As of March 31, 2022

	Level 1	Level 2	Level 3	Carrying Value
Assets				
RMBS				
Fannie Mae	$ -	$ 454,991	$ -	$ 454,991
Freddie Mac	-	319,122	-	319,122
RMBS total	-	774,113	-	774,113
Derivative assets				
Interest rate swaps	-	19,796	-	19,796
Interest rate swaptions	-	1,417	-	1,417
U.S. treasury futures	-	5,919	-	5,919
U.S. treasury futures options	-	47	-	47
Derivative assets total	-	27,179	-	27,179
Servicing related assets	-	-	246,103	246,103
Total Assets	**$ -**	**$ 801,292**	**$ 246,103**	**$ 1,047,395**
Liabilities				
Derivative liabilities				
Interest rate swaps	-	5,914	-	5,914
TBAs, net	-	7,368	-	7,368
U.S. treasury futures	-	1,865	-	1,865
Derivative liabilities total	-	15,147	-	15,147
Total Liabilities	**$ -**	**$ 15,147**	**$ -**	**$ 15,147**

As of December 31, 2021

	Level 1		Level 2		Level 3		Carrying Value
Assets							
RMBS							
Fannie Mae	$	-	$	559,777	$	-	$ 559,777
Freddie Mac		-		393,719		-	393,719
RMBS total		-		953,496		-	953,496
Derivative assets							
Interest rate swaps		-		10,101		-	10,101
Interest rate swaptions		-		183		-	183
U.S. treasury futures options		-		234		-	234
Derivative assets total		-		10,518		-	10,518
Servicing related assets		-		-		218,727	218,727
Total Assets	**$**	**-**	**$**	**964,014**	**$**	**218,727**	**$ 1,182,741**
Liabilities							
Derivative liabilities							
Interest rate swaps		-		218		-	218
TBAs, net		-		1,007		-	1,007
U.S. treasury futures		-		53		-	53
Derivative liabilities total		-		1,278		-	1,278
Total Liabilities	**$**	**-**	**$**	**1,278**	**$**	**-**	**$ 1,278**

The Company may be required to measure certain assets or liabilities at fair value from time to time. These periodic fair value measures typically result from application of certain impairment measures under GAAP. These items would constitute nonrecurring fair value measures under ASC 820. As of March 31, 2022 and December 31, 2021, the Company did not have any assets or liabilities measured at fair value on a nonrecurring basis in the periods presented.

Level 3 Assets and Liabilities

The valuation of Level 3 assets and liabilities requires significant judgment by management. The Company estimates the fair value of its Servicing Related Assets based on internal pricing models rather than quotations and compares the results of these internal models against the results from models generated by third-party pricing providers. The third-party pricing providers and management rely on inputs such as market price quotations from market makers (either market or indicative levels), original transaction price, recent transactions in the same or similar instruments, and changes in financial ratios or cash flows to determine fair value. Level 3 instruments may also be discounted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by third-party pricing providers and management in the absence of market information. Assumptions used by third-party pricing providers and management due to lack of observable inputs may significantly impact the resulting fair value and, therefore, the Company’s consolidated financial statements. The Company’s management reviews all valuations that are based on pricing information received from third-party pricing providers. As part of this review, prices are compared against other pricing or input data points in the marketplace, along with internal valuation expertise, to ensure the pricing is reasonable.

Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant change to estimated fair values. The determination of estimated cash flows used in pricing models is inherently subjective and imprecise. It should be noted that minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values, and that the fair values reflected below are indicative of the interest rate and credit spread environments as of March 31, 2022 and December 31, 2021 and do not take into consideration the effects of subsequent changes in market or other factors.

The tables below present the reconciliation for the Company's Level 3 assets (Servicing Related Assets) measured at fair value on a recurring basis as of the dates indicated (dollars in thousands):

Level 3 Fair Value Measurements

As of March 31, 2022

	Level 3 MSRs
Balance at December 31, 2021	**$ 218,727**
Purchases and sales:	
Purchases	5,821
Other changes (A)	(176)
Purchases and sales:	$ 5,645
Changes in Fair Value due to:	
Changes in valuation inputs or assumptions used in valuation model	30,214
Other changes in fair value (B)	(8,483)
Unrealized gain (loss) included in Net Income	$ 21,731
Balance at March 31, 2022	**$ 246,103**

As of December 31, 2021

	Level 3 MSRs
Balance at December 31, 2020	**$ 174,414**
Purchases and sales:	
Purchases	56,638
Other changes (A)	(1,263)
Purchases and sales:	$ 55,375
Changes in Fair Value due to:	
Changes in valuation inputs or assumptions used in valuation model	61,881
Other changes in fair value (B)	(72,943)
Unrealized gain (loss) included in Net Income	$ (11,062)
Balance at December 31, 2021	**$ 218,727**

(A) Represents purchase price adjustments, principally contractual prepayment protection, and changes due to the Company's repurchase of the underlying collateral.
(B) Represents changes due to realization of expected cash flows and estimated MSR runoff.

The tables below present information about the significant unobservable inputs used in the fair value measurement of the Company's Servicing Related Assets classified as Level 3 fair value assets as of the dates indicated (dollars in thousands):

Fair Value Measurements

As of March 31, 2022

	Fair Value	Valuation Technique	Unobservable Input (A)	Range	Weighted Average (B)
MSRs	$ 246,103	Discounted cash flow	Constant prepayment speed	5.0% - 18.1%	8.9%
			Uncollected payments	0.4% - 2.5%	0.7%
			Discount rate		8.1%
			Annual cost to service, per loan		$ 78
TOTAL	**$ 246,103**				

As of December 31, 2021

	Fair Value	Valuation Technique	Unobservable Input (A)	Range	Weighted Average (B)
MSRs	$ 218,727	Discounted cash flow	Constant prepayment speed	5.0% -19.1%	11.5%
			Uncollected payments	0.4% - 2.5%	0.6%
			Discount rate		7.2%
			Annual cost to service, per loan		$ 76
TOTAL	**$ 218,727**				

(A) Significant increases (decreases) in any of the inputs in isolation may result in significantly lower (higher) fair value measurements. A change in the assumption used for discount rates may be accompanied by a directionally similar change in the assumption used for the probability of uncollected payments and a directionally opposite change in the assumption used for prepayment rates.

(B) Weighted averages for unobservable inputs are calculated based on the unpaid principal balance of the portfolios.

Fair Value of Financial Assets and Liabilities

In accordance with ASC 820, the Company is required to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the consolidated balance sheets, for which fair value can be estimated. The following describes the Company's methods for estimating the fair value for financial instruments.

- RMBS available for sale securities, Servicing Related Assets, derivative assets and derivative liabilities are recurring fair value measurements; carrying value equals fair value. See discussion of valuation methods and assumptions within the "Fair Value Measurements" section of this footnote.

- Cash and cash equivalents and restricted cash have a carrying value which approximates fair value because of the short maturities of these instruments.

- The carrying value of servicing receivables, repurchase agreements and corporate debt that mature in less than one year generally approximates fair value due to the short maturities. The Company does not hold any repurchase agreements that are considered long-term.

Corporate debt that matures in more than one year consists solely of financing secured by Aurora's Servicing Related Assets. All of the Company's debt is revolving and bears interest at adjustable rates. The Company considers that the amount of the corporate debt generally approximates fair value.

Note 10 — Commitments and Contingencies

The commitments and contingencies of the Company as of March 31, 2022 and December 31, 2021 are described below.

Management Agreement

The Company pays the Manager a quarterly management fee, calculated and payable quarterly in arrears, equal to the product of one quarter of the 1.5% management fee annual rate and the stockholders' equity, adjusted as set forth in the Management Agreement as of the end of such fiscal quarter. The Manager relies on the Services Provider to provide the Manager with the necessary resources and personnel to conduct the Company's operations. For further discussion regarding the management fee, see Note 7.

Legal and Regulatory

From time to time, the Company may be subject to potential liability under laws and government regulations and various claims and legal actions arising in the ordinary course of business. Liabilities are established for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts established for those claims. The Company has established immaterial reserves for these possible matters. Based on information currently available, management is not aware of any legal or regulatory claims that would have a material effect on the Company's consolidated financial statements.

Commitments to Purchase/Sell RMBS

As of March 31, 2022 and December 31, 2021, the Company held forward TBA purchase and sale commitments, respectively, with counterparties, which are forward Agency RMBS trades, whereby the Company committed to purchasing or selling a pool of securities at a particular interest rate. As of the date of the trade, the mortgage-backed securities underlying the pool that will be delivered to fulfill a TBA trade are not yet designated. The securities are typically "to be announced" 48 hours prior to the established trade settlement date.

As of March 31, 2022 and December 31, 2021, the Company was not obligated to purchase or sell any RMBS securities.

Acknowledgment Agreements

In connection with the Fannie Mae MSR Financing Facility (as defined below in Note 12), entered into by Aurora and QRS III, those parties also entered into an acknowledgment agreement with Fannie Mae. Pursuant to that agreement, Fannie Mae consented to the pledge by Aurora and QRS III of their respective interests in MSRs for loans owned or securitized by Fannie Mae, and acknowledged the security interest of the lender in those MSRs. See Note 12—Notes Payable for a description of the Fannie Mae MSR Financing Facility and the financing facility it replaced.

In connection with the Freddie Mac MSR Revolver (as defined below in Note 12), Aurora, QRS V, and the lender, with a limited joinder by the Company, entered into an acknowledgement agreement with Freddie Mac pursuant to which Freddie Mac consented to the pledge of the Freddie Mac MSRs securing the Freddie Mac MSR Revolver. Aurora and the lender also entered into a consent agreement with Freddie Mac pursuant to which Freddie Mac consented to the pledge of Aurora's rights to reimbursement for advances on the underlying loans. See Note 12—Notes Payable for a description of the Freddie Mac MSR Revolver.

Note 11 – Repurchase Agreements

The Company had outstanding approximately $764.9 million and $865.5 million of borrowings under its repurchase agreements as of March 31, 2022 and December 31, 2021, respectively. The Company's obligations under these agreements had weighted average remaining maturities of 33 days and 38 days as of March 31, 2022 and December 31, 2021. RMBS and cash have been pledged as collateral under these repurchase agreements (see Note 4).

The repurchase agreements had the following remaining maturities and weighted average rates as of the dates indicated (dollars in thousands):

Repurchase Agreements Characteristics

As of March 31, 2022

	Repurchase Agreements	Weighted Average Rate
Less than one month	$ 396,958	0.33%
One to three months	367,927	0.46%
Total/Weighted Average	**$ 764,885**	**0.39%**

As of December 31, 2021

	Repurchase Agreements	Weighted Average Rate
Less than one month	$ 291,007	0.13%
One to three months	574,487	0.14%
Total/Weighted Average	**$ 865,494**	**0.14%**

There were no overnight or demand securities as of March 31, 2022 or December 31, 2021.

Note 12 – Notes Payable

As of March 31, 2022, the Company had two separate MSR financing facilities: (i) the Freddie Mac MSR Revolver, which is revolving credit facility for up to $100.0 million that is secured by all Freddie Mac MSRs owned by Aurora; and (ii) the Fannie Mae MSR Revolving Facility, which is a revolving credit facility for up to $150.0 million, that is secured by all Fannie Mae MSRs owned by Aurora. Both financing facilities are available for MSRs as well as certain servicing related advances associated with MSRs.

Freddie Mac MSR Revolver. In July 2018, the Company, Aurora and QRS V (collectively with Aurora and the Company, the "Borrowers") entered into a $25.0 million revolving credit facility (the "Freddie Mac MSR Revolver") pursuant to which Aurora pledged all of its existing and future MSRs on loans owned or securitized by Freddie Mac. The term of the Freddie Mac MSR Revolver is 364 days with the Borrowers' option for two renewals for similar terms followed by a one-year term out feature with a 24-month amortization schedule. The Freddie Mac MSR Revolver was upsized to $45.0 million in September 2018. The Company also has the ability to request up to an additional $5.0 million of borrowings. On April 2, 2019, Aurora and QRS V entered into an amendment that increased the maximum amount of the Freddie Mac MSR Revolver to $100.0 million. In July 2021, the Borrowers entered into an amendment to the Freddie Mac MSR Revolver that extended the revolving period for an additional 364 days with the option for two more renewals of 364 days each. At the end of the revolving period, the outstanding amount will be converted to a one-year term loan. Amounts borrowed bear interest at an adjustable rate equal to a spread above one-month LIBOR. At March 31, 2022 and December 31, 2021, approximately $65.0 million and $63.0 million, respectively, was outstanding under the Freddie Mac MSR Revolver.

Fannie Mae MSR Revolving Facility. In October 2021, Aurora and QRS III entered into a loan and security agreement (the "Fannie Mae MSR Revolving Facility"), to replace the Prior Fannie Mae MSR Financing Facility. Under the Fannie Mae MSR Revolving Facility, Aurora and QRS III pledged their respective rights in all existing and future MSRs for loans owned or securitized by Fannie Mae to secure borrowings outstanding from time to time. The maximum credit amount outstanding at any one time under the Fannie Mae MSR Revolving Facility is $150.0 million. The revolving period is 24 months which may be extended by agreement with the lender. During the revolving period, borrowings bear interest at a rate equal to a spread over one-month LIBOR subject to a floor. At the end of the revolving period, the outstanding amount will be converted to a three-year term loan that will bear interest at a rate calculated at a spread over the rate for one-year interest rate swaps. The Company has guaranteed repayment of all indebtedness under the Fannie Mae MSR Revolving Facility. At March 31, 2022 and December 31, 2021, approximately $94.8 million and $83.0 million, respectively, was outstanding under the Fannie Mae MSR Revolving Facility.

As noted above, the Fannie Mae MSR Revolving Facility replaced the Prior Fannie Mae MSR Financing Facility. In September 2019, Aurora and QRS III entered into a loan and security agreement (the "Prior Fannie Mae MSR Financing Facility"). Under the Prior Fannie Mae MSR Facility, Aurora and QRS III pledged their respective rights in all existing and future MSRs for loans owned or securitized by Fannie Mae to secure borrowings outstanding from time to time. The maximum credit amount outstanding at any one time under the facility was $200 million, of which $100 million was committed. Borrowings bore interest at a rate equal to a spread over one-month LIBOR subject to a floor. This facility was terminated and replaced in October 2021 with the Fannie Mae MSR Revolving Facility (as defined and discussed above). As a result, there was no outstanding balance under the Prior Fannie Mae MSR Financing Facility at March 31, 2022 and December 31, 2021.

The outstanding borrowings had the following remaining maturities as of the dates indicated (dollars in thousands):

Notes Payable Repayment Characteristics

As of March 31, 2022

	2022	**2023**	**2024**	**2025**	**2026**	**Total**
Freddie Mac MSR Revolver						
Borrowings under Freddie Mac MSR Revolver	$ 65,000	$ -	$ -	$ -	$ -	$ 65,000
Fannie Mae MSR Revolving Facility						
Borrowings under Fannie Mae MSR Revolving Facility	-	615	7,581	7,957	78,647	94,800
Total	**$ 65,000**	**$ 615**	**$ 7,581**	**$ 7,957**	**$ 78,647**	**$ 159,800**

As of December 31, 2021

	2022	2023	2024	2025	2026	Total
Freddie Mac MSR Revolver						
Borrowings under Freddie Mac MSR Revolver	$ 63,000	$ -	$ -	$ -	$ -	$ 63,000
Fannie Mae MSR Revolving Facility						
Borrowings under Fannie Mae MSR Revolving Facility	-	571	6,994	7,261	68,174	83,000
Total	**$ 63,000**	**$ 571**	**$ 6,994**	**$ 7,261**	**$ 68,174**	**$ 146,000**

Note 13 – Receivables and Other Assets

The assets comprising "Receivables and other assets" as of March 31, 2022 and December 31, 2021 are summarized in the following table (dollars in thousands):

Receivables and Other Assets

	March 31, 2022	December 31, 2021
Servicing advances	$ 13,192	$ 17,609
Interest receivable	2,242	2,393
Deferred tax asset	16,740	20,614
Other receivables	6,297	2,728
Total other assets	**$ 38,471**	**$ 43,344**

The Company only records as an asset those servicing advances that the Company deems recoverable.

Note 14 – Accrued Expenses and Other Liabilities

The liabilities comprising "Accrued expenses and other liabilities" as of March 31, 2022 and December 31, 2021 are summarized in the following table (dollars in thousands):

Accrued Expenses and Other Liabilities

	March 31, 2022	December 31, 2021
Accrued interest payable	$ 1,041	$ 996
Accrued expenses	1,387	2,065
Total accrued expenses and other liabilities	**$ 2,428**	**$ 3,061**

Note 15 – Income Taxes

The Company elected to be taxed as a REIT under Code Sections 856 through 860 beginning with its short taxable year ended December 31, 2013. As a REIT, the Company generally will not be subject to U.S. federal income tax to the extent that it distributes its taxable income to its stockholders. To maintain qualification as a REIT, the Company must distribute at least 90% of its annual REIT taxable income to its stockholders and meet certain other requirements such as assets it may hold, income it may generate and its stockholder composition. It is the Company's policy to distribute all or substantially all of its REIT taxable income. To the extent there is any undistributed REIT taxable income at the end of a year, the Company can elect to distribute such shortfall within the next year as permitted by the Code.

Effective January 1, 2014, CHMI Solutions elected to be taxed as a corporation for U.S. federal income tax purposes; prior to this date, CHMI Solutions was a disregarded entity for U.S. federal income tax purposes. CHMI Solutions has jointly elected with the Company, the ultimate beneficial owner of the Sub-REIT to be treated as a TRS of the Company, and all activities conducted through CHMI Solutions and its wholly-owned subsidiary, Aurora, are subject to federal and state income taxes. CHMI Solutions files a consolidated tax return with Aurora and is fully taxed as a U.S. C-Corporation.

The state and local tax jurisdictions for which the Company is subject to tax filing obligations recognize the Company's status as a REIT, and therefore, the Company generally does not pay income tax in such jurisdictions. CHMI Solutions and Aurora are subject to U.S. federal, state and local income taxes.

The components of the Company's income tax expense (benefit) are as follows for the periods indicated below (dollars in thousands):

	Three Months Ended March 31,	
	2022	**2021**
Current federal income tax benefit	$ -	$ (128)
Deferred federal income tax expense	3,295	3,240
Deferred state income tax expense	580	351
Provision for Corporate Business Taxes	**$ 3,875**	**$ 3,463**

The following is a reconciliation of the statutory federal rate to the effective rate, for the periods indicated below (dollars in thousands):

	Three Months Ended March 31,			
	2022		**2021**	
Computed income tax expense at federal rate	$ 6,847	21.0%	$ 5,185	21.0%
State tax expense, net of federal tax, if applicable	459	1.4%	351	1.4%
REIT income not subject to tax (benefit)	(3,431)	(10.5)%	(2,073)	(8.4)%
Provision for Corporate Business Taxes/Effective Tax Rate[(A)]	**$ 3,875**	**11.9%**	**$ 3,463**	**14.0%**

(A) The provision for income taxes is recorded at the TRS level.

The Company’s consolidated balance sheets contain the following income taxes recoverable and deferred tax assets, which are recorded at the TRS level (dollars in thousands):

	March 31, 2022	December 31, 2021
Income taxes recoverable		
Federal income taxes recoverable	$ 128	$ 128
Income taxes recoverable	**$ 128**	**$ 128**

	March 31, 2022	December 31, 2021
Deferred tax assets		
Deferred tax - mortgage servicing rights	$ 5,605	$ 10,539
Deferred tax - net operating loss	11,135	10,075
Total net deferred tax assets	**$ 16,740**	**$ 20,614**

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. The Company’s net operating losses (“NOLs”) of $46.7 million were created subsequent to 2017 and can be carried forward indefinitely pursuant to the Tax Cuts and Jobs Act passed on December 22, 2017 (“2017 Tax Act”). As of March 31, 2022, the Company believes it is more likely than not that it will fully realize its deferred tax assets. Deferred tax assets are included in “Receivables and other assets” in the consolidated balance sheets.

Based on the Company’s evaluation, the Company has concluded that there are no significant liabilities for unrecognized tax benefits required to be reported in the Company’s consolidated financial statements. Additionally, there were no amounts accrued for penalties or interest as of or during the periods presented in these consolidated financial statements.

The Company’s 2020, 2019 and 2018 federal, state and local income tax returns remain open for examination by the relevant authorities.

Distributions to stockholders generally will be primarily taxable as ordinary income, although a portion of such distributions may be designated as qualified dividend income or may constitute a return of capital. The Company furnishes annually to each stockholder a statement setting forth distributions paid during the preceding year and their U.S. federal income tax treatment.

Note 16 – Subsequent Events

Events subsequent to March 31, 2022 were evaluated and no additional events were identified requiring further disclosure in the consolidated financial statements.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the accompanying notes included in "Part I, Item 1. Consolidated Financial Statements" of this Quarterly Report on Form 10-Q.

This section discusses our results of operations for the current quarter ended March 31, 2022 compared to the immediately preceding prior quarter ended December 31, 2021 as well as the corresponding quarter of the prior year ended March 31, 2021. In this report, we are changing the basis of comparison from the corresponding quarter of the prior year to the immediately preceding prior quarter, in order to provide readers greater insight into our quarterly performance. For our future Quarterly Reports on Form 10-Q, we will present a discussion of our results of operations for the current quarter compared to the immediately preceding prior quarter only.

General

We are a public residential real estate finance company focused on acquiring, investing in and managing residential mortgage assets in the United States. We were incorporated in Maryland on October 31, 2012, and we commenced operations on or about October 9, 2013 following the completion of our initial public offering and a concurrent private placement. Our common stock, our 8.20% Series A Cumulative Redeemable Preferred Stock (our "Series A Preferred Stock") and our 8.250% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (our "Series B Preferred Stock") are listed and traded on the New York Stock Exchange under the symbols "CHMI," "CHMI-PRA" and "CHMI-PRB," respectively. We are externally managed by our Manager, Cherry Hill Mortgage Management, LLC, an SEC-registered investment adviser.

Our principal objective is to generate attractive current yields and risk-adjusted total returns for our stockholders over the long term, primarily through dividend distributions and secondarily through capital appreciation. We attempt to attain this objective by selectively constructing and actively managing a portfolio of Servicing Related Assets (as defined below) and residential mortgage-backed securities ("RMBS") and, subject to market conditions, other cash flowing residential mortgage assets.

We are subject to the risks involved with real estate and real estate-related debt instruments. These include, among others, the risks normally associated with changes in the general economic climate, changes in the mortgage market, changes in tax laws, interest rate levels, and the availability of financing.

We elected to be taxed as a REIT for U.S. federal income tax purposes commencing with our short taxable year ended December 31, 2013. We operate so as to continue to qualify to be taxed as a REIT. Our asset acquisition strategy focuses on acquiring a diversified portfolio of residential mortgage assets that balances the risk and reward opportunities our Manager observes in the marketplace. Aurora has or is in the process of obtaining the licenses necessary to invest in mortgage servicing rights ("MSRs") on a nationwide basis and is an approved seller/servicer for Fannie Mae and Freddie Mac.

In addition to Servicing Related Assets, we invest in RMBS, primarily those backed by 30-, 20- and 15-year fixed rate mortgages that offer what we believe to be favorable prepayment and duration characteristics. Our RMBS consist primarily of Agency RMBS on which the payments of principal and interest are guaranteed by an Agency. We have also invested in collateralized mortgage obligations guaranteed by an Agency ("Agency CMOs") consisting of interest only securities ("IOs") as well as non-Agency RMBS. We finance our RMBS with an amount of leverage, that varies from time to time depending on the particular characteristics of our portfolio, the availability of financing and market conditions. We do not have a targeted leverage ratio for our RMBS. Our borrowings for RMBS consist of short-term borrowings under master repurchase agreements.

Subject to maintaining our qualification as a REIT, we utilize derivative financial instruments (or hedging instruments) to hedge our exposure to potential interest rate mismatches between the interest we earn on our assets and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate hedges, our objectives include, where desirable, locking in, on a long-term basis, a spread between the yield on our assets and the cost of our financing in an effort to improve returns to our stockholders.

We also seek to operate our business in a manner that does not require us to register as an investment company under the Investment Company Act.

Effective January 1, 2020, the Operating Partnership contributed substantially all of its assets to the Sub-REIT in exchange for all of the common stock of the Sub-REIT. As a result of this contribution, the Sub-REIT is a wholly-owned subsidiary of the Operating Partnership and operations formerly conducted by the Operating Partnership through its subsidiaries are now conducted by the Sub-REIT through those same subsidiaries. The Sub-REIT has elected to be taxed as a REIT under the Code commencing with its taxable year ended December 31, 2020.

From time to time, we may issue and sell shares of our common stock or preferred stock, including additional shares of our Class A Preferred Stock or Class B Preferred Stock. See “Item 1. Consolidated Financial Statements—Note 6. Equity and Earnings per Common Share—Common and Preferred Stock.”

The Company has an at-the-market offering program for its common stock (the “Common Stock ATM Program” and, together with the Preferred Series A ATM Program, as defined below, the “ATM Programs”) pursuant to which it may offer through one or more sales agents and sell from time to time up to $50.0 million of its common stock at prices prevailing at the time, subject to volume and other regulatory limitations. As of March 31, 2022, approximately $16.0 million was remaining under the Common Stock ATM Program. During the three-month period ended March 31, 2022, the Company issued and sold 505,000 shares of common stock under the Common Stock ATM Program. The shares were sold at a weighted average price of $8.19 per share for gross proceeds of approximately $4.1 million before fees of approximately $83,000. During the year ended December 31, 2021, the Company issued and sold 1,148,398 shares of common stock under the Common Stock ATM Program. The shares were sold at a weighted average price of $8.88 per share for gross proceeds of approximately $10.2 million before fees of approximately $200,000.

The Company also has an at-the-market offering program for its Series A Preferred Stock (the “Preferred Series A ATM Program”) pursuant to which it may offer through one or more sales agents and sell from time to time up to $35.0 million of its Series A Preferred Stock at prices prevailing at the time, subject to volume and other regulatory limitations. During the three-month period ended March 31, 2022 and the year ended December 31, 2021, the Company did not issue and sell any shares of Series A Preferred Stock pursuant to the Preferred Series A ATM Program.

In September 2019, the Company initiated a share repurchase program that allows for the repurchase of up to an aggregate of $10.0 million of its common stock. Shares may be repurchased from time to time through privately negotiated transactions or open market transactions, pursuant to a trading plan in accordance with Rules 10b5-1 and 10b-18 under the Exchange Act or by any combination of such methods. The manner, price, number and timing of share repurchases are subject to a variety of factors, including market conditions and applicable SEC rules. The share repurchase program does not require the purchase of any minimum number of shares, and, subject to SEC rules, purchases may be commenced or suspended at any time without prior notice. During the three-month period ended March 31, 2022 and the year ended December 31, 2021, the Company did not repurchase any common stock pursuant to the repurchase program.

Effects of COVID-19 on the Company

The COVID-19 pandemic continues to create substantial uncertainty for government policy makers and the Federal Reserve Board with consequent effects on the economy in the United States. While the economy has largely reopened, the increased presence of highly contagious variants, of the virus has exacerbated supply chain issues that arose during the shutdown of various economies. Certain forbearance programs and prohibitions on foreclosures have been extended while others have expired adding to the concern of the consequences once all such programs end. As of March 31, 2022, 1.3% of borrowers on loans underlying the MSRs owned by Aurora are reflected as being in an active forbearance program, with 10.6% of those borrowers continuing to make their regular scheduled monthly payment.

On March 16, 2022, the Federal Reserve raised the federal funds rate to a range of between 0.25% and 0.5% and signaled that a series of rate increases is likely to follow over the course of the year. In March, the Federal Reserve also ended its monthly asset purchases, including its purchases of Agency RMBS. With these actions, the Federal Reserve reversed its policy stance from the highly accommodative polices it adopted in 2020 in response to the macro-economic effects of the COVID-19 pandemic. In response to the COVID-19 pandemic, the Federal Reserve adopted a policy of quantitative easing whereby it purchased each month significant amounts of U.S. Treasury securities and Agency RMBS. The Federal Reserve also reduced the federal funds rate target to 0 to 0.25 percent, established a series of emergency lending programs, reduced the discount rate and encouraged depository institutions to borrow from the discount window, and took regulatory actions to ease capital and liquidity requirements at depository institutions. The purpose of these actions was to stabilize financial markets and reduce both interest rates generally and the spread between long-term and short-term interest rates. The Federal Reserve's balance sheet increased by more than $4.5 trillion to nearly $9 trillion, including $2.5 trillion in Agency RMBS. Due to the reduction in interest rates, prepayment speeds and mortgage refinancing activity increased. The Federal Reserve took similar actions during the 2008 financial crisis.

The ending of the Federal Reserve's highly accommodative polices and initiation of a series of increases in the federal funds rate will likely result in higher interest rates across asset classes, including for Agency RMBS. These actions also may decrease spreads on interest rates, reducing our net interest income. They may also negatively impact our results as we have certain assets and liabilities that are sensitive to changes in interest rates. In addition, lower net interest income resulting from higher rates is expected to be partially offset by lower prepayments which extends the length of cash flows from the MSRs and slows the premium amortization on the RMBS portfolio. Any benefit we expect to receive from lower prepayments on the mortgages underlying our MSRS and RMBS could be offset by increased volatility in the market and increased hedging costs attributable to such volatility.

We cannot predict or control the impact future actions by the Federal Reserve will have on our business. Accordingly, future actions by the Federal Reserve could have a material and adverse effect on our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

Factors Impacting our Operating Results

Our income is generated primarily by the net spread between the income we earn on our assets and the cost of our financing and hedging activities as well as the amortization of any purchase premiums or the accretion of discounts. Our net income includes the actual interest payments we receive on our RMBS, the net servicing fees we receive on our MSRs and the accretion/amortization of any purchase discounts/premiums. Changes in various factors such as market interest rates, prepayment speeds, estimated future cash flows, servicing costs and credit quality could affect the amount of premium to be amortized or discount to be accreted into interest income for a given period. Prepayment speeds vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. Our operating results may also be affected by credit losses in excess of initial anticipations or unanticipated credit events experienced by borrowers whose mortgage loans underlie the MSRs held by Aurora or the non-Agency RMBS held in our portfolio.

Set forth below is the positive net spread between the yield on RMBS and our costs of funding those assets at the end of each of the quarters indicated below:

Average Net Yield Spread at Period End

Quarter Ended	Average Asset Yield	Average Cost of Funds	Average Net Interest Rate Spread
March 31, 2022	2.98%	0.49%	2.49%
December 31, 2021	2.93%	0.62%	2.31%
September 30, 2021	2.94%	0.63%	2.31%
June 30, 2021	2.94%	0.62%	2.32%

The Average Cost of Funds also includes the benefits of related swaps.

Changes in the Market Value of Our Assets

We hold our Servicing Related Assets as long-term investments. Our MSRs are carried at their fair value with changes in their fair value recorded in other income or loss in our consolidated statements of income (loss). Those values may be affected by events or headlines that are outside of our control, such as the COVID-19 pandemic and other events impacting the U.S. or global economy generally or the U.S. residential market specifically, and events or headlines impacting the parties with which we do business. See "Part I, Item 1A. Risk Factors – Risks Related to Our Business" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Our RMBS are carried at their fair value, as available-for-sale in accordance with ASC 320, *Investments – Debt and Equity Securities.* We evaluate the cost basis of our RMBS on a quarterly basis under ASC 326-30, *Financial Instruments-Credit Losses: Available-for-Sale Debt Securities.* When the fair value of a security is less than its amortized cost basis as of the balance sheet date, the security's cost basis is considered impaired. If we determine that we intend to sell the security or it is more likely than not that we will be required to sell before recovery, we recognize the difference between the fair value and amortized cost as a loss in the consolidated statements of income (loss). If we determine we do not intend to sell the security or it is not more likely than not we will be required to sell the security before recovery, we must evaluate the decline in the fair value of the impaired security and determine whether such decline resulted from a credit loss or non-credit related factors. In our assessment of whether a credit loss exists, we perform a qualitative assessment around whether a credit loss exists and if necessary, we compare the present value of estimated future cash flows of the impaired security with the amortized cost basis of such security. The estimated future cash flows reflect those that a "market participant" would use and typically include assumptions related to fluctuations in interest rates, prepayment speeds, default rates, collateral performance, and the timing and amount of projected credit losses, as well as incorporating observations of current market developments and events. Cash flows are discounted at an interest rate equal to the current yield used to accrete interest income. If the present value of estimated future cash flows is less than the amortized cost basis of the security, an expected credit loss exists and is included in provision (reversal) for credit losses on securities in the consolidated statements of income (loss). If it is determined as of the financial reporting date that all or a portion of a security's cost basis is not collectible, then we will recognize a realized loss to the extent of the adjustment to the security's cost basis. This adjustment to the amortized cost basis of the security is reflected in realized gain (loss) on RMBS, available-for-sale, net in the consolidated statements of income (loss).

Impact of Changes in Market Interest Rates on Our Assets

The value of our assets may be affected by prepayment speeds on mortgage loans. Prepayment speed is the measurement of how quickly borrowers pay down the unpaid principal balance ("UPB") of their loans or how quickly loans are otherwise liquidated or charged off. Generally, in a declining interest rate environment, prepayment speeds tend to increase. Conversely, in an increasing interest rate environment, prepayment speeds tend to decrease. When we acquire Servicing Related Assets or RMBS, we anticipate that the underlying mortgage loans will prepay at a projected rate generating an expected cash flow (in the case of Servicing Related Assets) and yield. If we purchase assets at a premium to par value and borrowers prepay their mortgage loans faster than expected, the corresponding prepayments on our assets may reduce the expected yield on such assets because we will have to amortize the related premium on an accelerated basis. In addition, we will have to reinvest the greater amounts of prepayments in that lower rate environment, thereby affecting future yields on our assets. If we purchase assets at a discount to par value, and borrowers prepay their mortgage loans slower than expected, the decrease in corresponding prepayments may reduce the expected yield on assets because we will not be able to accrete the related discount as quickly as originally anticipated.

If prepayment speeds are significantly greater than expected, the fair value of the Servicing Related Assets could be less than their fair value as previously reported on our consolidated balance sheets. Such a reduction in the fair value of the Servicing Related Assets would have a negative impact on our book value. Furthermore, a significant increase in prepayment speeds could materially reduce the ultimate cash flows we receive from the Servicing Related Assets, and we could receive substantially less than what we paid for such assets. Our balance sheet, results of operations and cash flows are susceptible to significant volatility due to changes in the fair value of, or cash flows from, the Servicing Related Assets as interest rates change.

A slower than anticipated rate of prepayment due to an increase in market interest rates also will cause the life of the related RMBS to extend beyond that which was projected. As a result, we would have an asset with a lower yield than current investments for a longer period of time. In addition, if we have hedged our interest rate risk, extension may cause the security to be outstanding longer than the related hedge, thereby reducing the protection intended to be provided by the hedge.

Voluntary and involuntary prepayment rates may be affected by a number of factors including, but not limited to, the availability of mortgage credit, the relative economic vitality of, or natural disasters affecting, the area in which the related properties are located, the servicing of the mortgage loans, possible changes in tax laws, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors, none of which can be predicted with any certainty.

We attempt to reduce the exposure of our MSRs to voluntary prepayments through the structuring of recapture agreements with Aurora's subservicers. Under these agreements, the subservicer attempts to refinance specified mortgage loans. The subservicer sells the new mortgage loan to the applicable Agency, transfers the related MSR to Aurora and then subservices the new mortgage loan on behalf of Aurora. See "Part I, Item 1. Notes to Consolidated Financial Statements—Note 7. Transactions with Related Parties" for information regarding Aurora's recapture agreements.

With respect to our business operations, increases in interest rates, in general, may over time cause:

- the interest expense associated with our borrowings to increase;
- the value of our assets to fluctuate;
- the coupons on any adjustable-rate and hybrid RMBS we may own to reset, although on a delayed basis, to higher interest rates;
- prepayments on our RMBS to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts; and
- an increase in the value of any interest rate swap agreements we may enter into as part of our hedging strategy.

Conversely, decreases in interest rates, in general, may over time cause:

- prepayments on our RMBS to increase, thereby accelerating the amortization of our purchase premiums and the accretion of our purchase discounts;
- the interest expense associated with our borrowings to decrease;
- the value of our assets to fluctuate;
- a decrease in the value of any interest rate swap agreements we may enter into as part of our hedging strategy; and
- coupons on any adjustable-rate and hybrid RMBS assets we may own to reset, although on a delayed basis, to lower interest rates.

Effects of Spreads on our Assets

The spread between the yield on our assets and our funding costs affects the performance of our business. Wider spreads imply the potential for greater income on new asset purchases but may have a negative impact on our stated book value. Wider spreads may also negatively impact asset prices. In an environment where spreads are widening, counterparties may require additional collateral to secure borrowings which may require us to reduce leverage by selling assets. Conversely, tighter spreads imply the potential for lower income on new asset purchases but may have a positive impact on stated book value of our existing assets. In this case, we may be able to reduce the amount of collateral required to secure borrowings.

Credit Risk

We are subject to varying degrees of credit risk in connection with our assets. Although we expect relatively low credit risk with respect to our portfolios of Agency RMBS, we are subject to the credit risk of borrowers under the loans backing any CMOs that we may own and to the credit enhancements built into the CMO structure. We also are subject to the credit risk of the borrowers under the mortgage loans underlying the MSRs that Aurora owns. Through loan level due diligence, we attempt to mitigate this risk by seeking to acquire high quality assets at appropriate prices given anticipated and unanticipated losses. We also conduct ongoing monitoring of acquired MSRs. Nevertheless, unanticipated credit losses could occur which could adversely impact our operating results.

Critical Accounting Policies and Use of Estimates

Our financial statements are prepared in accordance with US GAAP, which requires the use of estimates that involve the exercise of judgment and the use of assumptions as to future uncertainties. Our most critical accounting policies involve decisions and assessments that could affect our reported amounts of assets and liabilities, as well as our reported amounts of revenues and expenses. We believe that the decisions and assessments upon which our financial statements are based were reasonable at the time made and based upon information available to us at that time. Our critical accounting policies and accounting estimates may change over time as we diversify our portfolio. The material accounting policies and estimates that we expect to be most critical to an investor’s understanding of our financial results and condition and require complex management judgment are discussed below. For additional information on our material accounting policies and estimates, see “Item 1. Consolidated Financial Statements – Note 2. Basis of Presentation and Significant Accounting Policies”.

Investments in Securities

We have elected to classify our investments in RMBS as available-for-sale. Although we may hold most of our securities until maturity, we may, from time to time, sell any of our securities as part of our overall management of our asset portfolio. All assets classified as available-for-sale will be reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders’ equity. Fair value of our investments in RMBS is determined based upon prices obtained from third-party pricing providers. Changes in underlying assumptions used in estimating fair value impact the carrying value of the investments in RMBS as well as their yield. For additional information on our assessment of credit-related impairment and our fair value methodology, see “Item 1. Consolidated Financial Statements – Note 4. Investments in RMBS and Note 9. Fair Value”.

Revenue Recognition on Securities

Interest income from coupon payments is accrued based on the outstanding principal amount of the RMBS and their contractual terms. Premiums and discounts associated with the purchase of the RMBS are amortized or accreted into interest income over the projected lives of the securities using the effective interest method. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, consensus prepayment speeds, and current market conditions. Adjustments are made for actual prepayment activity. For information on how interest rates effect net interest income, see “Item 3. Quantitative and Qualitative Disclosures about Market Risk – Interest Rate Effect on Net Interest Income”.

Investments in MSRs

We have elected the fair value option to record our investments in MSRs in order to provide users of our consolidated financial statements with better information regarding the effects of prepayment risk and other market factors on the MSRs. Under this election, we record a valuation adjustment on our investments in MSRs on a quarterly basis to recognize the changes in fair value of our MSRs in net income as described below. Although transactions in MSRs are observable in the marketplace, the valuation includes unobservable market data inputs (prepayment speeds, delinquency levels, costs to service and discount rates). The change in fair value of is recorded within “Unrealized gain (loss) on investments in Servicing Related Assets” on the consolidated statements of income (loss). Fair value is generally determined by discounting the expected future cash flows using discount rates that incorporate the market risks and liquidity premium specific to the MSRs and, therefore, may differ from their effective yields. In determining the valuation of MSRs, management uses internally developed pricing models that are based on certain unobservable market-based inputs. The Company classifies these valuations as Level 3 in the fair value hierarchy. For additional information on our fair value methodology, see “Item 1. Consolidated Financial Statements – Note 9. Fair Value”.

Revenue Recognition on Investments in MSRs

Mortgage servicing fee income represents revenue earned from the ownership of MSRs. The servicing fees are based on a contractual percentage of the outstanding principal balance and are recognized as revenue as the related mortgage payments are collected. Corresponding costs to service are charged to expense as incurred. Servicing fee income received and servicing expenses incurred are reported on the consolidated statements of income (loss).

Repurchase Transactions

We finance the acquisition of our RMBS for our portfolio through repurchase transactions under master repurchase agreements. Repurchase transactions are treated as collateralized financing transactions and are carried at their contractual amounts as specified in the respective transactions. Accrued interest payable is included in “Accrued expenses and other liabilities” on the consolidated balance sheets. Securities financed through repurchase transactions remain on our consolidated balance sheet as an asset and cash received from the purchaser is recorded on our consolidated balance sheet as a liability. Interest paid in accordance with repurchase transactions is recorded in interest expense on the consolidated statements of income (loss).

Income Taxes

We elected to be taxed as a REIT under the Code commencing with our short taxable year ended December 31, 2013. We expect to continue to qualify to be treated as a REIT. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate income tax rates to the extent that it annually distributes less than 100% of its taxable income. Our taxable REIT subsidiary, Solutions, and its wholly-owned subsidiary, Aurora, are subject to U.S. federal income taxes on their taxable income.

We account for income taxes in accordance with ASC 740, *Income Taxes*. ASC 740 requires the recording of deferred income taxes that reflect the net tax effect of temporary differences between the carrying amounts of our assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, including operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date. For information on our assessment of the realizability of deferred tax assets, see “Item 1. Consolidated Financial Statements – Note 15. Income Taxes”. We assess our tax positions for all open tax years and determine if we have any material unrecognized liabilities in accordance with ASC 740. We record these liabilities to the extent we deem them more-likely-than-not to be incurred. We record interest and penalties related to income taxes within the provision for income taxes in the consolidated statements of income (loss). We have not incurred any interest or penalties.

Results of Operations

Presented below is a comparison of the Company's results of operations for the periods indicated (dollars in thousands):

Results of Operations

	Three Months Ended		
	March 31, 2022	**December 31, 2021**	**March 31, 2021**
Income			
Interest income	$ 5,519	$ 4,529	$ 3,301
Interest expense	1,640	1,534	1,454
Net interest income	3,879	2,995	1,847
Servicing fee income	13,116	13,030	13,540
Servicing costs	3,193	3,390	3,082
Net servicing income	9,923	9,640	10,458
Other income (loss)			
Realized gain (loss) on RMBS, available-for-sale, net	(13,222)	(1,479)	2,094
Realized loss on derivatives, net	(10,638)	(4,688)	(540)
Realized gain on acquired assets, net	12	-	5
Unrealized gain (loss) on derivatives, net	24,456	8,233	(8,059)
Unrealized gain (loss) on investments in Servicing Related Assets	21,731	(5,111)	22,464
Total Income	**36,141**	**9,590**	**28,269**
Expenses			
General and administrative expense	1,744	1,547	1,617
Management fee to affiliate	1,793	1,975	1,961
Total Expenses	**3,537**	**3,522**	**3,578**
Income Before Income Taxes	**32,604**	**6,068**	**24,691**
Provision for (Benefit from) corporate business taxes	3,875	(637)	3,463
Net Income	**28,729**	**6,705**	**21,228**
Net income allocated to noncontrolling interests in Operating Partnership	(633)	(130)	(434)
Dividends on preferred stock	2,463	2,463	2,463
Net Income Applicable to Common Stockholders	**$ 25,633**	**$ 4,112**	**$ 18,331**

Presented below is summary financial data on our segments together with the data for the Company as a whole, for the periods indicated (dollars in thousands):

Segment Summary Data

	Servicing Related Assets	RMBS	All Other	Total
Income Statement				
Three Months Ended March 31, 2022				
Interest income	$ -	$ 5,519	$ -	$ 5,519
Interest expense	1,253	387	-	1,640
Net interest income (expense)	(1,253)	5,132	-	3,879
Servicing fee income	13,116	-	-	13,116
Servicing costs	3,193	-	-	3,193
Net servicing income	9,923	-	-	9,923
Other income (expense)	(3,366)	25,705	-	22,339
Other operating expenses	522	228	2,787	3,537
Provision for corporate business taxes	3,875	-	-	3,875
Net Income (Loss)	$ 907	$ 30,609	$ (2,787)	$ 28,729
Three Months Ended December 31, 2021				
Interest income	$ 30	$ 4,499	$ -	$ 4,529
Interest expense	1,271	263	-	1,534
Net interest income (expense)	(1,241)	4,236	-	2,995
Servicing fee income	13,030	-	-	13,030
Servicing costs	3,390	-	-	3,390
Net servicing income	9,640	-	-	9,640
Other income (expense)	(5,998)	2,953	-	(3,045)
Other operating expenses	597	182	2,743	3,522
Benefit from corporate business taxes	(637)	-	-	(637)
Net Income (Loss)	$ 2,441	$ 7,007	$ (2,743)	$ 6,705
Three Months Ended March 31, 2021				
Interest income	$ 120	$ 3,181	$ -	$ 3,301
Interest expense	932	522	-	1,454
Net interest income (expense)	(812)	2,659	-	1,847
Servicing fee income	13,540	-	-	13,540
Servicing costs	3,082	-	-	3,082
Net servicing income	10,458	-	-	10,458
Other income (expense)	(4,762)	20,726	-	15,964
Other operating expenses	566	171	2,841	3,578
Provision for corporate business taxes	3,463	-	-	3,463
Net Income (Loss)	$ 855	$ 23,214	$ (2,841)	$ 21,228

	Servicing Related Assets	RMBS	All Other	Total
Balance Sheet				
March 31, 2022				
Investments	$ 246,103	$ 774,113	$ -	$ 1,020,216
Other assets	36,101	102,837	52,866	191,804
Total assets	282,204	876,950	52,866	1,212,020
Debt	159,068	764,885	-	923,953
Other liabilities	7,308	9,371	11,737	28,416
Total liabilities	166,376	774,256	11,737	952,369
Net assets	$ 115,828	$ 102,694	$ 41,129	$ 259,651
December 31, 2021				
Investments	$ 218,727	$ 953,496	$ -	$ 1,172,223
Other assets	44,506	21,611	64,522	130,639
Total assets	263,233	975,107	64,522	1,302,862
Debt	145,268	865,494	-	1,010,762
Other liabilities	1,847	1,411	10,026	13,284
Total liabilities	147,115	866,905	10,026	1,024,046
Net assets	$ 116,118	$ 108,202	$ 54,496	$ 278,816

Interest Income

Interest income for the three-month period ended March 31, 2022 was $5.5 million as compared to $4.5 million for the three-month period ended December 31, 2021. The increase of $990,000 in interest income was primarily due to a decrease in price premium amortization driven by lower prepayment speeds.

Interest income for the three-month period ended March 31, 2022 was $5.5 million as compared to $3.3 million for the three-month period ended March 31, 2021. The increase of $2.2 million in interest income was substantially due to a decrease in price premium amortization, which was partially offset by a decrease in interest income as a result of RMBS sales.

Interest Expense

Interest expense for the three-month period ended March 31, 2022 was $1.6 million as compared to $1.5 million for the three-month period ended December 31, 2021. The increase of $106,000 in interest expense was due to a rise in interest rates.

Interest expense for the three-month period ended March 31, 2022 was $1.6 million as compared to $1.5 million for the three-month period ended March 31, 2021. The increase of $186,000 in interest expense was substantially due to a higher notes payable balance, which was partially offset by a decrease in interest expense on borrowings under repurchase agreements driven by a smaller RMBS portfolio.

Servicing Fee Income

Servicing fee income for the three-month period ended March 31, 2022 was $13.1 million as compared to $13.0 million for the three-month period ended December 31, 2021. The nominal change in servicing fee income resulted from a decline in the size of the MSR portfolio.

Servicing fee income for the three-month period ended March 31, 2022 was $13.1 million as compared to $13.5 million for the three-month period ended March 31, 2021. The decrease of $424,000 in servicing fee income resulted from a decline in the size of the MSR portfolio.

Servicing Costs

Servicing costs for the three-month period ended March 31, 2022 was $3.2 million as compared to $3.4 million for the three-month period ended December 31, 2021. The decrease of $197,000 in servicing costs was due to timing of certain payments as well as changes in the size of the MSR portfolio.

Servicing costs for the three-month period ended March 31, 2022 was $3.2 million as compared to $3.1 million for the three-month period ended March 31, 2021. The nominal change in servicing costs was due to timing of certain payments as well as changes in the size of the MSR portfolio

Realized Gain (Loss) on RMBS, Available-For-Sale, Net

Realized loss on RMBS for the three-month period ended March 31, 2022 was approximately $13.2 million as compared to $1.5 million for the three-month period ended December 31, 2021. The increase of $11.7 million in realized loss on RMBS was due to the sale of RMBS securities in the first quarter of 2022 in response to the rising interest rates.

Realized loss on RMBS for the three-month period ended March 31, 2022 was approximately $13.2 million as compared to a gain of $2.1 million for the three-month period ended March 31, 2021. The increase of $15.3 million in realized loss on RMBS was due to the sale of RMBS securities in the first quarter of 2022 in response to the rising interest rates.

Realized Loss on Derivatives, Net

Realized loss on derivatives for the three-month period ended March 31, 2022 was approximately $10.6 million as compared to $4.7 million for the three-month period ended December 31, 2021. The increase of $5.9 million in realized loss on derivatives was substantially comprised of an increase of $11.5 million in losses on TBAs and an increase of $1.2 million in losses on interest rate swaps, offset by an increase of $6.4 million in gains on U.S. Treasury futures due to rising interest rates.

Realized loss on derivatives for the three-month period ended March 31, 2022 was approximately $10.6 million as compared to $540,000 for the three-month period ended March 31, 2021. The increase of $10.1 million in realized loss on derivatives was substantially comprised of an increase of $14.9 million in losses on TBAs and an increase of $1.2 million in losses on interest rate swaps, offset by an increase of $6.2 million in gains on U.S. Treasury futures due to rising interest rates.

Unrealized Gain (Loss) on Derivatives

Unrealized gain on derivatives for the three-month period ended March 31, 2022 was approximately $24.5 million as compared to $8.2 million for the three-month period ended December 31, 2021. The increase of $16.3 million in unrealized gain on derivatives was primarily due to changes in interest rates and the composition of our derivatives relative to the prior period.

Unrealized gain on derivatives for the three-month period ended March 31, 2022 was approximately $24.5 million as compared to a loss of $8.1 million for the three-month period ended March 31, 2021. The increase of $32.6 million in unrealized gain on derivatives was primarily due to changes in interest rates and the composition of our derivatives relative to the prior period.

Unrealized Gain (Loss) on Investments in Servicing Related Assets

Unrealized gain on our investments in Servicing Related Assets for the three-month period ended March 31, 2022 was approximately $21.7 million as compared to a loss of $5.1 million for the three-month period ended December 31, 2021. The increase of $26.8 million in unrealized gain on our investments in Servicing Related Assets was primarily due to changes in valuation inputs or assumptions and paydown of underlying loans.

Unrealized gain on our investments in Servicing Related Assets for the three-month period ended March 31, 2022 was approximately $21.7 million as compared to $22.5 million for the three-month period ended March 31, 2021. The decrease of $733,000 in unrealized gain on our investments in Servicing Related Assets was primarily due to changes in valuation inputs or assumptions and paydown of underlying loans.

General and Administrative Expense

General and administrative expense for the three-month period ended March 31, 2022 was $1.7 million as compared to $1.5 million for the three-month period ended December 31, 2021. The increase of $197,000 in general and administrative expense was primarily due to higher professional fees.

General and administrative expense for the three-month period ended March 31, 2022 was $1.7 million as compared to $1.6 million for the three-month period ended March 31, 2021. The decrease of $127,000 in general and administrative expense was primarily due to lower professional fees.

Net Income Allocated to Noncontrolling Interests in Operating Partnership

Net income allocated to noncontrolling interests in the Operating Partnership, which are LTIP-OP Units owned by directors and officers of the Company and by certain other individuals who provide services to us through the Manager, represented approximately 2.2%, 1.9% and 2.0% of net income for the three-month periods ended March 31, 2022, December 31, 2021 and March 31, 2021, respectively. The increase was due to the issuance of LTIP-OP Units during the three-month period ended March 31, 2022.

For the periods indicated below, our accumulated other comprehensive income (loss) changed as a result of the indicated gains and losses (dollars in thousands):

Accumulated Other Comprehensive Income (Loss)

	Three Months Ended March 31, 2022
Accumulated other comprehensive gain (loss), December 31, 2021	$ 7,527
Other comprehensive loss	(44,535)
Accumulated other comprehensive gain (loss), March 31, 2022	$ (37,008)

	Three Months Ended December 31, 2021
Accumulated other comprehensive income, September 30, 2021	$ 15,803
Other comprehensive loss	(8,276)
Accumulated other comprehensive income, December 31, 2021	$ 7,527

	Three Months Ended March 31, 2021
Accumulated other comprehensive income, December 31, 2020	$ 35,594
Other comprehensive loss	(19,349)
Accumulated other comprehensive income, March 31, 2021	$ 16,245

Our GAAP equity changes as the values of our RMBS are marked to market each quarter, among other factors. The primary causes of mark to market changes are changes in interest rates and credit spreads. During the periods ended March 31, 2022, December 31, 2021 and March 31, 2021, volatility and increases in the 10 Year U.S. Treasury rate and widening of credit spreads caused a net unrealized loss on our RMBS in each of those periods, which is recorded in accumulated other comprehensive income (loss).

Non-GAAP Financial Measures

This Management's Discussion and Analysis of Financial Condition and Results of Operations section contains analysis and discussion of non-GAAP financial measures, including:

- earnings available for distribution; and
- earnings available for distribution per average common share.

Earnings available for distribution ("EAD") is a non-GAAP financial measure that we define as GAAP net income (loss), excluding realized gain (loss) on RMBS, realized and unrealized gain (loss) on derivatives, realized gain (loss) on acquired assets, realized and unrealized gain (loss) on investments in MSRs (net of any estimated MSR amortization) and any tax expense (benefit) on realized and unrealized gain (loss) on MSRs. MSR amortization refers to the portion of the change in fair value of the MSR that is primarily due to the realization of cashflows, runoff resulting from prepayments and an adjustment for any gain or loss on the capital used to purchase the MSR. EAD also includes interest rate swap periodic interest income (expense) and drop income on TBA dollar roll transactions, which are included in "Realized loss on derivatives, net" on the consolidated statements of income (loss). EAD is adjusted to exclude outstanding LTIP-OP Units in our Operating Partnership and dividends paid on our preferred stock.

EAD is provided for purposes of potential comparability to other issuers that invest in residential mortgage-related assets. We believe providing investors with EAD, in addition to related GAAP financial measures, may provide investors some insight into our ongoing operational performance. However, the concept of EAD does have significant limitations, including the exclusion of realized and unrealized gains (losses), and given the apparent lack of a consistent methodology among issuers for defining EAD, it may not be comparable to similarly titled measures of other issuers, which define EAD differently from us and each other. As a result, EAD should not be considered a substitute for our GAAP net income (loss) or as a measure of our liquidity. While EAD is one indicia of the Company's earnings capacity, it is not the only factor considered in setting a dividend and is not the same as REIT taxable income which is calculated in accordance with the rules of the IRS.

Earnings Available for Distribution

EAD for the three-month period ended March 31, 2022 as compared to the three month periods ended December 31, 2021 and March 31, 2021, increased by approximately $344,000 and $2.7 million respectively, or $0.02 and $0.13 per average common share, respectively, substantially due to a decrease in price premium amortization on the Company's investments in RMBS driven by lower prepayment speeds.

The following table reconciles the GAAP measure of net income (loss) to EAD and related per average common share amounts, for the periods indicated (dollars in thousands):

	Three Months Ended		
	March 31, 2022	**December 31, 2021**	**March 31, 2021** (B)
Net Income	$ 28,729	$ 6,705	$ 21,228
Realized loss (gain) on RMBS, net	13,222	1,479	(2,094)
Realized loss on derivatives, net (A)	14,422	8,860	4,741
Realized gain on acquired assets, net	(12)	-	(5)
Unrealized loss (gain) on derivatives, net	(24,456)	(8,233)	8,059
Unrealized gain on investments in MSRs, net of estimated MSR amortization	(28,011)	(947)	(30,059)
Tax expense on realized and unrealized gain on MSRs	4,937	594	4,229
Total EAD:	$ 8,831	$ 8,458	$ 6,099
EAD attributable to noncontrolling interests in Operating Partnership	(195)	(160)	(125)
Dividends on preferred stock	2,463	2,463	2,463
EAD Attributable to Common Stockholders	**$ 6,173**	**$ 5,835**	**$ 3,511**
EAD Attributable to Common Stockholders, per Diluted Share	**$ 0.34**	**$ 0.32**	**$ 0.21**
GAAP Net Income Per Share of Common Stock, per Diluted Share	**$ 1.40**	**$ 0.23**	**$ 1.07**

(A) Excludes drop income on TBA dollar rolls of $2.9 million, $3.4 million and $2.7 million and interest rate swap periodic interest income of $915,000, $786,000 and $1.3 million, for the three-month periods ended March 31, 2022, December 31, 2021 and March 31, 2021, respectively, and includes trading expenses of $176,000 for the three-month period ended March 31, 2021.

(B) Commencing with the three-month period ended December 31, 2021, the Company has enhanced the calculation of unrealized gain (loss) on investments in MSRs used to determine EAD. EAD for the three-month period ended March 31, 2021 has not been adjusted to reflect the Company's enhanced calculation of unrealized loss (gain) on investments in MSRs, net of estimated MSR amortization. If the enhanced calculation had been applied retroactively to the three-months ended March 31, 2021, the Company would have reported EAD attributable to common stockholders of $3.9 million and EAD attributable to common stockholders per share of $0.23.

Our Portfolio

MSRs

Aurora's portfolio of Fannie Mae and Freddie Mac MSRs have an aggregate UPB of approximately $20.4 billion as of March 31, 2022.

The following tables set forth certain characteristics of the mortgage loans underlying those MSRs as of the dates indicated (dollars in thousands):

MSR Collateral Characteristics

As of March 31, 2022

	Current Carrying Amount	Collateral Characteristics: Current Principal Balance	WA Coupon(A)	WA Servicing Fee(A)	WA Maturity (months)(A)	WA Loan Age (months)(A)	ARMs %(B)
MSRs	$ 246,103	$ 20,441,178	3.48%	0.25%	315	26	0.1%
MSR Total/Weighted Average	**$ 246,103**	**$ 20,441,178**	**3.48%**	**0.25%**	**315**	**26**	**0.1%**

As of December 31, 2021

	Current Carrying Amount	Collateral Characteristics: Current Principal Balance	WA Coupon(A)	WA Servicing Fee(A)	WA Maturity (months)(A)	WA Loan Age (months)(A)	ARMs %(B)
MSRs	$ 218,727	$ 20,773,278	3.51%	0.25%	316	25	0.1%
MSR Total/Weighted Average	**$ 218,727**	**$ 20,773,278**	**3.51%**	**0.25%**	**316**	**25**	**0.1%**

(A) Weighted average coupon, servicing fee, maturity and loan age of the underlying residential mortgage loans in the pool are based on the unpaid principal balance.

(B) ARMs % represents the percentage of the total principal balance of the pool that corresponds to ARMs and hybrid ARMs.

RMBS

The following tables summarize the characteristics of our RMBS portfolio and certain characteristics of the collateral underlying our RMBS as of the dates indicated (dollars in thousands):

RMBS Characteristics

As of March 31, 2022

			Gross Unrealized				Weighted Average			
Asset Type	**Original Face Value**	**Book Value**	**Gains**	**Losses**	**Carrying Value(A)**	**Number of Securities**	**Rating**	**Coupon**	**Yield(C)**	**Maturity (Years)**
RMBS										
Fannie Mae	$ 678,445	$ 476,781	$ 669	$ (22,459)	$ 454,991	68	(B)	3.10%	2.99%	27
Freddie Mac	422,127	334,222	383	(15,483)	319,122	42	(B)	3.08%	2.97%	28
Total/Weighted Average	**$ 1,100,572**	**$ 811,003**	**$ 1,052**	**$ (37,942)**	**$ 774,113**	**110**		**3.09%**	**2.98%**	**28**

As of December 31, 2021

			Gross Unrealized				Weighted Average			
Asset Type	**Original Face Value**	**Book Value**	**Gains**	**Losses**	**Carrying Value(A)**	**Number of Securities**	**Rating**	**Coupon**	**Yield(C)**	**Maturity (Years)**
RMBS										
Fannie Mae	$ 772,607	$ 554,151	$ 9,276	$ (3,650)	$ 559,777	76	(B)	3.09%	2.96%	27
Freddie Mac	484,479	391,700	5,260	(3,241)	393,719	45	(B)	3.02%	2.89%	28
Total/Weighted Average	**$ 1,257,086**	**$ 945,851**	**$ 14,536**	**$ (6,891)**	**$ 953,496**	**121**		**3.06%**	**2.93%**	**28**

(A) See "Part I, Item 1. Notes to Consolidated Financial Statements—Note 9. Fair Value" regarding the estimation of fair value, which approximates carrying value for all securities.

(B) The Company used an implied AAA rating for the Agency RMBS.

(C) The weighted average yield is based on the most recent gross monthly interest income, which is then annualized and divided by the book value of settled securities.

The following table summarizes the net interest spread of our RMBS portfolio as of the dates indicated:

Net Interest Spread

	March 31, 2022	December 31, 2021
Weighted Average Asset Yield	3.77%	3.19%
Weighted Average Interest Expense	0.71%	0.73%
Net Interest Spread	**3.06%**	**2.46%**

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments and other general business needs. Additionally, to maintain our status as a REIT under the Code, we must distribute annually at least 90% of our REIT taxable income. In 2017, the Internal Revenue Service issued a revenue procedure permitting “publicly offered” REITs to make elective stock dividends (i.e., dividends paid in a mixture of stock and cash), with at least 20% of the total distribution being paid in cash, to satisfy their REIT distribution requirements. In December 2021, the Internal Revenue Service issued a revenue procedure that temporarily reduces the minimum amount of the total distribution that must be paid in cash to 10% for distributions declared on or after November 1, 2021, and on or before June 30, 2022, provided certain other parameters detailed in the Revenue Procedure are satisfied. Pursuant to these revenue procedures, the Company has in the past elected to make distributions of its taxable income in a mixture of stock and cash.

Our primary sources of funds for liquidity consist of cash provided by operating activities (primarily income from our investments in RMBS and net servicing income from our MSRs), sales or repayments of RMBS and borrowings under repurchase agreements and our MSR financing arrangements. The COVID-19 pandemic has not adversely affected our ability to access these traditional sources of our funds on the same or reasonably similar terms as available before the pandemic.

In the future, sources of funds for liquidity may include additional MSR financing, warehouse agreements, securitizations and the issuance of equity or debt securities, when feasible. During the three-month period ended March 31, 2022, the Company issued and sold 505,000 shares of common stock under the Common Stock ATM Program. The shares were sold at a weighted average price of $8.19 per share for gross proceeds of approximately $4.1 million before fees of approximately $83,000. During the three-month period ended December 31, 2021, the Company issued and sold 594,898 shares of common stock under the Common Stock ATM Program. The shares were sold at a weighted average price of $8.80 per share for gross proceeds of approximately $5.2 million before fees of approximately $105,000. During the three-month period ended March 31, 2021, we did not issue and sell any capital stock pursuant to the ATM programs. In the past we have used, and we anticipate that in the future we will use a significant portion of the paydowns of the RMBS to purchase MSRs. We may also sell certain RMBS and deploy the net proceeds from such sales to the extent necessary to fund the purchase price of MSRs.

Our primary uses of funds are the payment of interest, management fees, outstanding commitments, other operating expenses, investments in new or replacement assets, margin calls and the repayment of borrowings, as well as dividends. Although we continue to maintain a higher level of unrestricted cash than prior to the pandemic, we expect to invest more of that unrestricted cash in our targeted assets if normalization of the economy continues. We may also use capital resources to repurchase additional shares of common stock under our stock repurchase program when we believe such repurchases are appropriate and/or the stock is trading at a significant discount to net asset value. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) change in interest rates.

As of the date of this filing, we believe we have sufficient liquid assets to satisfy all of our short-term recourse liabilities and to satisfy covenants in our financing documents. With respect to the next twelve months, we expect that our cash on hand combined with the cash flow provided by our operations will be sufficient to satisfy our anticipated liquidity needs with respect to our current investment portfolio, including related financings, potential margin calls and operating expenses. While it is inherently more difficult to forecast beyond the next twelve months, we currently expect to meet our long-term liquidity requirements through our cash on hand and, if needed, additional borrowings, proceeds received from repurchase agreements and similar financings, proceeds from equity offerings and the liquidation or refinancing of our assets.

Our operating cash flow differs from our net income due primarily to: (i) accretion of discount or premium on our RMBS, (ii) unrealized gains or losses on our Servicing Related Assets, and (iii) impairment on our securities, if any.

Repurchase Agreements

As of March 31, 2022, we had repurchase agreements with 34 counterparties and approximately $765.0 million of outstanding repurchase agreement borrowings from 13 of those counterparties, which were used to finance RMBS. As of March 31, 2022, our exposure (defined as the amount of cash and securities pledged as collateral, less the borrowing under the repurchase agreement) to any of the counterparties under the repurchase agreements did not exceed five percent of the Company's equity. Under these agreements, which are uncommitted facilities, we sell a security to a counterparty and concurrently agree to repurchase the same security at a later date at the same price that we initially sold the security plus the interest charged. The sale price represents financing proceeds and the difference between the sale and repurchase prices represents interest on the financing. The price at which the security is sold generally represents the market value of the security less a discount or "haircut." The weighted average haircut on our repurchase debt at March 31, 2022 was approximately 4.2%. During the term of the repurchase transaction, which can be as short as a few days, the counterparty holds the security and posts margin as collateral. The counterparty monitors and calculates what it estimates to be the value of the collateral during the term of the transaction. If this value declines by more than a de minimis threshold, the counterparty requires us to post additional collateral (or "margin") in order to maintain the initial haircut on the collateral. This margin is typically required to be posted in the form of cash and cash equivalents. Furthermore, we are, from time to time, a party to derivative agreements or financing arrangements that may be subject to margin calls based on the value of such instruments.

Set forth below is the average aggregate balance of borrowings under the Company's repurchase agreements for each of the periods shown and the aggregate balance as of the end of each such period (dollars in thousands):

Repurchase Agreement Average and Maximum Amounts

Quarter Ended	Average Monthly Amount	Maximum Month-End Amount	Quarter Ending Amount
March 31, 2022	$ 820,270	$ 859,726	$ 764,885
December 31, 2021	$ 830,099	$ 865,494	$ 865,494
September 30, 2021	$ 790,587	$ 821,540	$ 777,416
June 30, 2021	$ 858,269	$ 897,047	$ 897,047
March 31, 2021	$ 1,012,389	$ 1,118,231	$ 934,001
December 31, 2020	$ 1,303,927	$ 1,465,037	$ 1,149,978
September 30, 2020	$ 1,374,041	$ 1,419,991	$ 1,365,471
June 30, 2020	$ 1,286,998	$ 1,395,317	$ 1,395,317

The decrease in the Company's borrowings under its repurchase agreements was primarily due to the sale of RMBS securities during 2020 and 2021.

These short-term borrowings were used to finance certain of our investments in RMBS. The RMBS repurchase agreements are guaranteed by the Company. The weighted average difference between the market value of the assets and the face amount of available financing for the RMBS repurchase agreements, or the haircut, was 4.2% and 4.6% as of March 31, 2022 and December 31, 2021, respectively. The following tables provide additional information regarding borrowings under our repurchase agreements (dollars in thousands):

Repurchase Agreement Characteristics

As of March 31, 2022

	RMBS Market Value	Repurchase Agreements	Weighted Average Rate
Less than one month	$ 401,150	$ 396,958	0.33%
One to three months	377,070	367,927	0.46%
Total/Weighted Average	**$ 778,220**	**$ 764,885**	**0.39%**

As of December 31, 2021

	RMBS Market Value	Repurchase Agreements	Weighted Average Rate
Less than one month	$ 297,720	$ 291,007	0.13%
One to three months	595,168	574,487	0.14%
Total/Weighted Average	**$ 892,888**	**$ 865,494**	**0.14%**

The amount of collateral as of March 31, 2022 and December 31, 2021, including cash, was $805.2 million and $905.1 million, respectively.

The weighted average term to maturity of our borrowings under repurchase agreements as of March 31, 2022 and December 31, 2021 was 33 days and 38 days, respectively.

MSR Financing

As of March 31, 2022, the Company had two separate MSR financing facilities: (i) the Freddie Mac MSR Revolver, which is a revolving credit facility for up to $100.0 million that is secured by all Freddie Mac MSRs owned by Aurora; and (ii) the Fannie Mae MSR Revolving Facility, which is a revolving credit facility for up to $150.0 million, that is secured by all Fannie Mae MSRs owned by Aurora. Both financing facilities are available for MSRs as well as certain servicing related advances associated with MSRs.

Freddie Mac MSR Revolver. In July 2018, the Company, Aurora and QRS V (collectively with Aurora and the Company, the “Borrowers”) entered into a $25.0 million revolving credit facility (the “Freddie Mac MSR Revolver”) pursuant to which Aurora pledged all of its existing and future MSRs on loans owned or securitized by Freddie Mac. The term of the Freddie Mac MSR Revolver is 364 days with the Borrowers’ option for two renewals for similar terms followed by a one-year term out feature with a 24-month amortization schedule. The Freddie Mac MSR Revolver was upsized to $45.0 million in September 2018. The Company also has the ability to request up to an additional $5.0 million of borrowings. On April 2, 2019, Aurora and QRS V entered into an amendment that increased the maximum amount of the Freddie Mac MSR Revolver to $100.0 million. In July 2021, the Borrowers entered into an amendment to the Freddie Mac MSR Revolver that extended the revolving period for an additional 364 days with the option for two more renewals of 364 days each. At the end of the revolving period, the outstanding amount will be converted to a one-year term loan. Amounts borrowed bear interest at an adjustable rate equal to a spread above one-month LIBOR. At March 31, 2022 and December 31, 2021, approximately $65.0 million and $63.0 million, respectively, was outstanding under the Freddie Mac MSR Revolver.

Fannie Mae MSR Revolving Facility. In October 2021, Aurora and QRS III entered into a loan and security agreement (the "Fannie Mae MSR Revolving Facility"), to replace the Prior Fannie Mae MSR Financing Facility. Under the Fannie Mae MSR Revolving Facility, Aurora and QRS III pledged their respective rights in all existing and future MSRs for loans owned or securitized by Fannie Mae to secure borrowings outstanding from time to time. The maximum credit amount outstanding at any one time under the Fannie Mae MSR Revolving Facility is $150.0 million. The revolving period is 24 months which may be extended by agreement with the lender. During the revolving period, borrowings bear interest at a rate equal to a spread over one-month LIBOR subject to a floor. At the end of the revolving period, the outstanding amount will be converted to a three-year term loan that will bear interest at a rate calculated at a spread over the rate for one-year interest rate swaps. The Company has guaranteed repayment of all indebtedness under the Fannie Mae MSR Revolving Facility. At March 31, 2022 and December 31, 2021, approximately $94.8 million and $83.0 million, respectively, was outstanding under the Fannie Mae MSR Revolving Facility.

As noted above, the Fannie Mae MSR Revolving Facility replaced the Prior Fannie Mae MSR Financing Facility. In September 2019, Aurora and QRS III entered into a loan and security agreement (the "Prior Fannie Mae MSR Financing Facility"). Under the Prior Fannie Mae MSR Facility, Aurora and QRS III pledged their respective rights in all existing and future MSRs for loans owned or securitized by Fannie Mae to secure borrowings outstanding from time to time. The maximum credit amount outstanding at any one time under the facility was $200 million, of which $100 million was committed. Borrowings bore interest at a rate equal to a spread over onemonth LIBOR subject to a floor. This facility was terminated and replaced in October 2021 with the Fannie Mae MSR Revolving Facility (as defined and discussed above). As a result, there was no outstanding balance under the Prior Fannie Mae MSR Financing Facility at March 31, 2022 and December 31, 2021.

Cash Flows

Operating and Investing Activities

Our operating activities provided cash of approximately $13.8 million and our investing activities provided cash of approximately $57.6 million for the three-month period ended March 31, 2022.

Dividends

U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income. We intend to make regular quarterly distributions of all or substantially all of our REIT taxable income to holders of our common and preferred stock out of assets legally available for this purpose, if and to the extent authorized by our board of directors. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our repurchase agreements and other debt payable. If our cash available for distribution is less than our REIT taxable income, we could be required to sell assets or borrow funds to make cash distributions, or, with respect to our common stock, we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. We will make distributions only upon the authorization of our board of directors. The amount, timing and frequency of distributions will be authorized by our board of directors based upon a variety of factors, including:

- actual results of operations;
- our level of retained cash flows;
- our ability to make additional investments in our target assets;
- restrictions under Maryland law;
- the terms of our preferred stock;
- any debt service requirements;
- our taxable income;
- the annual distribution requirements under the REIT provisions of the Code; and
- other factors that our board of directors may deem relevant.

Our ability to make distributions to our stockholders will depend upon the performance of our investment portfolio, and, in turn, upon our Manager's management of our business. Distributions will be made quarterly in cash to the extent that cash is available for distribution. We may not be able to generate sufficient cash available for distribution to pay distributions to our stockholders. In addition, our board of directors may change our distribution policy with respect to our common stock in the future. No assurance can be given that we will be able to make any other distributions to our stockholders at any time in the future or that the level of any distributions we do make to our stockholders will achieve a market yield or increase or even be maintained over time.

We make distributions based on a number of factors, including an estimate of taxable earnings. Dividends distributed and taxable income will typically differ from GAAP earnings due to items such as fair value adjustments, differences in premium amortization and discount accretion, and nondeductible general and administrative expenses. Our common dividend per share may be substantially different than our taxable earnings and GAAP earnings per share. Our GAAP income per diluted share for the three-month periods ended March 31, 2022, December 31, 2021 and March 31, 2021 was $1.40, $0.24 and $1.07, respectively.

Contractual Obligations

Our contractual obligations as of March 31, 2022 and December 31, 2021 included repurchase agreements, borrowings under our MSR financing arrangements, our Management Agreement with our Manager, and our subservicing agreements.

The following table summarizes our contractual obligations for borrowed money as of the dates indicated (dollars in thousands):

Contractual Obligations Characteristics

As of March 31, 2022

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Repurchase agreements					
Borrowings under repurchase agreements	$ 764,885	$ -	$ -	$ -	$ 764,885
Interest on repurchase agreement borrowings[(A)]	$ 137	$ -	$ -	$ -	$ 137
Freddie Mac MSR Revolver					
Borrowings under Freddie Mac MSR Revolver	$ 65,000	$ -	$ -	$ -	$ 65,000
Interest on Freddie Mac MSR Revolver borrowings	$ 1,390	$ -	$ -	$ -	$ 1,390
Fannie Mae MSR Revolving Facility					
Borrowings under Fannie Mae MSR Revolving Facility	$ -	$ 10,150	$ 84,650	$ -	$ 94,800
Interest on Fannie Mae MSR Revolving Facility	$ 3,604	$ 8,247	$ 6,328	$ -	$ 18,179

As of December 31, 2021

	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Repurchase agreements					
Borrowings under repurchase agreements	$ 865,494	$ -	$ -	$ -	$ 865,494
Interest on repurchase agreement borrowings[(A)]	$ 135	$ -	$ -	$ -	$ 135
Freddie Mac MSR Revolver					
Borrowings under Freddie Mac MSR Revolver	$ 63,000	$ -	$ -	$ -	$ 63,000
Interest on Freddie Mac MSR Revolver borrowings	$ 1,954	$ -	$ -	$ -	$ 1,954
Fannie Mae MSR Revolving Facility					
Borrowings under Fannie Mae MSR Revolving Facility	$ -	$ 7,566	$ 75,434	$ -	$ 83,000
Interest on Fannie Mae MSR Revolving Facility	$ 3,156	$ 6,127	$ 4,941	$ -	$ 14,224

(A) Interest expense is calculated based on the interest rate in effect at March 31, 2022 and December 31, 2021, respectively, and includes all interest expense incurred through those dates.

Management Agreement

The Management Agreement with our Manager provides that our Manager is entitled to receive a management fee, the reimbursement of certain expenses and, in certain circumstances, a termination fee. The management fee is an amount equal to 1.5% per annum of our stockholders' equity, adjusted as set forth in the Management Agreement, and calculated and payable quarterly in arrears. We will also be required to pay a termination fee equal to three times the average annual management fee earned by our Manager during the two four-quarter periods ending as of the end of the most recently completed fiscal quarter prior to the effective date of the termination. Such termination fee will be payable upon termination or non-renewal of the Management Agreement by us without cause or by our Manager if we materially breach the Management Agreement.

We pay all of our direct operating expenses, except those specifically required to be borne by our Manager under the Management Agreement. Our Manager is responsible for all costs incident to the performance of its duties under the Management Agreement. We believe that our Manager uses the proceeds from its management fee in part to pay the Services Provider for services provided under the Services Agreement. Our officers receive no cash compensation directly from us. Our Manager provides us with our officers. Our Manager is entitled to be reimbursed for an agreed upon portion of the costs of the wages, salary and other benefits with respect to our chief financial officer, and, prior to January 1, 2022, our general counsel, originally based on the percentages of their working time and efforts spent on matters related to the Company. The amount of the wages, salary and benefits reimbursed with respect to the officers our Manager provides to us is subject to the approval of the compensation committee of our board of directors.

The term of the Management Agreement expired on October 22, 2021 and was automatically renewed for a one-year term on such date and will be automatically renewed for a one-year term on each anniversary of such date thereafter unless terminated or not renewed as described below. Either we or our Manager may elect not to renew the Management Agreement upon expiration of its initial term or any renewal term by providing written notice of non-renewal at least 180 days, but not more than 270 days, before expiration. No such written notice of non-renewal was provided in 2021 and the Management Agreement's term was automatically extended until October 22, 2022. In the event we elect not to renew the term, we will be required to pay our Manager the termination fee described above. We may terminate the Management Agreement at any time for cause effective upon 30 days prior written notice of termination from us to our Manager, in which case no termination fee would be due. Our board of directors will review our Manager's performance prior to the automatic renewal of the Management Agreement and, as a result of such review, upon the affirmative vote of at least two-thirds of the members of our board of directors or of the holders of a majority of our outstanding common stock, we may terminate the Management Agreement based upon unsatisfactory performance by our Manager that is materially detrimental to us or a determination by our independent directors that the management fees payable to our Manager are not fair, subject to the right of our Manager to prevent such a termination by agreeing to a reduction of the management fees payable to our Manager. Upon any termination of the Management Agreement based on unsatisfactory performance or unfair management fees, we are required to pay our Manager the termination fee described above. Our Manager may terminate the Management Agreement, without payment of the termination fee, in the event we become regulated as an investment company under the Investment Company Act. Our Manager may also terminate the Management Agreement upon 60 days' written notice if we default in the performance of any material term of the Management Agreement and the default continues for a period of 30 days after written notice to us, whereupon we would be required to pay our Manager the termination fee described above.

Subservicing Agreements

As of March 31, 2021, Aurora had four subservicing agreements in place, one of which is with Freedom Mortgage. Following the sale of the Ginnie Mae MSRs to Freedom Mortgage in June 2020, Freedom Mortgage continued to subservice certain loans that had been purchased from Ginnie Mae pools due to delinquency or default. Freedom Mortgage ceased subservicing these loans during 2021 because these loans and any related advance claims had been rehabilitated or liquidated. One of the other subservicing agreements is with RoundPoint. Freedom Mortgage acquired RoundPoint and it became a wholly-owned subsidiary of Freedom Mortgage in August 2020. The agreements have varying initial terms (three years, for Freedom Mortgage, and two years for the other three sub-servicers) and are subject to automatic renewal for additional terms equal to the applicable initial term unless either party chooses not to renew. Each agreement may be terminated without cause by either party by giving notice as specified in the agreement. If an agreement is not renewed by the Company or terminated by the Company without cause, de-boarding fees will be due to the subservicer. Under each agreement, the subservicer agrees to service the applicable mortgage loans in accordance with applicable law and the requirements of the applicable Agency and the Company pays customary fees to the applicable subservicer for specified services.

Joint Marketing Recapture Agreement

We attempt to reduce the exposure of our MSRs to voluntary prepayments through the structuring of recapture agreements with Aurora's subservicers.

In May 2018, Aurora entered into a recapture purchase and sale agreement with RoundPoint, one of Aurora's subservicers and since August 2020, a wholly-owned subsidiary of Freedom Mortgage. Pursuant to this agreement, RoundPoint attempts to refinance certain mortgage loans underlying Aurora's MSR portfolio subserviced by RoundPoint as directed by Aurora. If a loan is refinanced, Freedom Mortgage will sell the loan to Fannie Mae or Freddie Mac, as applicable, retain the sale proceeds and transfer the related MSR to Aurora. The agreement continues in effect while the subservicing agreement remains in effect.

Inflation

Substantially all of our assets and liabilities are financial in nature. As a result, interest rates and other factors affect our performance more so than inflation, although inflation rates can often have a meaningful influence over the direction of interest rates. Furthermore, our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors primarily based on our REIT taxable income, and, in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We seek to manage our risks related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns through ownership of our capital stock. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our assets and our related financing obligations. In general, we finance the acquisition of certain of our assets through financings in the form of repurchase agreements and bank facilities. We expect to make use of additional MSR financing, as well as possibly warehouse facilities, securitizations, re-securitizations, and public and private equity and debt issuances in addition to transaction or asset specific funding arrangements. In addition, the values of our Servicing Related Assets are highly sensitive to changes in interest rates, historically increasing when rates rise and decreasing when rates decline. Subject to maintaining our qualification as a REIT, we attempt to mitigate interest rate risk and financing pricing risk through utilization of hedging instruments, primarily interest rate swap agreements and U.S. treasury futures, respectively. We may also use financial futures, options, interest rate cap agreements, and forward sales. These instruments are intended to serve as a hedge against future interest rate or pricing changes on our borrowings.

Interest Rate Effect on Net Interest Income

Our operating results depend in large part on differences between the income earned on our assets and our cost of borrowing and hedging activities. The costs of our borrowings are generally based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally will increase (1) while the yields earned on our leveraged fixed-rate mortgage assets will remain static and (2) at a faster pace than the yields earned on our leveraged adjustable-rate and hybrid adjustable-rate RMBS, which could result in a decline in our net interest spread and net interest margin. The severity of any such decline would depend on our asset/liability composition at the time as well as the magnitude and duration of the interest rate increase. Further, an increase in short-term interest rates could also have a negative impact on the market value of our assets, other than our Servicing Related Assets. A decrease in interest rates could have a negative impact on the market value of our Servicing Related Assets. If any of these events happen, we could experience a decrease in net income or incur a net loss during these periods, which could adversely affect our liquidity and results of operations.

Hedging techniques are partly based on assumed levels of prepayments of our assets, specifically our RMBS. If prepayments are slower or faster than assumed, the life of the investment will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions. Hedging strategies involving the use of derivatives are highly complex and may produce volatile returns.

Interest Rate Cap Risk

Any adjustable-rate RMBS that we acquire will generally be subject to interest rate caps, which potentially could cause such RMBS to acquire many of the characteristics of fixed-rate securities if interest rates were to rise above the cap levels. This issue will be magnified to the extent we acquire adjustable-rate and hybrid adjustable-rate RMBS that are not based on mortgages which are fully indexed. In addition, adjustable-rate and hybrid adjustable-rate RMBS may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on such assets than we would need to pay the interest cost on our related borrowings. To mitigate interest rate mismatches, we may utilize the hedging strategies discussed above under “—Interest Rate Risk.” Actual economic conditions or implementation of decisions by our Manager may produce results that differ significantly from the estimates and assumptions used in our models.

Prepayment Risk; Extension Risk

The following tables summarize the estimated change in fair value of our MSRs as of the dates indicated given several parallel shifts in the discount rate and voluntary prepayment rate (dollars in thousands):

MSR Fair Value Changes

As of March 31, 2022

	(20)%	(10)%	-%	10	20%
Discount Rate Shift in %					
Estimated FV	$ 266,226	$ 255,794	$ 246,103	$ 237,080	$ 228,665
Change in FV	$ 20,124	$ 9,692	$ -	$ (9,022)	$ (17,438)
% Change in FV	8%	4%	-	(4)%	(7)%
Voluntary Prepayment Rate Shift in %					
Estimated FV	$ 267,481	$ 256,627	$ 246,103	$ 236,163	$ 226,796
Change in FV	$ 21,379	$ 10,525	$ -	$ (9,940)	$ (19,306)
% Change in FV	9%	4%	-	(4)%	(8)%
Servicing Cost Shift in %					
Estimated FV	$ 253,441	$ 249,772	$ 246,103	$ 242,433	$ 238,764
Change in FV	$ 7,339	$ 3,669	$ -	$ (3,669)	$ (7,339)
% Change in FV	3%	1%	-	(1)%	(3)%

As of December 31, 2021

	(20)%	(10)%	-%	10%	20%
Discount Rate Shift in %					
Estimated FV	$ 233,342	$ 225,813	$ 218,727	$ 212,050	$ 205,749
Change in FV	$ 14,614	$ 7,085	$ -	$ (6,677)	$ (12,979)
% Change in FV	7%	3%	-	(3)%	(6)%
Voluntary Prepayment Rate Shift in %					
Estimated FV	$ 244,460	$ 231,026	$ 218,727	$ 207,458	$ 197,103
Change in FV	$ 25,732	$ 12,298	$ -	$ (11,270)	$ (21,624)
% Change in FV	12%	6%	-	(5)%	(10)%
Servicing Cost Shift in %					
Estimated FV	$ 225,480	$ 222,104	$ 218,727	$ 215,351	$ 211,975
Change in FV	$ 6,752	$ 3,376	$ -	$ (3,376)	$ (6,752)
% Change in FV	3%	2%	-	(2)%	(3)%

The following tables summarize the estimated change in fair value of our RMBS as of the dates indicated given several parallel shifts in interest rates (dollars in thousands):

RMBS Fair Value Changes

As of March 31, 2022

		Fair Value Change				
	March 31, 2022	**+25 Bps**	**+50 Bps**	**+75 Bps**	**+100 Bps**	**+150 Bps**
RMBS Portfolio						
RMBS, available-for-sale, net of swaps	$ 1,023,612					
RMBS Total Return (%)		(0.17)%	(0.41)%	(0.71)%	(1.06)%	(1.89)%
RMBS Dollar Return		**$ (1,761)**	**$ (4,229)**	**$ (7,289)**	**$ (10,857)**	**$ (19,396)**

As of December 31, 2021

		Fair Value Change				
	December 31, 2021	**+25 Bps**	**+50 Bps**	**+75 Bps**	**+100 Bps**	**+150 Bps**
RMBS Portfolio						
RMBS, available-for-sale, net of swaps	$ 1,429,335					
RMBS Total Return (%)		(0.18)%	(0.49)%	(0.92)%	(1.44)%	(2.74)%
RMBS Dollar Return		**$ (2,584)**	**$ (7,016)**	**$ (13,110)**	**$ (20,635)**	**$ (39,125)**

The sensitivity analysis is hypothetical and is presented solely to assist an analysis of the possible effects on the fair value under various scenarios. It is not a prediction of the amount or likelihood of a change in any particular scenario. In particular, the results are calculated by stressing a particular economic assumption independent of changes in any other assumption. In practice, changes in one factor may result in changes in another, which might counteract or amplify the sensitivities. In addition, changes in the fair value based on a 10% variation in an assumption generally may not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

Counterparty Risk

When we engage in repurchase transactions, we generally sell securities to lenders (i.e., the repurchase agreement counterparties) and receive cash from the lenders. The lenders are obligated to resell the same securities back to us at the end of the term of the transaction. Because the cash we receive from the lender when we initially sell the securities to the lender is less than the value of those securities (this difference is the haircut), if the lender defaults on its obligation to resell the same securities back to us we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). As of March 31, 2022, the Company’s exposure (defined as the amount of cash and securities pledged as collateral, less the borrowing under the repurchase agreement) to any of the counterparties under the repurchase agreements did not exceed five percent of the Company’s equity.

Our interest rate swaps and U.S. treasury futures contracts are required to be cleared on an exchange which greatly mitigates, but does not entirely eliminate, counterparty risk.

Our investments in Servicing Related Assets are dependent on the applicable mortgage sub-servicer to perform its sub-servicing obligations. If our sub-servicer fails to perform its obligations and is terminated by one or more Agencies as an approved servicer, the value of the MSRs being subserviced by that sub-servicer may be adversely affected. In addition, when we purchase MSRs from third parties, we rely, to a certain extent, on the ability and willingness of the sellers to perform their contractual obligations to remedy breaches of representations and warranties or to repurchase the affected loan and indemnify us for any losses.

Funding Risk

To the extent available on desirable terms, we expect to continue to finance our RMBS with repurchase agreement financing. We also anticipate continuing to finance our MSRs with bank loans secured by a pledge of those MSRs. Over time, as market conditions change, in addition to these financings, we may use other forms of leverage. Weakness in the financial markets, the residential mortgage markets and the economy generally could adversely affect one or more of our potential lenders and could cause one or more of our potential lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing.

Liquidity Risk

Our Servicing Related Assets, as well as some of the assets that may in the future comprise our portfolio, are not publicly traded. A portion of these assets may be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. The illiquidity of these assets may make it difficult for us to sell such assets if the need or desire arises, including in response to changes in economic and other conditions.

Credit Risk

Although we expect relatively low credit risk with respect to our portfolio of Agency RMBS, our investments in MSRs and any CMOs we may acquire expose us to the credit risk of borrowers.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Company's President and Chief Executive Officer and the Company's Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d -15(e) under the Exchange Act as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company's President and Chief Executive Officer and the Company's Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting. There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company may be involved in various claims and legal actions in the ordinary course of business. As of March 31, 2022, the Company is not aware of any material legal or regulatory claims or proceedings.

Item 1A. Risk Factors

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

Exhibit Number	Description
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	Inline XBRL Taxonomy Definition Linkbase
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase
104*	Cover Page Interactive Data File - cover page XBRL tags are embedded within the Inline XBRL document

*Filed herewith.

**Furnished herewith.

SIGNATURES

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

	CHERRY HILL MORTGAGE INVESTMENT CORPORATION
May 9, 2022	By: /s/ Jeffrey Lown II Jeffrey Lown II President and Chief Executive Officer (Principal Executive Officer)
May 9, 2022	By: /s/ Michael Hutchby Michael Hutchby Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer)

CHERRY HILL MORTGAGE INVESTMENT CORPORATION

FORM 10-Q

March 31, 2022

INDEX OF EXHIBITS

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*Filed herewith.

**Furnished herewith.

Exhibit 31.1

Certification

I, Jeffrey Lown II, certify that:

1. I have reviewed this Form 10-Q of Cherry Hill Mortgage Investment 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 9, 2022

By: /s/ Jeffrey Lown II
Jeffrey Lown II
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification

I, Michael Hutchby, certify that:

1. I have reviewed this Form 10-Q of Cherry Hill Mortgage Investment 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2022

By: /s/ Michael Hutchby
Michael Hutchby
Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and accompanies the quarterly report on Form 10-Q (the “Form 10-Q”) for the quarter ended March 31, 2022 of Cherry Hill Mortgage Investment Corporation (the “Company”).

I, Jeffrey Lown II, the President and Chief Executive Officer (Principal Executive Officer) of the Company, certify that:

1. the Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2022

By: /s/ Jeffrey Lown II
Jeffrey Lown II
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and accompanies the quarterly report on Form 10-Q (the “Form 10-Q”) for the quarter ended March 31, 2022 of Cherry Hill Mortgage Investment Corporation (the “Company”).

I, Michael Hutchby, the Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer) of the Company, certify that:

1. the Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2022

By: /s/ Michael Hutchby
Michael Hutchby
Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer)