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

**FORM 10-Q**
**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2022**
**Commission File Number: 001-35808**

# READY CAPITAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

| **Maryland** | **90-0729143** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (IRS Employer Identification No.) |

**1251 Avenue of the Americas, 50th Floor, New York, NY 10020**
(Address of Principal Executive Offices, Including Zip Code)

**(212) 257-4600**
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $0.0001 par value per share | RC | New York Stock Exchange |
| Preferred Stock, 6.25% Series C Cumulative Convertible, par value $0.0001 per share | RC PRC | New York Stock Exchange |
| Preferred Stock, 6.50% Series E Cumulative Redeemable, par value $0.0001 per share | RC PRE | New York Stock Exchange |
| 7.00% Convertible Senior Notes due 2023 | RCA | New York Stock Exchange |
| 6.20% Senior Notes due 2026 | RCB | New York Stock Exchange |
| 5.75% Senior Notes due 2026 | RCC | 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 ☒

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

The Company has 84,107,749 shares of common stock, par value $0.0001 per share, 7,563,191 shares of Class B-1 common stock, par value $0.0001 per share, 7,563,191 shares of Class B-2 common stock, par value $0.0001 per share, 7,563,191 shares of Class B-3 common stock, par value $0.0001 per share and 7,563,191 shares of Class B-4 common stock, par value $0.0001 per share, outstanding as of May 5, 2022.

**TABLE OF CONTENTS**

# PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## READY CAPITAL CORPORATION
## UNAUDITED CONSOLIDATED BALANCE SHEETS

| *(in thousands)* | | March 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ | 211,369 | $ | 229,531 |
| Restricted cash | | 56,963 | | 51,569 |
| Loans, net (including $10,722 and $10,766 held at fair value) | | 4,062,335 | | 2,915,446 |
| Loans, held for sale, at fair value | | 523,214 | | 552,935 |
| Paycheck Protection Program loans (including $1,843 and $3,243 held at fair value) | | 554,656 | | 870,352 |
| Mortgage-backed securities, at fair value | | 93,259 | | 99,496 |
| Loans eligible for repurchase from Ginnie Mae | | 82,975 | | 94,111 |
| Investment in unconsolidated joint ventures (including $8,610 and $8,894 held at fair value) | | 149,475 | | 141,148 |
| Investments held to maturity (including $17,053 held at fair value) | | 57,285 | | — |
| Purchased future receivables, net | | 8,753 | | 7,872 |
| Derivative instruments | | 36,852 | | 7,022 |
| Servicing rights (including $159,834 and $120,142 held at fair value) | | 244,143 | | 204,599 |
| Real estate owned, held for sale | | 119,207 | | 42,288 |
| Other assets | | 186,089 | | 172,098 |
| Assets of consolidated VIEs | | 5,089,669 | | 4,145,564 |
| **Total Assets** | **$** | **11,476,244** | **$** | **9,534,031** |
| **Liabilities** | | | | |
| Secured borrowings | | 3,274,324 | | 2,517,600 |
| Paycheck Protection Program Liquidity Facility (PPPLF) borrowings | | 627,445 | | 941,505 |
| Securitized debt obligations of consolidated VIEs, net | | 3,864,150 | | 3,214,303 |
| Convertible notes, net | | 113,531 | | 113,247 |
| Senior secured notes, net | | 342,454 | | 342,035 |
| Corporate debt, net | | 446,118 | | 441,817 |
| Guaranteed loan financing | | 332,398 | | 345,217 |
| Contingent consideration | | 92,148 | | 16,400 |
| Liabilities for loans eligible for repurchase from Ginnie Mae | | 82,975 | | 94,111 |
| Derivative instruments | | 2,620 | | 410 |
| Dividends payable | | 51,161 | | 34,348 |
| Loan participations sold | | 56,386 | | — |
| Due to third parties | | 38,846 | | 668 |
| Accounts payable and other accrued liabilities | | 184,592 | | 183,411 |
| **Total Liabilities** | **$** | **9,509,148** | **$** | **8,245,072** |
| Preferred stock Series C, liquidation preference $25.00 per share (refer to Note 21) | | 8,361 | | 8,361 |
| | | | | |
| **Commitments & contingencies (refer to Note 25)** | | | | |
| | | | | |
| **Stockholders' Equity** | | | | |
| Preferred stock Series E, liquidation preference $25.00 per share (refer to Note 21) | | 111,378 | | 111,378 |
| Common stock, $0.0001 par value, 500,000,000 shares authorized, 114,335,948 and 75,838,050 shares issued and outstanding, respectively | | 11 | | 8 |
| Additional paid-in capital | | 1,723,099 | | 1,161,853 |
| Retained earnings | | 21,661 | | 8,598 |
| Accumulated other comprehensive loss | | (4,704) | | (5,733) |
| Total Ready Capital Corporation equity | | 1,851,445 | | 1,276,104 |
| Non-controlling interests | | 107,290 | | 4,494 |
| **Total Stockholders' Equity** | **$** | **1,958,735** | **$** | **1,280,598** |
| **Total Liabilities, Redeemable Preferred Stock, and Stockholders' Equity** | **$** | **11,476,244** | **$** | **9,534,031** |

See Notes To Unaudited Consolidated Financial Statements

# READY CAPITAL CORPORATION
## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended March 31, | |
|---|---|---|
| *(in thousands, except share data)* | **2022** | **2021** |
| Interest income | $ 124,405 | $ 73,371 |
| Interest expense | (61,017) | (50,761) |
| **Net interest income before provision for loan losses** | **$ 63,388** | **$ 22,610** |
| Recovery of (provision for loan losses) | (1,542) | 8 |
| **Net interest income after (provision for) recovery of loan losses** | **$ 61,846** | **$ 22,618** |
| **Non-interest income** | | |
| Residential mortgage banking activities | 8,424 | 41,409 |
| Net realized gain on financial instruments and real estate owned | 8,007 | 8,846 |
| Net unrealized gain on financial instruments | 45,315 | 20,996 |
| Servicing income, net of amortization and impairment of $3,345 and $1,942 | 10,528 | 15,635 |
| Income on purchased future receivables, net of allowance for doubtful accounts of ($125) and $995 | 2,469 | 2,317 |
| Income (loss) on unconsolidated joint ventures | 6,563 | (809) |
| Other income | 6,501 | 571 |
| **Total non-interest income** | **$ 87,807** | **$ 88,965** |
| **Non-interest expense** | | |
| Employee compensation and benefits | (27,968) | (22,777) |
| Allocated employee compensation and benefits from related party | (3,000) | (2,123) |
| Variable expenses on residential mortgage banking activities | (979) | (15,485) |
| Professional fees | (5,126) | (2,982) |
| Management fees – related party | (3,196) | (2,693) |
| Loan servicing expense | (8,920) | (6,104) |
| Transaction related expenses | (5,699) | (6,307) |
| Other operating expenses | (12,653) | (15,484) |
| **Total non-interest expense** | **$ (67,541)** | **$ (73,955)** |
| Income before provision for income taxes | 82,112 | 37,628 |
| Income tax provision | (17,849) | (8,681) |
| **Net income** | **$ 64,263** | **$ 28,947** |
| Less: Dividends on preferred stock | 1,999 | 281 |
| Less: Net income attributable to non-controlling interest | 775 | 659 |
| **Net income attributable to Ready Capital Corporation** | **$ 61,489** | **$ 28,007** |
| | | |
| **Earnings per common share - basic** | **$ 0.70** | **$ 0.49** |
| **Earnings per common share - diluted** | **$ 0.66** | **$ 0.49** |
| | | |
| **Weighted-average shares outstanding** | | |
| Basic | 87,707,281 | 56,817,632 |
| Diluted | 95,402,494 | 56,843,448 |
| | | |
| **Dividends declared per share of common stock** | **$ 0.42** | **$ 0.40** |

See Notes To Unaudited Consolidated Financial Statements

**READY CAPITAL CORPORATION**
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Three Months Ended March 31, | |
|---|---|---|
| *(in thousands)* | **2022** | **2021** |
| Net income | $ 64,263 | $ 28,947 |
| **Other comprehensive income - net change by component** | | |
| Net change in hedging derivatives (cash flow hedges) | 213 | 1,978 |
| Foreign currency translation adjustment | 766 | 991 |
| **Other comprehensive income** | **$ 979** | **$ 2,969** |
| **Comprehensive income** | **$ 65,242** | **$ 31,916** |
| Less: Comprehensive income attributable to non-controlling interests | 780 | 723 |
| **Comprehensive income attributable to Ready Capital Corporation** | **$ 64,462** | **$ 31,193** |

See Notes To Unaudited Consolidated Financial Statements

# READY CAPITAL CORPORATION
## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Three Months Ended March 31, 2022 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock Shares Outstanding | | | Common Stock | Preferred Stock | | | Common Stock | Additional Paid- | Retained Earnings | Accumulated Other | Total Ready Capital | Non-controlling | Total Stockholders' |
| *(in thousands, except share data)* | Series B | Series D | Series E | Shares Outstanding | Series B | Series D | Series E | Par Value | In Capital | (Deficit) | Comprehensive Loss | Corporation Equity | Interests | Equity |
| **Balance at January 1, 2022** | **—** | **—** | **4,600,000** | **75,838,050** | **$ —** | **$ —** | **$111,378** | **$ 8** | **$ 1,161,853** | **$ 8,598** | **$ (5,733)** | **$ 1,276,104** | **$ 4,494** | **$ 1,280,598** |
| Dividend declared: | | | | | | | | | | | | | | |
| Common stock ($0.42 per share) | — | — | — | — | — | — | — | — | — | (48,426) | — | (48,426) | — | (48,426) |
| OP units | — | — | — | — | — | — | — | — | — | — | — | — | (735) | (735) |
| $0.3906250 per Series C preferred share | — | — | — | — | — | — | — | — | — | (131) | — | (131) | — | (131) |
| $0.406250 per Series E preferred share | — | — | — | — | — | — | — | — | — | (1,868) | — | (1,868) | — | (1,868) |
| Shares issued pursuant to merger transaction | — | — | — | 30,252,764 | — | — | — | 3 | 437,308 | — | — | 437,311 | — | 437,311 |
| OP units issued pursuant to merger transaction | — | — | — | — | — | — | — | — | — | — | — | — | 20,745 | 20,745 |
| Non-controlling interest acquired in merger transaction | — | — | — | — | — | — | — | — | — | — | — | — | 82,257 | 82,257 |
| Equity issuances | — | — | — | 8,077,101 | — | — | — | — | 124,149 | — | — | 124,149 | — | 124,149 |
| Offering costs | — | — | — | — | — | — | — | — | (763) | — | — | (763) | (4) | (767) |
| Distributions, net | — | — | — | — | — | — | — | — | — | — | — | — | (1,916) | (1,916) |
| Equity component of 2017 convertible note issuance | — | — | — | — | — | — | — | — | (108) | — | — | (108) | (1) | (109) |
| Stock-based compensation | — | — | — | 252,260 | — | — | — | — | 3,646 | — | — | 3,646 | — | 3,646 |
| Share repurchases | — | — | — | (84,227) | — | — | — | — | (1,261) | — | — | (1,261) | — | (1,261) |
| Reallocation of non-controlling interest | — | — | — | — | — | — | — | — | (1,725) | — | 55 | (1,670) | 1,670 | — |
| Net income | — | — | — | — | — | — | — | — | — | 63,488 | — | 63,488 | 775 | 64,263 |
| Other comprehensive income | — | — | — | — | — | — | — | — | — | — | 974 | 974 | 5 | 979 |
| **Balance at March 31, 2022** | **—** | **—** | **4,600,000** | **114,335,948** | **$ —** | **$ —** | **$111,378** | **$ 11** | **$ 1,723,099** | **$ 21,661** | **$ (4,704)** | **$ 1,851,445** | **$ 107,290** | **$ 1,958,735** |

| | Three Months Ended March 31, 2021 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock Shares Outstanding | | | Common Stock | Preferred Stock | | | Common Stock | Additional Paid- | Retained Earnings | Accumulated Other | Total Ready Capital | Non-controlling | Total Stockholders' |
| *(in thousands, except share data)* | Series B | Series D | Series E | Shares Outstanding | Series B | Series D | Series E | Par Value | In Capital | (Deficit) | Comprehensive Loss | Corporation Equity | Interests | Equity |
| **Balance at January 1, 2021** | **—** | **—** | **—** | **54,368,999** | **$ —** | **$ —** | **$ —** | **$ 5** | **$ 849,541** | **$ (24,203)** | **$ (9,947)** | **$ 815,396** | **$ 18,812** | **$ 834,208** |
| Dividend declared: | | | | | | | | | | | | | | |
| Common stock ($0.40 per share) | — | — | — | — | — | — | — | — | — | (23,833) | — | (23,833) | — | (23,833) |
| OP units | — | — | — | — | — | — | — | — | — | — | — | — | (470) | (470) |
| $0.5390625 per Series B preferred share | — | — | — | — | — | — | — | — | — | (126) | — | (126) | (1) | (127) |
| $0.3906250 per Series C preferred share | — | — | — | — | — | — | — | — | — | (37) | — | (37) | — | (37) |
| $0.4765625 per Series D preferred share | — | — | — | — | — | — | — | — | — | (116) | — | (116) | (1) | (117) |
| Shares issued pursuant to merger transactions | 1,919,378 | 2,010,278 | — | 16,774,337 | 47,984 | 50,257 | — | 2 | 239,535 | — | — | 337,778 | — | 337,778 |
| Equity component of 2017 convertible note issuance | — | — | — | — | — | — | — | — | (99) | — | — | (99) | (2) | (101) |
| Stock-based compensation | — | — | — | 115,604 | — | — | — | — | 522 | — | — | 522 | — | 522 |
| Share repurchases | — | — | — | (37,241) | — | — | — | — | (987) | — | — | (987) | — | (987) |
| Net income | — | — | — | — | — | — | — | — | — | 28,288 | — | 28,288 | 659 | 28,947 |
| Other comprehensive income | — | — | — | — | — | — | — | — | — | — | 2,905 | 2,905 | 64 | 2,969 |
| **Balance at March 31, 2021** | **1,919,378** | **2,010,278** | **—** | **71,221,699** | **$ 47,984** | **$ 50,257** | **$ —** | **$ 7** | **$ 1,088,512** | **$ (20,027)** | **$ (7,042)** | **$ 1,159,691** | **$ 19,061** | **$ 1,178,752** |

See Notes To Unaudited Consolidated Financial Statements

## READY CAPITAL CORPORATION
## UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Three Months Ended March 31, | |
|---|---|---|
| *(in thousands)* | 2022 | 2021 |
| **Cash Flows From Operating Activities:** | | |
| Net income | $ 64,263 | $ 28,947 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | |
| Amortization of premiums, discounts, and debt issuance costs, net | (5,739) | 5,053 |
| Stock-based compensation | 1,963 | 1,578 |
| Provision for (recovery of) loan losses | 1,542 | (8) |
| Impairment loss on real estate owned, held for sale | 1,827 | — |
| Repair and denial reserve | (2,193) | 2,069 |
| Allowance for doubtful accounts on purchased future receivables | (125) | 995 |
| Origination of loans, held for sale, at fair value | (990,563) | (1,467,502) |
| Proceeds from disposition and principal payments of loans, held for sale, at fair value | 1,014,066 | 1,475,565 |
| Net (income) loss of unconsolidated joint ventures, net of distributions | (4,779) | 909 |
| Realized (gains) losses, net | (11,689) | (44,022) |
| Unrealized (gains) losses, net | (46,912) | (21,130) |
| Changes in operating assets and liabilities | | |
| Purchased future receivables, net | (756) | 3,073 |
| Derivative instruments | 495 | (58,499) |
| Assets of consolidated VIEs (excluding loans, net), accrued interest and due from servicers | (115) | 10,203 |
| Receivable from third parties | 21,979 | 27,249 |
| Other assets | (9,329) | (33,801) |
| Accounts payable and other accrued liabilities | (19,193) | 19,120 |
| **Net cash provided by (used for) operating activities** | **$ 14,742** | **$ (50,201)** |
| **Cash Flows From Investing Activities:** | | |
| Origination of loans | (1,289,329) | (661,053) |
| Purchase of loans | (643,744) | (2,316) |
| Proceeds from disposition and principal payment of loans | 371,142 | 192,763 |
| Origination of Paycheck Protection Program loans | — | (1,248,895) |
| Purchase of Paycheck Protection Program loans | — | (3,866) |
| Proceeds from disposition and principal payment of Paycheck Protection Program loans | 330,945 | 40,409 |
| Funding of investments held to maturity | (406) | — |
| Proceeds from sale and principal payment of mortgage-backed securities, at fair value | 5,168 | 1,417,871 |
| Funding of real estate, held for sale | (902) | — |
| Proceeds from sale of real estate, held for sale | 1,416 | 1,077 |
| Investment in unconsolidated joint ventures | (8,700) | (4,669) |
| Distributions in excess of cumulative earnings from unconsolidated joint ventures | 5,152 | 8,221 |
| Payment of liabilities under participation agreements, net of proceeds received | (17,270) | — |
| Net of cash provided by business acquisitions | 123,566 | 49,917 |
| **Net cash used for investing activities** | **$ (1,122,962)** | **$ (210,541)** |
| **Cash Flows From Financing Activities:** | | |
| Proceeds from secured borrowings | 4,208,161 | 3,597,363 |
| Repayment of secured borrowings | (3,516,612) | (4,609,399) |
| Proceeds from the Paycheck Protection Program Liquidity Facility borrowings | — | 1,095,900 |
| Repayment of the Paycheck Protection Program Liquidity Facility borrowings | (314,060) | (39,640) |
| Proceeds from issuance of securitized debt obligations of consolidated VIEs | 928,257 | 510,955 |
| Repayment of securitized debt obligations of consolidated VIEs | (259,705) | (201,310) |
| Proceeds from corporate debt | 4,040 | 195,768 |
| Repayment of corporate debt | — | (50,000) |
| Repayment of guaranteed loan financing | (30,486) | (19,320) |
| Payment of deferred financing costs | (11,477) | (12,337) |
| Proceeds from issuance of equity, net of issuance costs | 123,382 | — |
| Payment of contingent consideration | (9,000) | — |
| Settlement of share-based awards in satisfaction of withholding tax requirements | (1,261) | (987) |
| Dividend payments | (34,347) | (34,699) |
| Distributions to non-controlling interests, net | (1,916) | — |
| **Net cash provided by financing activities** | **$ 1,084,976** | **$ 432,294** |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | (23,244) | 171,552 |
| Cash, cash equivalents, and restricted cash beginning balance | 323,328 | 200,482 |
| **Cash, cash equivalents, and restricted cash ending balance** | **$ 300,084** | **$ 372,034** |
| **Supplemental disclosures:** | | |
| Cash paid for interest | $ 49,854 | $ 47,536 |
| Cash paid for income taxes | $ 102 | $ — |
| **Non-cash investing activities** | | |
| Loans transferred from loans, net to loans, held for sale, at fair value | $ 1,507 | $ 1,571 |
| Loans transferred to real estate owned | $ 496 | $ 1,276 |
| Contingent consideration in connection with acquisitions | $ 84,348 | $ — |
| **Non-cash financing activities** | | |
| Shares issued in connection with merger transactions | $ 458,056 | $ 239,537 |
| **Cash, cash equivalents, and restricted cash reconciliation** | | |
| Cash and cash equivalents | $ 211,369 | $ 308,428 |
| Restricted cash | 56,963 | 62,961 |
| Cash, cash equivalents, and restricted cash in assets of consolidated VIEs | 31,752 | 645 |
| **Cash, cash equivalents, and restricted cash ending balance** | **$ 300,084** | **$ 372,034** |

See Notes To Unaudited Consolidated Financial Statements

**READY CAPITAL CORPORATION**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1. Organization**

Ready Capital Corporation (the "Company" or "Ready Capital" and together with its subsidiaries "we," "us" and "our"), is a Maryland corporation. The Company is a multi-strategy real estate finance company that originates, acquires, finances and services small to medium balance commercial ("SBC") loans, Small Business Administration ("SBA") loans, residential mortgage loans, construction loans, and to a lesser extent, mortgage-backed securities ("MBS") collateralized primarily by SBC loans, or other real estate-related investments. SBC loans represent a special category of commercial loans, sharing both commercial and residential loan characteristics. SBC loans are generally secured by first mortgages on commercial properties, but because SBC loans are also often accompanied by collateralization of personal assets and subordinate lien positions, aspects of residential mortgage credit analysis are utilized in the underwriting process.

The Company is externally managed and advised by Waterfall Asset Management, LLC ("Waterfall" or the "Manager"), an investment advisor registered with the United States Securities and Exchange Commission ("SEC") under the Investment Advisors Act of 1940, as amended.

Sutherland Partners, L.P. (the "operating partnership") holds substantially all of our assets and conducts substantially all of our business. As of March 31, 2022 and December 31, 2021, the Company owned approximately 98.5% and 99.6% of the operating partnership, respectively. The Company, as sole general partner of the operating partnership, has responsibility and discretion in the management and control of the operating partnership, and the limited partners of the operating partnership, in such capacity, have no authority to transact business for, or participate in the management activities of the operating partnership. Therefore, the Company consolidates the operating partnership.

***Acquisitions***

***Anworth Mortgage Asset Corporation.*** On March 19, 2021, the Company completed the acquisition of Anworth Mortgage Asset Corporation ("Anworth"), through a merger of Anworth with and into a wholly owned subsidiary of the Company, in exchange for approximately 16.8 million shares of the Company's common stock and approximately $60.6 million in cash ("Anworth Merger"). In accordance with the Agreement and Plan of Merger, dated as of December 6, 2020 (the "Anworth Merger Agreement"), by and among the Company, RC Merger Subsidiary, LLC and Anworth, the number of shares of the Company's common stock issued was based on an exchange ratio of 0.1688 per share plus $0.61 in cash. The total purchase price for the merger of $417.9 million consists of the Company's common stock issued in exchange for shares of Anworth common stock and cash paid in lieu of fractional shares of the Company's common stock, which was based on a price of $14.28 of the Company's common stock on the acquisition date, and $0.61 in cash per share.

In addition, in connection with the Anworth merger, the Company issued 1,919,378 shares of newly designated 8.625% Series B Cumulative Preferred Stock, par value $0.0001 per share (the "Series B Preferred Stock"), 779,743 shares of newly designated 6.25% Series C Cumulative Convertible Preferred Stock, par value $0.0001 per share (the "Series C Preferred Stock"), and 2,010,278 shares of newly designated 7.625% Series D Cumulative Redeemable Preferred Stock, par value $0.0001 per share (the "Series D Preferred Stock"), in exchange for all shares of Anworth's 8.625% Series A Cumulative Preferred Stock, 6.25% Series B Cumulative Convertible Preferred Stock and 7.625% Series C Cumulative Redeemable preferred stock outstanding prior to the effective time of the Anworth Merger. On July 15, 2021, the Company redeemed all of the outstanding Series B Preferred Stock and Series D Preferred Stock, in each case at a redemption price equal to $25.00 per share, plus accrued and unpaid dividends up to, but excluding, the redemption date.

Upon the closing of the transaction and after giving effect to the issuance of shares of common stock as consideration in the merger, the Company's historical stockholders owned approximately 77% of the combined Company's outstanding common stock, while historical Anworth stockholders owned approximately 23% of the combined Company's outstanding common stock. Refer to Note 5 for assets acquired and liabilities assumed in the merger.

The acquisition of Anworth increased the Company's equity capitalization, supported continued growth of the Company's platform and execution of the Company's strategy, and provided the Company with improved scale, liquidity and capital alternatives, including additional borrowing capacity. Also, the stockholder base resulting from the acquisition of Anworth enhanced the trading volume and liquidity for our stockholders. In addition, part of our strategy in acquiring Anworth was to manage the liquidation and runoff of certain assets within the Anworth portfolio and repay certain indebtedness on the

Anworth portfolio following the completion of the Anworth Merger, and to redeploy the capital into opportunities in our core SBC strategies and other assets we expect will generate attractive risk-adjusted returns and long-term earnings accretion. Consistent with this strategy, as of March 31, 2022, the Company has liquidated approximately $2.1 billion of assets, primarily consisting of agency residential mortgage-backed securities, which are guaranteed by the U.S. government or by federally sponsored enterprises, and repaid approximately $1.8 billion of indebtedness on the Anworth portfolio.

In addition, concurrently with entering into the Anworth Merger Agreement, we, the operating partnership and the Manager entered into the First Amendment to the Amended and Restated Management Agreement (the "Amendment"), pursuant to which, upon the closing of the Anworth Merger, the Manager's base management fee will be reduced by $1,000,000 per quarter for each of the first full four quarters following the effective time of the Anworth Merger (the "Temporary Fee Reduction"). Other than the Temporary Fee Reduction set forth in the Amendment, the terms of the Management Agreement remain the same.

***Red Stone.*** On July 31, 2021, the Company acquired Red Stone and its affiliates ("Red Stone"), a privately owned real estate finance and investment company that provides innovative financial products and services to multifamily affordable housing, in exchange for an initial purchase price of approximately $63 million paid in cash, retention payments to key executives aggregating $7 million in cash and 128,533 shares of common stock of the Company issued to Red Stone executives under the 2012 Plan. Refer to Note 21 – Redeemable Preferred Stock and Stockholders' Equity for more information on the 2012 Plan. Additional purchase price payments may be made over the next three years if the Red Stone business achieves certain hurdles. The acquisition of Red Stone supported a significant growth opportunity for the Company by expanding presence in a sector with otherwise low correlation to our assets. Part of the Company's strategy in acquiring Red Stone included the value of the anticipated synergies arising from the acquisition and the value of the acquired assembled workforce, neither of which qualify for recognition as an intangible asset. Refer to Note 5 for assets acquired and liabilities assumed in the merger.

***Mosaic.*** On March 16, 2022, pursuant to the terms of that certain Merger Agreement, dated as of November 3, 2021, as amended on February 7, 2022, the Company acquired, in a series of mergers (collectively, the "Mosaic Mergers"), a group of privately held, real estate structured finance opportunities funds, with a focus on construction lending (collectively, the "Mosaic Funds"), managed by MREC Management, LLC.

As consideration for the Mosaic Mergers, each former investor was entitled to receive an equal number of shares of each of Class B-1 Common Stock, $0.0001 par value per share (the "Class B-1 Common Stock"), Class B-2 Common Stock, $0.0001 par value per share (the "Class B-2 Common Stock") Class B-3 Common Stock, $0.0001 par value per share (the "Class B-3 Common Stock"), and Class B-4 Common Stock, $0.0001 par value per share (the "Class B-4 Common Stock" and, together with the Class B-1 Common Stock, the Class B-2 Common Stock and the Class B-3 Common Stock, the "Class B Common Stock"), of Ready Capital, contingent equity rights ("CERs") representing the potential right to receive shares of Common Stock as of the end of the three-year period following the closing date of the Mosaic Mergers based upon the performance of the assets acquired by Ready Capital pursuant to the Mosaic Mergers, and cash consideration in lieu of any fractional shares of Class B Common Stock.

The Class B Common Stock rank equally with the common stock, except that the shares of Class B Common Stock are not listed on the New York Stock Exchange. Each tranche of Class B Common Stock will automatically convert into an equal number of shares of common stock on a quarterly basis over the course of a year following the closing date of the Mosaic Mergers. The CERs are contractual rights and do not represent any equity or ownership interest in Ready Capital or any of its affiliates. If any shares of common stock are issued in settlement of the CERs, each former investor will also be entitled to receive a number of additional shares of common stock equal to (i) the amount of any dividends or other distributions paid with respect to the number of whole shares of common stock received in respect of CERs and having a record date on or after the closing date of the Mergers and a payment date prior to the issuance date of such shares of common stock, divided by (ii) the greater of (a) the average of the volume weighted average prices of one share of common stock over the ten trading days preceding the determination date and (b) the most recently reported book value per share of common stock as of the determination date.

The acquisition further expanded the Company's investment portfolio and origination platform to include a diverse portfolio of construction assets with attractive portfolio yields. Refer to Note 5 for assets acquired and liabilities assumed in the merger.

***REIT Status***

The Company qualifies as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), commencing with its first taxable year ended December 31, 2011. To maintain its tax status as a REIT, the Company distributes dividends equal to at least 90% of its taxable income in the form of distributions to shareholders.

**Note 2. Basis of Presentation**

The unaudited interim consolidated financial statements herein, referred to as the "consolidated financial statements", as of March 31, 2022 and December 31, 2021 and for the three months ended March 31, 2022 and 2021, have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP")—as prescribed by the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") and the rules and regulations of the SEC.

The accompanying interim consolidated financial statements, including the notes thereto, are unaudited and exclude some of the disclosures required in audited financial statements. Accordingly, certain information and footnote disclosures normally included in the consolidated financial statements have been condensed or omitted. In the opinion of management, the accompanying consolidated financial statements contain all normal recurring adjustments necessary for a fair statement of the results for the interim periods presented. Such operating results may not be indicative of the expected results for any other interim period or the entire year. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 filed with the SEC.

**Note 3. Summary of Significant Accounting Policies**

***Use of estimates***
Preparation of the Company's consolidated financial statements in conformity with U.S. GAAP requires certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates and assumptions are based on the best available information however, actual results could be materially different.

***Basis of consolidation***
The accompanying consolidated financial statements of the Company include the accounts and results of operations of the operating partnership and other consolidated subsidiaries and variable interest entities ("VIEs") in which we are the primary beneficiary. The consolidated financial statements are prepared in accordance with ASC 810, *Consolidations.* Intercompany balances and transactions have been eliminated.

***Reclassifications***
Certain amounts reported for the prior periods in the accompanying consolidated financial statements have been reclassified in order to conform to the current period's presentation.

***Cash and cash equivalents***
The Company accounts for cash and cash equivalents in accordance with ASC 305, *Cash and Cash Equivalents.* The Company defines cash and cash equivalents as cash, demand deposits, and short-term, highly liquid investments with original maturities of 90 days or less when purchased. Cash and cash equivalents are exposed to concentrations of credit risk. We deposit our cash with institutions that we believe to have highly valuable and defensible business franchises, strong financial fundamentals, and predictable and stable operating environments.

***Restricted cash***
Restricted cash represents cash held by the Company as collateral against its derivatives, borrowings under repurchase agreements, borrowings under credit facilities and other financing agreements with counterparties, construction and mortgage escrows, as well as cash held for remittance on loans serviced for third parties. Restricted cash is not available for general corporate purposes but may be applied against amounts due to counterparties under existing swaps and repurchase agreement borrowings, returned to the Company when the restriction requirements no longer exist or at the maturity of the swap or repurchase agreement.

***Loans, net***

Loans, net consists of loans, held-for-investment, net of allowance for credit losses, and loans, held at fair value.

***Loans, held-for-investment.*** Loans, held-for-investment are loans acquired from third parties ("acquired loans"), loans originated by the Company that we do not intend to sell, or securitized loans that were previously originated by us. Securitized loans remain on the Company's balance sheet because the securitization vehicles are consolidated under ASC 810. Acquired loans are recorded at cost at the time they are acquired and are accounted for under ASC 310-10, *Receivables.*

The Company uses the interest method to recognize, as a constant effective yield adjustment, the difference between the initial recorded investment in the loan and the principal amount of the loan. The calculation of the constant effective yield necessary to apply the interest method uses the payment terms required by the loan contract, and prepayments of principal are not anticipated to shorten the loan term.

Recognition of interest income is suspended when any loans are placed on non-accrual status. Generally, all classes of loans are placed on non-accrual status when principal or interest has been delinquent for 90 days or when full collection is determined to be not probable. Interest income accrued, but not collected, at the date loans are placed on non-accrual status is reversed and subsequently recognized only to the extent it is received in cash or until the loan qualifies for return to accrual status. However, where there is doubt regarding the ultimate collectability of loan principal, all cash received is applied to reduce the carrying value of such loans. Loans are restored to accrual status only when contractually current and the collection of future payments is reasonably assured.

***Loans, held at fair value.*** Loans, held at fair value represent certain loans originated by the Company for which we have elected the fair value option. Interest is recognized as interest income in the consolidated statements of income when earned and deemed collectible. Changes in fair value are recurring and are reported as net unrealized gain (loss) on financial instruments in the consolidated statements of income.

***Allowance for credit losses.*** The allowance for credit losses consists of the allowance for losses on loans and lending commitments accounted for at amortized cost. Such loans and lending commitments are reviewed quarterly considering credit quality indicators, including probable and historical losses, collateral values, loan-to-value ("LTV") ratio and economic conditions. The allowance for credit losses increases through provisions charged to earnings and reduced by charge-offs, net of recoveries.

On January 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments-Credit Losses*, and subsequent amendments ("ASU 2016-13"), which replaces the incurred loss methodology with an expected loss model known as the Current Expected Credit Loss ("CECL") model. CECL amends the previous credit loss model to reflect a reporting entity's current estimate of all expected credit losses, not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost. The allowance for credit losses required under ASU 2016-13 is deducted from the respective loans' amortized cost basis on our consolidated balance sheets. The guidance also requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.

In connection with the Company's adoption of ASU 2016-13 on January 1, 2020, the Company implemented new processes including the utilization of loan loss forecasting models, updates to the Company's reserve policy documentation, changes to internal reporting processes and related internal controls. The Company has implemented loan loss forecasting models for estimating expected life-time credit losses, at the individual loan level, for its loan portfolio. The CECL forecasting methods used by the Company include (i) a probability of default and loss given default method using underlying third-party CMBS/CRE loan databases with historical loan losses and (ii) probability weighted expected cash flow method, depending on the type of loan and the availability of relevant historical market loan loss data. The Company might use other acceptable alternative approaches in the future depending on, among other factors, the type of loan, underlying collateral, and availability of relevant historical market loan loss data.

Significant inputs to the Company's forecasting methods include (i) key loan-specific inputs such as LTV, vintage year, loan-term, underlying property type, occupancy, geographic location, and others, and (ii) a macro-economic forecast, including unemployment rates, interest rates, commercial real estate prices, and others. These estimates may change in future periods based on available future macro-economic data and might result in a material change in the Company's future estimates of expected credit losses for its loan portfolio.

In certain instances, the Company considers relevant loan-specific qualitative factors to certain loans to estimate its CECL expected credit losses. The Company considers loan investments that are both (i) expected to be substantially repaid through the operation or sale of the underlying collateral, and (ii) for which the borrower is experiencing financial difficulty, to be "collateral-dependent" loans. For such loans that the Company determines that foreclosure of the collateral is probable, the Company measures the expected losses based on the difference between the fair value of the collateral (less costs to sell the asset if repayment is expected through the sale of the collateral) and the amortized cost basis of the loan as of the measurement date. For collateral-dependent loans that the Company determines foreclosure is not probable, the Company applies a practical expedient to estimate expected losses using the difference between the collateral's fair value (less costs to sell the asset if repayment is expected through the sale of the collateral) and the amortized cost basis of the loan.

While we have a formal methodology to determine the adequate and appropriate level of the allowance for credit losses, estimates of inherent loan losses involve judgment and assumptions as to various factors, including current economic conditions. Our determination of adequacy of the allowance for credit losses is based on quarterly evaluations of the above factors. Accordingly, the provision for credit losses will vary from period to period based on management's ongoing assessment of the adequacy of the allowance for credit losses.

***Non-accrual loans.*** A loan is placed on nonaccrual status when it is probable that principal and interest will not be collected under the original contractual terms. At that time, interest income is no longer accrued. Non-accrual loans consist of loans for which principal or interest has been delinquent for 90 days or more and for which specific reserves are recorded, including purchased credit-deteriorated ("PCD") loans.

***Troubled debt restructurings.*** In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant concessions for a period of time to the borrower that we would not otherwise consider, the related loans are classified as troubled debt restructurings ("TDR"). These modified terms may include interest rate reductions, principal forgiveness, term extensions, payment forbearance and other actions intended to minimize our economic loss and to avoid foreclosure or repossession of collateral. For modifications where we forgive principal, the entire amount of such principal forgiveness is immediately charged off. Other than resolutions such as foreclosures and sales, we may remove loans held-for-investment from TDR classification, but only if they have been refinanced or restructured at market terms and qualify as a new loan.

Generally, all loans modified in a TDR are placed or remain on non-accrual status at the time of the restructuring. However, certain accruing loans modified in a TDR that are current at the time of restructuring may remain on accrual status if payment in full under the restructured terms is expected.

In addition, based on issued regulatory guidance provided by federal and state regulatory agencies, a loan modification is not considered a TDR if: (1) made in response to the COVID-19 pandemic; (2) the borrower was current on payments at the time the modification program was implemented; and (3) the modification was short-term (e.g., six months).

***Loans, held for sale, at fair value***

Loans, held for sale, at fair value are loans that are expected to be sold to third parties in the near term. Interest is recognized as interest income in the consolidated statements of income when earned and deemed collectible. For loans originated through the SBC Lending and Acquisitions and Small Business Lending segments, changes in fair value are recurring and are reported as net unrealized gain (loss) on financial instruments in the consolidated statements of income. For originated SBA loans, the guaranteed portion is held for sale, at fair value. For loans originated by GMFS, changes in fair value are reported as residential mortgage banking activities in the consolidated statements of income.

***Paycheck Protection Program loans***
Paycheck Protection Program ("PPP") loans originated in response to the COVID-19 pandemic are further described in Note 20. The Company has elected the fair value option for the loans originated by the Company for the first round of the program. Interest is recognized in the consolidated statements of income as interest income when earned and deemed collectible. Although PPP includes a 100% guarantee from the federal government and principal forgiveness for borrowers if the funds were used for defined purposes, changes in fair value are recurring and are reported as net unrealized gains (losses) on financial instruments in the consolidated statements of income.

The Company's loan originations in the second round of the program are accounted for as loans, held-for-investment under ASC 310. Loan origination fees and related direct loan origination costs are capitalized into the initial recorded investment in the loan and are deferred over the loan term. The Company recognizes the difference between the initial recorded investment and the principal amount of the loan as interest income using the effective yield method. The effective yield is determined based on the payment terms required by the loan contract as well as with actual and expected prepayments from loan forgiveness by the federal government.

***Mortgage-backed securities, at fair value***
The Company accounts for MBS as trading securities and carries them at fair value under ASC 320, *Investments-Debt and Equity Securities.* Our MBS portfolio is comprised of asset-backed securities collateralized by interest in, or obligations backed by, pools of SBC loans, as well as residential Agency MBS, which are guaranteed by the U.S. government, such as Ginnie Mae, or guaranteed by federally sponsored enterprises, such as Fannie Mae or Freddie Mac. Purchases and sales of MBS are recorded as of the trade date. Our MBS securities pledged as collateral against borrowings under repurchase agreements are included in mortgage-backed securities, at fair value on our consolidated balance sheets.

MBS are recorded at fair value as determined by market prices provided by independent broker dealers or other independent valuation service providers. The fair values assigned to these investments are based upon available information and may not reflect amounts that may be realized. We generally intend to hold our investment in MBS to generate interest income; however, we have and may continue to sell certain of our investment securities as part of the overall management of our assets and liabilities and operating our business. The fair value adjustments on MBS are reported within net unrealized gain (loss) on financial instruments in the consolidated statements of income.

***Loans eligible for repurchase from Ginnie Mae***
When the Company has the unilateral right to repurchase Ginnie Mae pool loans it has previously sold (generally loans that are more than 90 days past due), the Company then records the right to repurchase the loan as an asset and liability in its consolidated balance sheets. Such amounts reflect the unpaid principal balance of the loans.

***Derivative instruments, at fair value***
Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes, we utilize derivative financial instruments, comprised of credit default swaps ("CDSs"), interest rate swaps, TBA agency securities, FX forwards and interest rate lock commitments ("IRLCs") as part of our risk management strategy. The Company accounts for derivative instruments under ASC 815, *Derivatives and Hedging*. All derivatives are reported as either assets or liabilities in the consolidated balance sheets at the estimated fair value with the changes in the fair value recorded in earnings unless hedge accounting is elected. As of March 31, 2022 and December 31, 2021, the Company has offset $0.2 million and $1.8 million, respectively, of cash collateral receivable against gross derivative liability positions. As of March 31, 2022 and December 31, 2021, the Company has not offset $0.8 million and $9.0 million, respectively, of cash collateral receivable against derivative liability positions and included it in restricted cash in the consolidated balance sheets.

***Interest rate swap agreements.*** An interest rate swap is an agreement between two counterparties to exchange periodic interest payments where one party to the contract makes a fixed-rate payment in exchange for a floating-rate payment from the other party. The dollar amount each party pays is an agreed-upon periodic interest rate multiplied by a pre-determined dollar principal (notional amount). No principal (notional amount) is exchanged between the two parties at the trade initiation date and only interest payments are exchanged over the life of the contract. Interest rate swaps are classified as Level 2 in the fair value hierarchy. The fair value adjustments are reported within net unrealized gain (loss) on financial instruments, while the related interest income or interest expense, are reported within net realized gain (loss) on financial instruments in the consolidated statements of income.

***TBA Agency Securities***. TBA Agency Securities are forward contracts for the purchase or sale of Agency Securities at predetermined measures on an agreed-upon future date. The specific Agency Securities delivered pursuant to the contract upon the settlement date are not known at the time of the transaction. The fair value of TBA Agency Securities is priced based on observed quoted prices. The realized and unrealized gains or losses are reported in the consolidated statements of income as residential mortgage banking activities. TBA Agency Securities are classified as Level 2 in the fair value hierarchy.

***IRLC.*** IRLCs are agreements under which GMFS agrees to extend credit to a borrower under certain specified terms and conditions in which the interest rate and the maximum amount of the loan are set prior to funding. Unrealized gains and losses on the IRLCs, reflected as derivative assets and derivative liabilities, respectively, are measured based on the value of the underlying mortgage loan, quoted government-sponsored enterprise (Fannie Mae, Freddie Mac, and the Government National Mortgage Association ((“Ginnie Mae”), collectively, “GSEs”) or MBS prices, estimates of the fair value of the mortgage servicing rights (“MSRs”) and the probability that the mortgage loan will fund within the terms of the IRLC, net of commission expense and broker fees. The realized and unrealized gains or losses are reported in the consolidated statements of income as residential mortgage banking activities. IRLCs are classified as Level 3 in the fair value hierarchy.

***FX forwards.*** FX forwards are agreements between two counterparties to exchange a pair of currencies at a set rate on a future date. Such contracts are used to convert the foreign currency risk to U.S. dollars to mitigate exposure to fluctuations in FX rates. The fair value adjustments are reported within net unrealized gain (loss) on financial instruments in the consolidated statements of income. FX forwards are classified as Level 2 in the fair value hierarchy.

***CDS.*** CDSs are contracts between two parties, a protection buyer who makes fixed periodic payments, and a protection seller who collects the premium in exchange for making the protection buyer whole in the case of default. The fair value adjustments are reported within net unrealized gain (loss) on financial instruments, while the related interest income or interest expense are reported within net realized gain (loss) on financial instruments in the consolidated statements of income. CDSs are classified as Level 2 in the fair value hierarchy.

***Hedge accounting.*** As a general rule, hedge accounting is permitted where the Company is exposed to a particular risk, such as interest rate risk, that causes changes in the fair value of an asset or liability or variability in the expected future cash flows of an existing asset, liability, or forecasted transaction that may affect earnings.

To qualify as an accounting hedge under the hedge accounting rules (versus an economic hedge where hedge accounting is not applied), a hedging relationship must be highly effective in offsetting the risk designated as being hedged. We use cash flow hedges to hedge the exposure to variability in cash flows from forecasted transactions, including the anticipated issuance of securitized debt obligations. ASC 815 requires that a forecasted transaction be identified as either: 1) a single transaction, or 2) a group of individual transactions that share the same risk exposures for which they are designated as being hedged. Hedges of forecasted transactions are considered cash flow hedges since the price is not fixed, hence involve variability of cash flows.

For qualifying cash flow hedges, the change in the fair value of the derivative (the hedging instrument) is recorded in other comprehensive income (loss) ("OCI") and is reclassified out of OCI and into the consolidated statements of income when the hedged cash flows affect earnings. These amounts are recognized consistent with the classification of the hedged item, primarily interest expense (for hedges of interest rate risk). If the hedge relationship is terminated, then the value of the derivative recorded in accumulated other comprehensive income (loss) ("AOCI") is recognized in earnings when the cash flows that were hedged affect earnings, so long as the forecasted transaction remains probable of occurring.

In May 2021, we discontinued hedge accounting for the anticipated issuance of securitized debt obligations for certain hedges. As a general rule, derivative gains or losses reported in AOCI are required to be recorded in earnings when it becomes probable that the forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period thereafter. The guidance in ASC 815 includes an exception to the general rule when extenuating circumstances that are outside the control or influence of the reporting entity cause the forecasted transaction to be probable of occurring on a date that is beyond the additional two-month period. The issuance of the securitized debt obligations was delayed beyond the additional two-month period due to the uncertainty in the capital markets and lower origination volumes as a result of the COVID-19 pandemic. Since the delay was caused by extenuating circumstances related to the COVID-19 pandemic and the issuance of securitized debt obligations remains probable over a reasonable time period after the additional two-month period, the discontinued cash flow hedges qualify for the exception in accordance with FASB Staff Q&A Topic 815: *Cashflow hedge accounting affected by the Covid-19 Pandemic*. Accordingly, the previously recorded net derivative instrument gains or losses related to the discontinued cash flow hedges will remain in AOCI. Gains and losses from the derivative instruments will be recorded in the earnings from the date of the discontinuation of cash flow hedges.

Hedge accounting is generally terminated at the debt issuance date because we are no longer exposed to cash flow variability subsequent to issuance. Accumulated amounts recorded in AOCI at that date are then released to earnings in future periods to reflect the difference in 1) the fixed rates economically locked in at the inception of the hedge and 2) the actual fixed rates established in the debt instrument at issuance. Because of the effects of the time value of money, the actual interest expense reported in earnings will not equal the effective yield locked in at hedge inception multiplied by the par value. Similarly, this hedging strategy does not actually fix the interest payments associated with the forecasted debt issuance.

***Servicing rights***

Servicing rights initially represent the fair value of expected future cash flows for performing servicing activities for others. The fair value considers estimated future servicing fees and ancillary revenue, offset by estimated costs to service the loans, and generally declines over time as net servicing cash flows are received, effectively amortizing the servicing right asset against contractual servicing and ancillary fee income.

Servicing rights are recognized upon sale of loans, including a securitization of loans accounted for as a sale in accordance with U.S. GAAP, if servicing is retained. For servicing rights, gains related to servicing rights retained is included in net realized gain (loss) in the consolidated statements of income. For residential MSRs, gains on servicing rights retained upon sale of a loan are included in residential mortgage banking activities in the consolidated statements of income.

The Company treats its servicing rights and residential MSRs as two separate classes of servicing assets based on the class of the underlying mortgages and it treats these assets as two separate pools for risk management purposes. Servicing rights relating to the Company's servicing of loans guaranteed by the SBA under its Section 7(a) loan program and multi-family servicing rights are accounted for under ASC 860, *Transfers and Servicing,* while the Company's residential MSRs are accounted for under the fair value option under ASC 825, *Financial Instruments.* A significant portion of the Company's multi-family servicing rights are under the Freddie Mac program.

***Servicing rights – SBA and multi-family portfolio.*** SBA and multi-family servicing rights are initially recorded at fair value and subsequently carried at amortized cost. Servicing rights are amortized in proportion to and over the expected service period, or term of the loans, and are evaluated for potential impairment quarterly.

For purposes of testing our servicing rights for impairment, we first determine whether facts and circumstances exist that would suggest the carrying value of the servicing asset is not recoverable. If so, we then compare the net present value of servicing cash flow to its carrying value. The estimated net present value of servicing cash flows is determined using discounted cash flow modeling techniques, which require management to make estimates regarding future net servicing cash flows, taking into consideration historical and forecasted loan prepayment rates, delinquency rates and anticipated maturity defaults. If the carrying value of the servicing rights exceeds the net present value of servicing cash flows, the servicing rights are considered impaired, and an impairment loss is recognized in earnings for the amount by which carrying value exceeds the net present value of servicing cash flows.

We estimate the fair value of servicing rights by determining the present value of future expected servicing cash flows using modeling techniques that incorporate management's best estimates of key variables including estimates regarding future net servicing cash flows, forecasted loan prepayment rates, delinquency rates, and return requirements commensurate with the risks involved. Cash flow assumptions are modeled using our internally forecasted revenue and expenses, and where possible, the reasonableness of assumptions is periodically validated through comparisons to market data. Prepayment speed estimates are determined from historical prepayment rates or obtained from third-party industry data. Return requirement assumptions are determined using data obtained from market participants, where available, or based on current relevant interest rates plus a risk-adjusted spread. We also consider other factors that can impact the value of the servicing rights, such as surety provider termination clauses and servicer terminations that could result if we failed to materially comply with the covenants or conditions of our servicing agreements and did not remedy the failure. Since many factors can affect the estimate of the fair value of servicing rights, we regularly evaluate the major assumptions and modeling techniques used in our estimate and review these assumptions against market comparables, if available. We monitor the actual performance of our servicing rights by regularly comparing actual cash flow, credit, and prepayment experience to modeled estimates.

***Servicing rights - Residential (carried at fair value).*** The Company's residential MSRs consist of conforming conventional residential loans sold to Fannie Mae and Freddie Mac or loans securitized in Ginnie Mae securities. Government insured loans serviced by the Company are securitized through Ginnie Mae, whereby the Company is insured against loss by the Federal Housing Administration or partially guaranteed against loss by the Department of Veterans Affairs.

The Company has elected to account for its portfolio of residential MSRs at fair value. For these assets, the Company uses a third-party vendor to assist management in estimating the fair value. The third-party vendor uses a discounted cash flow approach which consists of projecting servicing cash flows discounted at a rate that management believes market participants would use in their determinations of fair value. The key assumptions used in the estimation of the fair value of MSRs include prepayment rates, discount rates, and cost of servicing. Residential MSRs are classified as Level 3 in the fair value hierarchy.

***Real estate owned, held for sale***

Real estate owned, held for sale includes purchased real estate and real estate acquired in full or partial settlement of loan obligations, generally through foreclosure, that is being marketed for sale. Real estate owned, held for sale is recorded at acquisition at the property's estimated fair value less estimated costs to sell.

After acquisition, costs incurred relating to the development and improvement of property are capitalized to the extent they do not cause the recorded value to exceed the net realizable value, whereas costs relating to holding and disposition of the property are expensed as incurred. After acquisition, real estate owned, held for sale is analyzed periodically for changes in fair values and any subsequent write down is charged through impairment.

The Company records a gain or loss from the sale of real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether the collectability of the transaction price is probable. Once these criteria are met, the real estate is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. This adjustment is based on management's estimate of the fair value of the loan extended to the buyer to finance the sale.

***Investment in unconsolidated joint ventures***

According to ASC 323, *Equity Method and Joint Ventures*, investors in unincorporated entities such as partnerships and unincorporated joint ventures generally shall account for their investments using the equity method of accounting if the investor has the ability to exercise significant influence over the investee. Under the equity method, we recognize our allocable share of the earnings or losses of the investment monthly in earnings and adjust the carrying amount for our share of the distributions that exceed our allocable share of earnings.

***Investments held to maturity***

The Company accounts for held to maturity investments under ASC 320, *Investments- Debt Securities*. Such securities are accounted for at amortized cost and reviewed on a quarterly basis to determine if an allowance for credit losses should be recorded in the consolidated statements of income.

***Purchased future receivables***

Through Knight Capital, the Company provides working capital advances to small businesses through the purchase of their future revenues. The Company enters into a contract with the business whereby the Company pays the business an upfront amount in return for a specific amount of the business's future revenue receivables, known as payback amounts. The payback amounts are primarily received through daily payments initiated by automated clearing house ("ACH") transactions.

Revenues from purchased future receivables are realized when funds are received under each contract. The allocation of the amount received is determined by apportioning the amount received based upon the factor (discount) rate of the business's contract. Management believes that this methodology best reflects the effective interest method.

The Company has established an allowance for doubtful purchased future receivables. An increase in the allowance for doubtful purchased future receivables results in a charge to income and is reduced when purchased future receivables are charged-off. Purchased future receivables are charged-off after 90 days past due. Management believes that the allowance reflects the risk elements and is adequate to absorb losses inherent in the portfolio. Although management has performed this evaluation, future adjustments may be necessary based on changes in economic conditions or other factors.

***Intangible assets***
The Company accounts for intangible assets under ASC 350, *Intangibles- Goodwill and Other*. The Company's intangible assets include an SBA license, capitalized software, a broker network, trade names, customer relationships and an acquired favorable lease. The Company capitalizes software costs expected to result in long-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality. All other costs incurred in connection with internal use software are expensed as incurred. The Company initially records its intangible assets at cost or fair value and will test for impairment if a triggering event occurs. Intangible assets are included within other assets in the consolidated balance sheets. The Company amortizes intangible assets with identified estimated useful lives on a straight-line basis over their estimated useful lives.

***Goodwill***
Goodwill represents the excess of the consideration transferred over the fair value of net assets, including identifiable intangible assets, at the acquisition date. Goodwill is assessed for impairment annually in the fourth quarter or more frequently if events or changes in circumstances indicate a potential impairment exists.

In assessing goodwill for impairment, the Company follows ASC 350, *Intangibles- Goodwill and Other,* which permits a qualitative assessment of whether it is more likely than not that the fair value of the reporting unit is less than its carrying value including goodwill. If the qualitative assessment determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, including goodwill, then no impairment is determined to exist for the reporting unit. However, if the qualitative assessment determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, including goodwill, or we choose not to perform the qualitative assessment, then we compare the fair value of that reporting unit with its carrying value, including goodwill, in a quantitative assessment. If the carrying value of a reporting unit exceeds its fair value, goodwill is considered impaired with the impairment loss measured as the excess of the reporting unit's carrying value, including goodwill, over its fair value. The estimated fair value of the reporting unit is derived based on valuation techniques we believe market participants would use for each of the reporting units.

The qualitative assessment requires judgment to be applied in evaluating the effects of multiple factors, including actual and projected financial performance of the reporting unit, macroeconomic conditions, industry and market conditions and relevant entity specific events in determining whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. In the fourth quarter of 2021, as a result of the qualitative assessment, the Company determined that it was more likely than not that the estimated fair value of each of the reporting units exceeded its respective estimated carrying value. Therefore, goodwill for each reporting unit was not impaired and a quantitative test was not required.

There were no events or changes in circumstances during the three months ended March 31, 2022 that would indicate that it was more likely than not that the fair value of each of the reporting units did not exceed its respective carrying value as of March 31, 2022.

***Deferred financing costs***
Costs incurred in connection with our secured borrowings are accounted for under ASC 340, *Other Assets and Deferred Costs*. Deferred costs are capitalized and amortized using the effective interest method over the respective financing term with such amortization reflected on our consolidated statements of income as a component of interest expense. Secured Borrowings may include legal, accounting and other related fees. Unamortized deferred financing costs are expensed when the associated debt is refinanced or repaid before maturity. Pursuant to the adoption of ASU 2015-03, unamortized deferred financing costs related to securitizations and note issuances are presented in the consolidated balance sheets as a direct deduction from the associated liability.

***Due from servicers***
The loan-servicing activities of the Company's SBC Lending and Acquisitions segment are performed primarily by third-party servicers. SBA loans originated by and held at RCL are internally serviced. Residential mortgage loans originated by and held at GMFS are both serviced by third-party servicers and internally serviced. The Company's servicers hold substantially all of the cash owned by the Company related to loan servicing activities. These amounts include principal

and interest payments made by borrowers, net of advances and servicing fees. Cash is generally received within thirty days of recording the receivable.

The Company is subject to credit risk to the extent any servicer with whom the Company conducts business is unable to deliver cash balances or process loan-related transactions on the Company's behalf. The Company monitors the financial condition of the servicers with whom the Company conducts business and believes the likelihood of loss under the aforementioned circumstances is remote.

***Secured borrowings***

Secured borrowings include borrowings under credit facilities and other financing agreements and repurchase agreements.

***Borrowings under credit facilities and other financing agreements.*** The Company accounts for borrowings under credit facilities and other financing agreements under ASC 470, *Debt.* The Company partially finances its loans, net through credit agreements and other financing agreements with various counterparties. These borrowings are collateralized by loans, held-for-investment, and loans, held for sale, at fair value and have maturity dates within two years from the consolidated balance sheet date. If the fair value (as determined by the applicable counterparty) of the collateral securing these borrowings decreases, we may be subject to margin calls during the period the borrowings are outstanding. In instances where we do not satisfy the margin calls within the required time frame, the counterparty may retain the collateral and pursue collection of any outstanding debt amount from us. Interest paid and accrued in connection with credit facilities is recorded as interest expense in the consolidated statements of income.

***Borrowings under repurchase agreements.*** The Company accounts for borrowings under repurchase agreements under ASC 860, *Transfers and Servicing*. Investment securities financed under repurchase agreements are treated as collateralized borrowings, unless they meet sale treatment or are deemed to be linked transactions. As of the current period ended, none of our repurchase agreements have been accounted for as components of linked transactions. All securities financed through a repurchase agreement have remained on our consolidated balance sheets as an asset and cash received from the lender was recorded on our consolidated balance sheets as a liability. Interest paid and accrued in connection with our repurchase agreements is recorded as interest expense in the consolidated statements of income.

***Paycheck Protection Program Liquidity Facility borrowings***

The Paycheck Protection Program Facility ("PPPLF") is a government loan facility created to enable the distribution of funds for PPP whereby the Company may receive advances from the Federal Reserve through the PPPLF. Loans are participated with a PPP participant bank in accordance with respective financing agreements, repurchased from such PPP participant bank, and then pledged using PPPLF. The Company accounts for borrowings under the PPPLF under ASC 470, *Debt*. Interest paid and accrued in connection with PPPLF is recorded as interest expense in the consolidated statements of income.

***Securitized debt obligations of consolidated VIEs, net***

Since 2011, we have engaged in several securitization transactions, which the Company accounts for under ASC 810. Securitization involves transferring assets to a special purpose entity or securitization trust, which typically qualifies as a VIE. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE. The consolidation of the VIE includes the VIE's issuance of senior securities to third parties, which are shown as securitized debt obligations of consolidated VIEs in the consolidated balance sheets.

Debt issuance costs related to securitizations are presented as a direct deduction from the carrying value of the related debt liability. Debt issuance costs are amortized using the effective interest method and are included in interest expense in the consolidated statements of income.

***Convertible note, net***

ASC 470 requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. ASC 470-20 requires that the initial proceeds from the sale of these notes be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by the Company at such time. We measured the estimated fair value of the debt component of our convertible notes as of the issuance date based on our nonconvertible debt borrowing rate. The equity components of the convertible senior notes have been reflected within additional paid-in capital in our consolidated balance sheet, and the resulting debt discount is amortized over the period during which the convertible notes are expected to be outstanding (through the maturity date) as additional non-cash interest expense.

Upon repurchase of convertible debt instruments, ASC 470-20 requires the issuer to allocate total settlement consideration, inclusive of transaction costs, amongst the liability and equity components of the instrument based on the fair value of the liability component immediately prior to repurchase. The difference between the settlement consideration allocated to the liability component and the net carrying value of the liability component, including unamortized debt issuance costs, would be recognized as gain (loss) on extinguishment of debt in our consolidated statements of income. The remaining settlement consideration allocated to the equity component would be recognized as a reduction of additional paid-in capital in our consolidated balance sheets.

***Senior secured notes, net***
The Company accounts for secured debt offerings under ASC 470. Pursuant to the adoption of ASU 2015-03, the Company's senior secured notes are presented net of debt issuance costs. These senior secured notes are collateralized by loans, MBS, and retained interests of consolidated VIE's. Interest paid and accrued in connection with senior secured notes is recorded as interest expense in the consolidated statements of income.

***Corporate debt, net***
The Company accounts for corporate debt offerings under ASC 470. The Company's corporate debt is presented net of debt issuance costs. Interest paid and accrued in connection with corporate debt is recorded as interest expense in the consolidated statements of income.

***Guaranteed loan financing***
Certain partial loan sales do not qualify for sale accounting under ASC 860 because these sales do not meet the definition of a "participating interest," as defined in the guidance, in order for sale treatment to be allowed. Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment in the consolidated balance sheets and the proceeds from the portion sold is recorded as guaranteed loan financing in the liabilities section of the consolidated balance sheets. For these partial loan sales, the interest earned on the entire loan balance is recorded as interest income and the interest earned by the buyer in the partial loan sale is recorded within interest expense in the accompanying consolidated statements of income.

***Contingent consideration***
The Company accounts for certain liabilities recognized in relation to mergers and acquisitions as contingent consideration whereby the fair value of this liability is dependent on certain criteria. Contingent consideration is classified as level 3 in the fair value hierarchy with fair value adjustments reported within other income (loss) in the consolidated statements of income.

***Loan participations sold***
The Company accounts for loan participations sold, which represents an interest in a loan receivable sold, as a liability on the consolidated balance sheets as these arrangements do not qualify as a sale under GAAP. Such liabilities are non-recourse and remain on the consolidated balance sheets until the loan is repaid.

***Due to third parties***
Due to third parties primarily relates to funds held by the Company to advance certain expenditures necessary to fulfill our obligations under our existing indebtedness or to be released at our discretion upon the occurrence of certain pre-specified events, and to serve as additional collateral for borrowers' loans. While retained, these balances earn interest in accordance with the specific loan terms they are associated with.

***Repair and denial reserve***
The repair and denial reserve represents the potential liability to the SBA in the event that we are required to make the SBA whole for reimbursement of the guaranteed portion of SBA loans. We may be responsible for the guaranteed portion of SBA loans if there are lien and collateral issues, unauthorized use of proceeds, liquidation deficiencies, undocumented servicing actions or denial of SBA eligibility. This reserve is calculated using an estimated frequency of a repair and denial event upon default, as well as an estimate of the severity of the repair and denial as a percentage of the guaranteed balance.

***Variable interest entities***
VIEs are entities that, by design, either (i) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. The entity that is the primary beneficiary is required to consolidate the VIE. An entity is deemed to be the primary beneficiary of a VIE if the entity has both (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE.
In determining whether we are the primary beneficiary of a VIE, we consider both qualitative and quantitative factors regarding the nature, size and form of our involvement with the VIE, such as our role establishing the VIE and our ongoing rights and responsibilities, the design of the VIE, our economic interests, servicing fees and servicing responsibilities, and other factors. We perform ongoing reassessments to evaluate whether changes in the entity's capital structure or changes in the nature of our involvement with the entity result in a change to the VIE designation or a change to our consolidation conclusion.

***Non-controlling interests***
Non-controlling interests are presented on the consolidated balance sheets and the consolidated statements of income and represent direct investment in the operating partnership by Sutherland OP Holdings II, Ltd., which is managed by our Manager, and third parties. In addition, the Company has non-controlling interest related to the operating partnership units issued to satisfy a portion of the purchase price in connection with the Mosaic Merger.

***Fair value option***
ASC 825, *Financial Instruments*, provides a fair value option election that allows entities to make an election of fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The decision to elect the fair value option is determined on an instrument-by-instrument basis and must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to this guidance are required to be reported separately in our consolidated balance sheets from those instruments using another accounting method.

We have elected the fair value option for certain loans held-for-sale originated by the Company that we intend to sell in the near term. The fair value elections for loans, held for sale, at fair value originated by the Company were made due to the short-term nature of these instruments. This includes loans originated in round one of the PPP, loans held-for-sale originated by GMFS that the Company intends to sell in the near term and residential MSRs. We additionally elected the fair value option for certain held to maturity investments and investments in unconsolidated joint ventures due to their short-term tenor.

***Share repurchase program***
The Company accounts for repurchases of its common stock as a reduction in additional paid in capital. The amounts recognized represent the amount paid to repurchase these shares and are categorized on the balance sheet and changes in equity as a reduction in additional paid in capital.

***Earnings per share***
We present both basic and diluted earnings per share ("EPS") amounts in our consolidated financial statements. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the maximum potential dilution that could occur from our share-based compensation, consisting of unvested restricted stock units ("RSUs"), unvested restricted stock awards ("RSAs"), performance-based equity awards, as well as the dilutive impact of convertible senior notes and convertible preferred stock under the if-converted method. Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

All of the Company's unvested RSUs, unvested RSAs, preferred stock, Class B Common Stock and CERs contain rights to receive non-forfeitable dividends and, thus, are participating securities. Due to the existence of these participating securities, the two-class method of computing EPS is required, unless another method is determined to be more dilutive. Under the two-class method, undistributed earnings are reallocated between shares of common stock and participating securities.

***Income taxes***

U.S. GAAP establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current period and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's consolidated financial statements or tax returns. We assess the recoverability of deferred tax assets through evaluation of carryback availability, projected taxable income and other factors as applicable. Significant judgment is required in assessing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns as well as the recoverability of amounts we record, including deferred tax assets.

We provide for exposure in connection with uncertain tax positions, which requires significant judgment by management including determination, based on the weight of the tax law and available evidence, that it is more-likely-than-not that a tax result will be realized. Our policy is to recognize interest and/or penalties related to income tax matters in income tax expense on our consolidated statements of income. As of the date of the consolidated balance sheets, we accrued no taxes, interest or penalties related to uncertain tax positions. In addition, we do not anticipate a change in this position in the next 12 months.

***Revenue recognition***

Under revenue recognition guidance, specifically ASC 606, revenue is recognized upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized through the following five-step process:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Most of the Company's revenue streams, such as revenue associated with financial instruments, including interest income, realized or unrealized gains on financial instruments, loan servicing fees, loan origination fees, among other revenue streams, follow specific revenue recognition criteria and therefore the guidance referenced above does not have a material impact on our consolidated financial statements. In addition, revisions to existing accounting rules regarding the determination of whether a company is acting as a principal or agent in an arrangement and accounting for sales of nonfinancial assets where the seller has continuing involvement, did not materially impact the Company. A further description of the revenue recognition criteria is outlined below.

***Interest income.*** Interest income on loans, held-for-investment, loans, held at fair value, loans, held for sale, at fair value, and MBS, at fair value is accrued based on the outstanding principal amount and contractual terms of the instrument. Discounts or premiums associated with the loans and investment securities are amortized or accreted into interest income as a yield adjustment on the effective interest method, based on contractual cash flows through the maturity date of the investment. On at least a quarterly basis, we review and, if appropriate, make adjustments to the accrual status of the asset. If the asset has been delinquent for the previous 90 days, the asset status will turn to non-accrual, and recognition of interest income will be suspended until the asset resumes contractual payments for three consecutive months.

***Realized gains (losses).*** Upon the sale or disposition (not including the prepayment of outstanding principal balance) of loans or securities, the excess (or deficiency) of net proceeds over the net carrying value or cost basis of such loans or securities is recognized as a realized gain (loss).

***Origination income and expense.*** Origination income represents fees received for origination of either loans, held at fair value, loans, held for sale, at fair value, or loans, held-for-investment. For loans held, at fair value, and loans, held for sale, at fair value, pursuant to ASC 825, the Company reports origination fee income as revenue and fees charged and costs incurred as expenses. These fees and costs are excluded from the fair value. For originated loans, held-for-investment, under ASC 310-10, the Company defers these origination fees and costs at origination and amortizes them under the effective interest method over the life of the loan. Origination fees and expenses for loans, held at fair value and loans, held for sale, at fair value, are presented in the consolidated statements of income as components of other income and operating expenses. Origination fees for residential mortgage loans originated by GMFS are presented in the consolidated statements of income in residential mortgage banking activities, while origination expenses are presented within variable expenses on residential mortgage banking activities. The amortization of net origination fees and expenses for loans, held-for-investment are presented in the consolidated statements of income as a component of interest income.

***Residential mortgage banking activities***

Residential mortgage banking activities reflects revenue within our residential mortgage banking business directly related to loan origination and sale activity. This primarily consists of the realized gains on sales of residential loans held for sale and loan origination fee income, Residential mortgage banking activities also consists of unrealized gains and losses associated with the changes in fair value of the loans held for sale, the fair value of retained MSR additions, and the realized and unrealized gains and losses from derivative instruments.

Gains and losses from the sale of mortgage loans held for sale are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale and is included in residential mortgage banking activities, in the consolidated statements of income. Sales proceeds reflect the cash received from investors from the sale of a loan plus the servicing release premium if the related MSR is sold. Gains and losses also include the unrealized gains and losses associated with the mortgage loans held for sale and the realized and unrealized gains and losses from derivative instruments.

Loan origination fee income represents revenue earned from originating mortgage loans held for sale and are reflected in residential mortgage banking activities, when loans are sold.

***Variable expenses on residential mortgage banking activities.*** Loan expenses include indirect costs related to loan origination activities, such as correspondent fees, and are expensed as incurred and are included within variable expenses on residential mortgage banking activities on the Company’s consolidated statements of income. The provision for loan indemnification includes the fair value of the incurred liability for mortgage repurchases and indemnifications recognized at the time of loan sale and any other provisions recorded against the loan indemnification reserve. Loan origination costs directly attributable to the processing, underwriting, and closing of a loan are included in the gain on sale of mortgage loans held for sale when loans are sold.

***Foreign currency transactions***

Assets and liabilities denominated in non-U.S. currencies are translated into U.S. dollars using foreign currency exchange rates prevailing at the end of the reporting period. Revenue and expenses are translated at the average exchange rates for each reporting period. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are recognized in earnings. Gains or losses on translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included, net of taxes, in the consolidated statements of comprehensive income.

## Note 4. Recent accounting pronouncements

### Financial Accounting Standards Board ("FASB") Standards

| Standard | Summary of guidance | Effects on financial statements |
|---|---|---|
| **ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting**<br>*Issued March 2020* | Provides optional expedients and exceptions to GAAP requirements for modifications on debt instruments, leases, derivatives, and other contracts, related to the expected market transition from LIBOR, and certain other floating rate benchmark indices, or collectively, IBORs, to alternative reference rates. The guidance generally considers contract modifications related to reference rate reform to be an event that does not require contract remeasurement at the modification date nor a reassessment of a previous accounting determination. | The Company has loan, security, and debt agreements that incorporate LIBOR as a reference interest rate. It is difficult to predict what effect, if any, the phase-out of LIBOR and the use of alternative benchmarks may have on our business or on the overall financial markets. |
| | In January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope. The amendments in this update refine the scope for certain optional expedients and exceptions for contract modifications and hedge accounting to apply to derivative contracts and certain hedging relationships affected by the discounting transition. Guidance is optional and may be elected over time, through December 31, 2022 using a prospective application on all eligible contract modifications. | The Company has not adopted any of the optional expedients or exceptions through March 31, 2022, but will continue to evaluate the possible adoption of any such expedients or exceptions. |
| **ASU 2020-06, Debt – Debt with Conversion and other Options and Derivatives and Hedging-Contracts in Entity's Own Equity (Topic 470-20)**<br>*Issued August 2020* | Addresses the complexities in accounting for certain financial instruments with a debt and equity component. The number of accounting models for convertible notes will be reduced and entities that issue convertible debt will be required to use the if-converted method for the computation of diluted "Earnings per share" under ASC 260. | The adoption of this standard did not have a material impact on the Company's consolidated financial statements. |
| | Effective for fiscal years beginning after December 15, 2021 and may be adopted through either a modified retrospective method of transition or a fully retrospective method of transition. | |

**Note 5. Business Combinations**

On March 16, 2022, the Company acquired the Mosaic Funds, a group of privately held, real estate structured finance opportunities funds, with a focus on construction lending. See Note 1 for more information about the Mosaic Mergers. The consideration transferred was allocated to the assets acquired and liabilities assumed based on their respective fair values. The methodologies used, and key assumptions made, to estimate the fair value of the assets acquired and liabilities assumed are primarily based on future cash flows and discount rates.

The table below summarizes the fair value of assets acquired and liabilities assumed from the acquisition.

| *(in thousands)* | | March 16, 2022 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 100,236 |
| Restricted cash | | 23,330 |
| Loans, net | | 432,779 |
| Investments held to maturity (including $17,053 held at fair value) | | 165,302 |
| Real estate owned, held for sale | | 78,693 |
| Other assets | | 25,761 |
| **Total assets acquired** | **$** | **826,101** |
| **Liabilities** | | |
| Secured borrowings | | 66,202 |
| Loan participations sold | | 73,656 |
| Due to third parties | | 24,634 |
| Accounts payable and other accrued liabilities | | 38,182 |
| **Total liabilities assumed** | **$** | **202,674** |
| **Net assets acquired** | **$** | **623,427** |
| Non-controlling interests | | (82,257) |
| **Net assets acquired, net of non-controlling interests** | **$** | **541,170** |

The table below illustrates the aggregate consideration transferred, net assets acquired, and the related goodwill.

| *(in thousands)* | | |
|---|---|---|
| **Fair value of net assets acquired** | **$** | **541,170** |
| | | |
| Consideration transferred based on the value of Class B shares issued | | 437,311 |
| Consideration transferred based on the value of OP units issued | | 20,745 |
| Fair value of CERs issued | | 84,348 |
| **Total consideration transferred** | **$** | **542,404** |
| | | |
| **Goodwill** | **$** | **1,234** |

The table above includes contingent consideration in the form of CERs valued at approximately $84.3 million or $2.79 per CER. See Note 7 for more information about the valuation of the CER.

On July 31, 2021, the Company acquired Red Stone, a privately owned real estate finance and investment company that provides innovative financial products and services to multifamily affordable housing. See Note 1 for more information about the Red Stone acquisition. The consideration transferred was allocated to the assets acquired and liabilities assumed based on their respective fair values. The methodologies used, and key assumptions made, to estimate the fair value of the assets acquired and liabilities assumed are primarily based on future cash flows and discount rates.

The table below summarizes the fair value of assets acquired and liabilities assumed from the acquisition.

| *(in thousands)* | | July 31, 2021 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 1,553 |
| Restricted cash | | 6,994 |
| Investment in unconsolidated joint ventures | | 20,793 |
| Servicing rights | | 30,503 |
| Other assets: | | |
| Intangible Assets | | 9,300 |
| Other | | 1,330 |
| **Total assets acquired** | **$** | **70,473** |
| **Liabilities** | | |
| Accounts payable and other accrued liabilities | | 7,965 |
| **Total liabilities assumed** | **$** | **7,965** |
| **Net assets acquired** | **$** | **62,508** |

The table below illustrates the aggregate consideration transferred, net assets acquired, and the related goodwill.

| *(in thousands)* | | |
|---|---|---|
| **Fair value of net assets acquired** | **$** | **62,508** |
| | | |
| Cash paid | | 63,000 |
| Contingent consideration | | 12,400 |
| **Total consideration transferred** | **$** | **75,400** |
| | | |
| **Goodwill** | **$** | **12,892** |

In the table above, the future value of the contingent consideration is dependent on the probability of the acquiree achieving certain financial performance targets using earnings before interest, taxes, depreciation and amortization ("EBITDA") as a metric. The increase in value during the three months ended March 31, 2022 was due to a higher probability of achieving projected EBITDA at the measurement date.

On March 19, 2021, the Company completed a merger with Anworth, a specialty finance company that focused primarily on residential mortgage-backed securities and loans that are either rated "investment grade" or are guaranteed by federally sponsored enterprises. See Note 1 for more information about the Anworth Merger. The consideration transferred was allocated to the assets acquired and liabilities assumed based on their respective fair values. The methodologies used and key assumptions made to estimate the fair value of the assets acquired and liabilities assumed are primarily based on future cash flows and discount rates.

The table below summarizes the fair value of assets acquired and liabilities assumed from the merger.

| *(in thousands)* | | **March 19, 2021** |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 110,545 |
| Mortgage-backed securities, at fair value | | 2,010,504 |
| Loans, held for sale, at fair value | | 102,798 |
| Real estate owned, held for sale | | 26,107 |
| Accrued interest | | 8,183 |
| Other assets | | 38,216 |
| **Total assets acquired** | **$** | **2,296,353** |
| **Liabilities** | | |
| Secured borrowings | | 1,784,047 |
| Corporate debt, net | | 36,250 |
| Derivative instruments, at fair value | | 60,719 |
| Accounts payable and other accrued liabilities | | 4,811 |
| **Total liabilities assumed** | **$** | **1,885,827** |
| **Net assets acquired** | **$** | **410,526** |

In the table above, the gross contractual unpaid principal amount for acquired loans held for sale, at fair value was $98.3 million, all of which is expected to be collected.

The table below illustrates the aggregate consideration transferred, net assets acquired, and the related goodwill.

| *(in thousands, except per share data)* | | |
|---|---|---|
| **Fair value of net assets acquired** | **$** | **410,526** |
| | | |
| Anworth shares outstanding at March 19, 2021 | | 99,374 |
| Exchange ratio | x | 0.1688 |
| Shares issued | | 16,774 |
| Market price as of March 19, 2021 | $ | 14.28 |
| **Consideration transferred based on value of common shares issued** | **$** | **239,537** |
| | | |
| Cash paid per share | $ | 0.61 |
| **Cash paid based on outstanding Anworth shares** | **$** | **60,626** |
| | | |
| Preferred Stock, Series B Issued | | 1,919,378 |
| Market price as of March 19, 2021 | $ | 25.00 |
| **Consideration transferred based on value of Preferred Stock, Series B issued** | **$** | **47,984** |
| | | |
| Preferred Stock, Series C Issued | | 779,743 |
| Market price as of March 19, 2021 | $ | 25.00 |
| **Consideration transferred based on value of Preferred Stock, Series C issued** | **$** | **19,494** |
| | | |
| Preferred Stock, Series D Issued | | 2,010,278 |
| Market price as of March 19, 2021 | $ | 25.00 |
| **Consideration transferred based on value of Preferred Stock, Series D issued** | **$** | **50,257** |
| **Total consideration transferred** | **$** | **417,898** |
| **Goodwill** | **$** | **7,372** |

In a business combination, the initial allocation of the purchase price is considered preliminary and therefore, is subject to change until the end of the measurement period. The final determination must occur within one year of the acquisition date. Because the measurement period is still open for the Mosaic Mergers and the Red Stone acquisition, certain fair value estimates may change once all information necessary to make a final fair value assessment has been received. As of March 31, 2022, the goodwill recorded in connection with the Mosaic Mergers, Anworth Merger and Red Stone acquisition have been allocated to the SBC Lending and Acquisitions segment.

The following pro-forma income and earnings (unaudited) of the combined company are presented as if the Mosaic Mergers had occurred on January 1, 2022 and January 1, 2021.

| *(in thousands)* | For the three months ended March 31, 2022 | For the three months ended March 31, 2021 |
|---|---|---|
| **Selected Financial Data** | | |
| Interest income | $ 137,466 | $ 90,818 |
| Interest expense | (63,942) | (55,620) |
| Recovery of (provision for) loan losses | (1,542) | 8 |
| Non-interest income | 88,474 | 88,998 |
| Non-interest expense | (75,927) | (77,757) |
| **Income before provision for income taxes** | **$ 84,529** | **$ 46,447** |
| Income tax expense | (17,849) | (8,681) |
| **Net income** | **$ 66,680** | **$ 37,766** |

Non-recurring pro-forma transaction costs directly attributable to the Mosaic Mergers were $5.7 million for the three months ended March 31, 2022, and have been deducted from the non-interest expense amount above. These costs included legal, accounting, valuation, and other professional or consulting fees directly attributable to the Mosaic Mergers.

The following pro-forma income and earnings (unaudited) of the combined company are presented as if the Anworth Merger had occurred on January 1, 2021 and January 1, 2020.

| *(in thousands)* | December 31, 2021 | December 31, 2020 |
|---|---|---|
| **Selected Financial Data** | | |
| Interest income | $ 415,245 | $ 341,733 |
| Interest expense | (217,089) | (220,370) |
| Provision for loan losses | (8,049) | (35,394) |
| Non-interest income | 322,477 | 399,075 |
| Non-interest expense | (318,391) | (570,884) |
| **Income before provision for income taxes** | **$ 194,193** | **$ (85,840)** |
| Income tax expense | (29,083) | (8,385) |
| **Net income** | **$ 165,110** | **$ (94,225)** |

Non-recurring pro-forma transaction costs directly attributable to the Anworth Merger were $7.8 million for the year ended December 31, 2021, and have been deducted from the non-interest expense amount above. These costs included legal, accounting, valuation, and other professional or consulting fees directly attributable to the merger. There were no such transaction costs for the three months ended March 31, 2022.

Due to the relative size of the Red Stone business acquisition, pro forma financial information is considered not material.

**Note 6. Loans and allowance for credit losses**

Loans includes (i) loans held for investment that are accounted for at amortized cost net of allowance for credit losses or (ii) loans held at fair value under the fair value option and (iii) loans held for sale at fair value that are accounted for at the lower of cost or fair value. The classification for a loan is based on product type and management's strategy for the loan. Loans with the "Other" classification are generally SBC acquired loans that have nonconforming characteristics for the Fixed rate, Bridge, or Freddie Mac securitizations due to loan size, rate type, collateral, or borrower criteria.

*Loan portfolio*

The table below summarizes the classification, UPB, and carrying value of loans held by the Company including loans of consolidated VIEs.

| (in thousands) | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Carrying Value | UPB | Carrying Value | UPB |
| **Loans** | | | | |
| Residential | $ 3,866 | $ 4,042 | $ 3,641 | $ 3,914 |
| SBA - 7(a) | 495,662 | 512,922 | 503,991 | 519,408 |
| Fixed rate | 366,772 | 363,139 | 344,673 | 341,356 |
| Freddie Mac | 3,093 | 2,985 | 3,087 | 2,985 |
| Bridge | 2,523,307 | 2,542,457 | 1,849,524 | 1,861,932 |
| Construction | 370,888 | 365,890 | — | — |
| Other | 339,616 | 344,000 | 243,746 | 248,246 |
| **Total Loans, before allowance for loan losses** | **$ 4,103,204** | **$ 4,135,435** | **$ 2,948,662** | **$ 2,977,841** |
| **Allowance for loan losses** | **$ (40,869)** | **$ —** | **$ (33,216)** | **$ —** |
| **Total Loans, net** | **$ 4,062,335** | **$ 4,135,435** | **$ 2,915,446** | **$ 2,977,841** |
| **Loans in consolidated VIEs** | | | | |
| Fixed rate | $ 701,411 | $ 699,420 | $ 749,364 | $ 746,720 |
| Bridge | 3,754,406 | 3,785,302 | 2,693,186 | 2,717,487 |
| SBA - 7(a) | 81,446 | 90,457 | 88,348 | 98,604 |
| Other | 401,003 | 401,571 | 563,111 | 562,771 |
| **Total Loans, in consolidated VIEs, before allowance for loan losses** | **$ 4,938,266** | **$ 4,976,750** | **$ 4,094,009** | **$ 4,125,582** |
| **Allowance for loan losses on loans in consolidated VIEs** | **$ (10,375)** | **$ —** | **$ (12,161)** | **$ —** |
| **Total Loans, net, in consolidated VIEs** | **$ 4,927,891** | **$ 4,976,750** | **$ 4,081,848** | **$ 4,125,582** |
| **Loans, held for sale, at fair value** | | | | |
| Residential | $ 211,490 | $ 211,258 | $ 269,164 | $ 263,479 |
| SBA - 7(a) | 50,008 | 45,925 | 42,760 | 38,966 |
| Fixed rate | 203,533 | 212,643 | 197,290 | 195,114 |
| Freddie Mac | 52,934 | 52,131 | 42,384 | 41,864 |
| Other | 5,249 | 4,940 | 1,337 | 1,337 |
| **Total Loans, held for sale, at fair value** | **$ 523,214** | **$ 526,897** | **$ 552,935** | **$ 540,760** |
| **Total Loans, net and Loans, held for sale, at fair value** | **$ 9,513,440** | **$ 9,639,082** | **$ 7,550,229** | **$ 7,644,183** |
| **Paycheck Protection Program loans** | | | | |
| Paycheck Protection Program loans, held-for-investment | $ 552,813 | $ 598,222 | $ 867,109 | $ 927,766 |
| Paycheck Protection Program loans, held at fair value | 1,843 | 1,843 | 3,243 | 3,243 |
| **Total Paycheck Protection Program loans** | **$ 554,656** | **$ 600,065** | **$ 870,352** | **$ 931,009** |
| **Total Loan portfolio** | **$ 10,068,096** | **$ 10,239,147** | **$ 8,420,581** | **$ 8,575,192** |

*Loan vintage and credit quality indicators*

The Company monitors the credit quality of its loan portfolio based on primary credit quality indicators, such as delinquency rates. Loans that are 30 days or more past due, provide an indication of the borrower's capacity and willingness to meet its financial obligations. In the tables below, Total Loans, net includes Loans, net in consolidated VIEs and a specific allowance for loan losses of $21.2 million, including $5.0 million of reserves of PCD loans as of March 31, 2022 and $17.3 million as of December 31, 2021.

The tables below summarize the classification, UPB and carrying value of loans by year of origination.

| | | Carrying Value by Year of Origination | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | UPB | 2022 | 2021 | 2020 | 2019 | 2018 | Pre 2018 | Total |
| **March 31, 2022** | | | | | | | | |
| Bridge | $ 6,327,759 | $ 1,446,625 | $ 3,842,348 | $ 414,683 | $ 361,566 | $ 170,180 | $ 37,993 | $ 6,273,395 |
| Construction | 365,890 | — | — | 10,000 | 294,733 | 61,156 | — | 365,889 |
| Fixed rate | 1,062,559 | 38,327 | 140,039 | 95,325 | 367,363 | 149,647 | 273,285 | 1,063,986 |
| Freddie Mac | 2,985 | — | — | 3,093 | — | — | — | 3,093 |
| Residential | 4,042 | 1,099 | 578 | 342 | 434 | 183 | 1,170 | 3,806 |
| SBA - 7(a) | 603,379 | 26,715 | 87,276 | 43,287 | 97,291 | 111,997 | 205,964 | 572,530 |
| Other | 745,571 | 410 | 22,790 | 17,799 | 73,794 | 20,510 | 602,294 | 737,597 |
| **Total Loans, before general allowance for loan losses** | **$ 9,112,185** | **$ 1,513,176** | **$ 4,093,031** | **$ 584,529** | **$ 1,195,181** | **$ 513,673** | **$ 1,120,706** | **$ 9,020,296** |
| **General allowance for loan losses** | | | | | | | | **$ (30,070)** |
| **Total Loans, net** | | | | | | | | **$ 8,990,226** |
| | **UPB** | **2021** | **2020** | **2019** | **2018** | **2017** | **Pre 2017** | **Total** |
| **December 31, 2021** | | | | | | | | |
| Bridge | $ 4,579,419 | $ 3,461,864 | $ 430,248 | $ 399,603 | $ 205,855 | $ 11,327 | $ 29,490 | $ 4,538,387 |
| Fixed rate | 1,088,076 | 142,801 | 103,528 | 393,563 | 163,912 | 98,123 | 187,918 | 1,089,845 |
| Freddie Mac | 2,985 | — | 3,093 | — | — | — | — | 3,093 |
| Residential | 3,914 | 1,413 | 492 | 468 | — | — | 1,215 | 3,588 |
| SBA - 7(a) | 618,012 | 92,030 | 44,955 | 104,938 | 122,242 | 49,031 | 173,616 | 586,812 |
| Other | 811,017 | 4,523 | 22,973 | 76,320 | 31,570 | 14,868 | 653,428 | 803,682 |
| **Total Loans, before general allowance for loan losses** | **$ 7,103,423** | **$ 3,702,631** | **$ 605,289** | **$ 974,892** | **$ 523,579** | **$ 173,349** | **$ 1,045,667** | **$ 7,025,407** |
| **General allowance for loan losses** | | | | | | | | **$ (28,113)** |
| **Total Loans, net** | | | | | | | | **$ 6,997,294** |

The tables below present delinquency information on loans, net by year of origination.

| *(in thousands)* | UPB | Carrying Value by Year of Origination 2022 | 2021 | 2020 | 2019 | 2018 | Pre 2018 | Total |
|---|---|---|---|---|---|---|---|---|
| **March 31, 2022** | | | | | | | | |
| Current and less than 30 days past due | $ 8,561,756 | $ 1,513,068 | $ 3,798,728 | $ 557,213 | $ 1,166,628 | $ 386,401 | $ 1,067,937 | $ 8,489,975 |
| 30 - 59 days past due | 328,043 | — | 293,373 | 23,653 | 786 | 161 | 7,033 | 325,006 |
| 60+ days past due | 222,386 | 108 | 930 | 3,663 | 27,767 | 127,111 | 45,736 | 205,315 |
| **Total Loans, before general allowance for loan losses** | **$ 9,112,185** | **$ 1,513,176** | **$ 4,093,031** | **$ 584,529** | **$ 1,195,181** | **$ 513,673** | **$ 1,120,706** | **$ 9,020,296** |
| **General allowance for loan losses** | | | | | | | | **$ (30,070)** |
| **Total Loans, net** | | | | | | | | **$ 8,990,226** |

| | UPB | Carrying Value by Year of Origination 2021 | 2020 | 2019 | 2018 | 2017 | Pre 2017 | Total |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2021** | | | | | | | | |
| Current and less than 30 days past due | $ 6,901,474 | $ 3,666,020 | $ 596,289 | $ 953,269 | $ 473,798 | $ 167,629 | $ 984,680 | $ 6,841,685 |
| 30 - 59 days past due | 73,836 | 35,549 | 352 | 18,393 | 3,714 | 228 | 14,601 | 72,837 |
| 60+ days past due | 128,113 | 1,062 | 8,648 | 3,230 | 46,067 | 5,492 | 46,386 | 110,885 |
| **Total Loans, before general allowance for loan losses** | **$ 7,103,423** | **$ 3,702,631** | **$ 605,289** | **$ 974,892** | **$ 523,579** | **$ 173,349** | **$ 1,045,667** | **$ 7,025,407** |
| **General allowance for loan losses** | | | | | | | | **$ (28,113)** |
| **Total Loans, net** | | | | | | | | **$ 6,997,294** |

The table below presents delinquency information on loans, net by portfolio.

| *(in thousands)* | Current | 30-59 days past due | 60+ days past due | Total | Non-Accrual Loans | 90+ days past due and Accruing |
|---|---|---|---|---|---|---|
| **March 31, 2022** | | | | | | |
| Bridge | $ 5,887,923 | $ 311,877 | $ 73,595 | $ 6,273,395 | $ 40,672 | $ — |
| Construction | 290,733 | — | 75,156 | 365,889 | 75,156 | — |
| Fixed rate | 1,040,035 | 4,652 | 19,299 | 1,063,986 | 23,951 | — |
| Freddie Mac | — | — | 3,093 | 3,093 | 3,093 | — |
| Residential | 1,482 | — | 2,324 | 3,806 | 2,443 | — |
| SBA - 7(a) | 565,526 | 2,844 | 4,160 | 572,530 | 9,251 | — |
| Other | 704,276 | 5,633 | 27,688 | 737,597 | 29,343 | — |
| **Total Loans, before general allowance for loan losses** | **$ 8,489,975** | **$ 325,006** | **$ 205,315** | **$ 9,020,296** | **$ 183,909** | **$ —** |
| **General allowance for loan losses** | | | | **$ (30,070)** | | |
| **Total Loans, net** | | | | **$ 8,990,226** | | |
| **Percentage of loans outstanding** | **94.1%** | **3.6%** | **2.3%** | **100%** | **2.0%** | **0.0%** |
| **December 31, 2021** | | | | | | |
| Bridge | $ 4,451,230 | $ 52,997 | $ 34,160 | $ 4,538,387 | $ 28,820 | $ — |
| Fixed rate | 1,057,708 | — | 32,137 | 1,089,845 | 24,031 | — |
| Freddie Mac | — | — | 3,093 | 3,093 | 3,093 | - |
| Residential | 1,674 | — | 1,914 | 3,588 | 1,914 | — |
| SBA - 7(a) | 576,593 | 6,741 | 3,478 | 586,812 | 15,119 | — |
| Other | 754,480 | 13,099 | 36,103 | 803,682 | 26,525 | — |
| **Total Loans, before general allowance for loan losses** | **$ 6,841,685** | **$ 72,837** | **$ 110,885** | **$ 7,025,407** | **$ 99,503** | **$ —** |
| **General allowance for loan losses** | | | | **$ (28,113)** | | |
| **Total Loans, net** | | | | **$ 6,997,294** | | |
| **Percentage of loans outstanding** | **97.4%** | **1.0%** | **1.6%** | **100%** | **1.4%** | **0.0%** |

In addition to delinquency rates, the current estimated LTV ratio, geographic distribution of the loan collateral and collateral concentration are primary credit quality indicators that provide insight into a borrower’s capacity and willingness to meet its financial obligation. High LTV loans tend to have higher delinquency rates than loans where the borrower has equity in the collateral. The geographic distribution of the loan collateral considers factors such as the regional economy, property price changes and specific events such as natural disasters, which will affect credit quality. The collateral concentration of the loan portfolio considers economic factors or events may have a more pronounced impact on certain sectors or property types.

The table below presents quantitative information on the credit quality of loans, net.

| | Loan-to-Value (1) | | | | | | |
|---|---|---|---|---|---|---|---|
| *(in thousands)* | 0.0 – 20.0% | 20.1 – 40.0% | 40.1 – 60.0% | 60.1 – 80.0% | 80.1 – 100.0% | Greater than 100.0% | Total |
| **March 31, 2022** | | | | | | | |
| Bridge | $ — | $ 272,735 | $ 622,608 | $ 4,962,629 | $ 397,974 | $ 17,449 | $ 6,273,395 |
| Construction | 27,331 | 10,000 | 48,175 | 280,383 | — | — | 365,889 |
| Fixed rate | 12,460 | 37,964 | 411,511 | 581,448 | 9,958 | 10,645 | 1,063,986 |
| Freddie Mac | — | — | — | 3,093 | — | — | 3,093 |
| Residential | 66 | 276 | 1,376 | 1,336 | 598 | 154 | 3,806 |
| SBA - 7(a) | 7,892 | 43,054 | 117,329 | 189,350 | 82,710 | 132,195 | 572,530 |
| Other | 203,275 | 281,597 | 182,381 | 52,667 | 10,343 | 7,334 | 737,597 |
| **Total Loans, before general allowance for loan losses** | **$ 251,024** | **$ 645,626** | **$ 1,383,380** | **$ 6,070,906** | **$ 501,583** | **$ 167,777** | **$ 9,020,296** |
| **General allowance for loan losses** | | | | | | | **$ (30,070)** |
| **Total Loans, net** | | | | | | | **$ 8,990,226** |
| **Percentage of loans outstanding** | **2.8%** | **7.2%** | **15.3%** | **67.3%** | **5.5%** | **1.9%** | |
| **December 31, 2021** | | | | | | | |
| Bridge | $ — | $ 107,606 | $ 338,355 | $ 3,432,820 | $ 640,215 | $ 19,391 | $ 4,538,387 |
| Fixed rate | 13,983 | 40,570 | 390,213 | 624,462 | 9,972 | 10,645 | 1,089,845 |
| Freddie Mac | — | — | — | 3,093 | — | — | 3,093 |
| Residential | 69 | 262 | 835 | 1,050 | 1,219 | 153 | 3,588 |
| SBA - 7(a) | 7,219 | 41,943 | 119,114 | 197,950 | 81,388 | 139,198 | 586,812 |
| Other | 221,823 | 300,723 | 185,538 | 76,590 | 8,701 | 10,307 | 803,682 |
| **Total Loans, before general allowance for loan losses** | **$ 243,094** | **$ 491,104** | **$ 1,034,055** | **$ 4,335,965** | **$ 741,495** | **$ 179,694** | **$ 7,025,407** |
| **General allowance for loan losses** | | | | | | | **$ (28,113)** |
| **Total Loans, net** | | | | | | | **$ 6,997,294** |
| **Percentage of loans outstanding** | **3.5%** | **7.0%** | **14.7%** | **61.7%** | **10.5%** | **2.6%** | |

(1) Loan-to-value is calculated using carrying amount as a percentage of current collateral value

The table below presents the geographic concentration of loans, net, secured by real estate.

| Geographic Concentration (% of Unpaid Principal Balance) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Texas | 19.1 % | 19.2 % |
| California | 12.3 | 14.3 |
| Arizona | 7.3 | 7.4 |
| Georgia | 7.2 | 7.0 |
| Florida | 6.7 | 6.7 |
| New York | 5.8 | 7.3 |
| Illinois | 4.8 | 4.3 |
| North Carolina | 2.7 | 2.6 |
| Washington | 1.7 | 2.1 |
| Colorado | 1.4 | 1.9 |
| Other | 31.0 | 27.2 |
| **Total** | **100.0 %** | **100.0 %** |

The table below presents the collateral type concentration of loans, net.

| Collateral Concentration (% of Unpaid Principal Balance) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Multi-family | 61.8 % | 54.4 % |
| Mixed Use | 8.4 | 7.1 |
| Retail | 7.6 | 10.2 |
| SBA | 6.6 | 8.7 |
| Office | 6.1 | 8.2 |
| Industrial | 5.0 | 6.4 |
| Lodging/Residential | 2.1 | 1.8 |
| Other | 2.4 | 3.2 |
| **Total** | **100.0 %** | **100.0 %** |

The table below presents the collateral type concentration of SBA loans within loans, net.

| Collateral Concentration (% of Unpaid Principal Balance) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Lodging | 15.4 % | 17.0 % |
| Offices of Physicians | 9.0 | 10.9 |
| Child Day Care Services | 6.9 | 7.4 |
| Eating Places | 4.3 | 5.0 |
| Gasoline Service Stations | 4.1 | 3.7 |
| Veterinarians | 2.2 | 2.4 |
| Funeral Service & Crematories | 1.8 | 1.9 |
| Grocery Stores | 1.7 | 1.8 |
| Car washes | 1.3 | 1.4 |
| Couriers | 1.3 | 1.3 |
| Other | 52.0 | 47.2 |
| **Total** | **100.0 %** | **100.0 %** |

*Allowance for credit losses*

The allowance for credit losses consists of the allowance for losses on loans and lending commitments accounted for at amortized cost. Such loans and lending commitments are reviewed quarterly considering credit quality indicators, including probable and historical losses, collateral values, LTV ratios, and economic conditions.

The table below presents the allowance for loan losses by loan product and impairment methodology.

| *(in thousands)* | Bridge | Construction | Fixed rate | Residential | SBA - 7(a) | Other | Total Allowance for loan losses |
|---|---|---|---|---|---|---|---|
| **March 31, 2022** | | | | | | | |
| General | $ 15,560 | $ 323 | $ 2,327 | $ — | $ 8,656 | $ 3,204 | $ 30,070 |
| Specific | 4,318 | — | 4,197 | 60 | 4,577 | 3,022 | 16,174 |
| PCD | — | 5,000 | — | — | — | — | 5,000 |
| **Ending balance** | **$ 19,878** | **$ 5,323** | **$ 6,524** | **$ 60** | **$ 13,233** | **$ 6,226** | **$ 51,244** |
| **December 31, 2021** | | | | | | | |
| General | $ 15,204 | $ — | $ 2,667 | $ 8 | $ 6,653 | $ 3,581 | $ 28,113 |
| Specific | 4,315 | — | 4,194 | 52 | 5,527 | 3,176 | 17,264 |
| **Ending balance** | **$ 19,519** | **$ —** | **$ 6,861** | **$ 60** | **$ 12,180** | **$ 6,757** | **$ 45,377** |

The table below presents a summary of the changes in the allowance for loan losses.

| *(in thousands)* | Bridge | Construction | Fixed rate | Residential | SBA - 7(a) | Other | Total Allowance for loan losses |
|---|---|---|---|---|---|---|---|
| **Three Months Ended March 31, 2022** | | | | | | | |
| Beginning balance | $ 19,519 | $ — | $ 6,861 | $ 60 | $ 12,180 | $ 6,757 | $ 45,377 |
| Provision for (recoveries of) loan losses | 359 | 323 | (337) | — | 1,272 | (376) | 1,241 |
| Purchased financial assets with credit deterioration | — | 5,000 | — | — | — | — | 5,000 |
| Charge-offs and sales | — | — | — | — | (173) | — | (173) |
| Recoveries | — | — | — | — | (46) | (155) | (201) |
| **Ending balance** | **$ 19,878** | **$ 5,323** | **$ 6,524** | **$ 60** | **$ 13,233** | **$ 6,226** | **$ 51,244** |
| **Three Months Ended March 31, 2021** | | | | | | | |
| Beginning balance | $ 14,588 | $ — | $ 7,629 | $ 52 | $ 14,600 | $ 9,863 | $ 46,732 |
| Provision for (recoveries of) loan losses | 2,469 | — | 124 | 8 | (355) | (1,683) | 563 |
| Charge-offs and sales | — | — | (1,000) | — | (658) | — | (1,658) |
| Recoveries | — | — | — | — | 12 | — | 12 |
| **Ending balance** | **$ 17,057** | **$ —** | **$ 6,753** | **$ 60** | **$ 13,599** | **$ 8,180** | **$ 45,649** |

The table above excludes $0.6 million and $0.4 million of allowance for loan losses on unfunded lending commitments as of March 31, 2022 and March 31, 2021, respectively. Refer to Note 3 – Summary of Significant Accounting Policies for more information on our accounting policies, methodologies and judgment applied to determine the allowance for loan losses and lending commitments.

*Non-accrual loans*

A loan is placed on nonaccrual status when it is probable that principal and interest will not be collected under the original contractual terms. At that time, interest income is no longer accrued.

The table below presents information on non-accrual loans.

| *(in thousands)* | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Non-accrual loans** | | |
| With an allowance | $ 107,378 | $ 71,645 |
| Without an allowance | 76,531 | 27,858 |
| **Total recorded carrying value of non-accrual loans** | **$ 183,909** | **$ 99,503** |
| **Allowance for loan losses related to non-accrual loans** | **$ (21,172)** | **$ (17,264)** |
| **Unpaid principal balance of non-accrual loans** | **$ 203,607** | **$ 119,554** |
| | | |
| | **March 31, 2022** | **March 31, 2021** |
| **Interest income on non-accrual loans for the three months ended** | **$ 46** | **$ 615** |

*Troubled debt restructurings*

A loan is classified as a TDR when there is a reasonable expectation that the original terms of the loan agreement will be modified by granting concessions to a borrower who is experiencing financial difficulty. Concessions typically include modifications to the interest rate, maturity date, timing of principal and interest payments and principal forgiveness. Modified loans that are classified as TDRs are individually evaluated and measured for impairment.

The table below presents details on TDR loans by type.

| | March 31, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | SBC | SBA | Total | SBC | SBA | Total |
| Carrying value of modified loans classified as TDRs: | | | | | | |
| On accrual status | $ 863 | $ 11,769 | $ 12,632 | $ 284 | $ 8,242 | $ 8,526 |
| On non-accrual status | 9,581 | 7,495 | 17,076 | 11,220 | 11,409 | 22,629 |
| **Total carrying value of modified loans classified as TDRs** | **$ 10,444** | **$ 19,264** | **$ 29,708** | **$ 11,504** | **$ 19,651** | **$ 31,155** |
| **Allowance for loan losses on loans classified as TDRs** | **$ 45** | **$ 1,926** | **$ 1,971** | **$ 46** | **$ 2,626** | **$ 2,672** |

The table below presents TDR loan activity and the financial effects of these modifications by type.

| | Three Months Ended March 31, 2022 | | | Three Months Ended March 31, 2021 | | |
|---|---|---|---|---|---|---|
| *(in thousands, except number of loans)* | SBC | SBA | Total | SBC | SBA | Total |
| Number of loans permanently modified | 1 | 3 | 4 | 1 | 7 | 8 |
| Pre-modification recorded balance [(a)] | $ 496 | $ 466 | $ 962 | $ 1,276 | $ 1,442 | $ 2,718 |
| Post-modification recorded balance [(a)] | $ 496 | $ 154 | $ 650 | $ 1,276 | $ 975 | $ 2,251 |
| | | | | | | |
| Number of loans that remain in default [(b)] | 1 | — | 1 | — | — | — |
| Balance of loans that remain in default [(b)] | $ 496 | $ — | $ 496 | $ — | $ — | $ — |
| | | | | | | |
| Concession granted [(a)]: | | | | | | |
| Term extension | $ — | $ 154 | $ 154 | $ — | $ 974 | $ 974 |
| Interest rate reduction | — | — | — | — | — | — |
| Principal reduction | — | — | — | — | — | — |
| Foreclosure | 496 | — | 496 | 1,276 | — | 1,276 |
| **Total** | **$ 496** | **$ 154** | **$ 650** | **$ 1,276** | **$ 974** | **$ 2,250** |

(a) Represents carrying value.
(b) Represents carrying values of the TDRs that occurred during the respective periods ended and remained in default as of the current period ended. Generally, all loans modified in a TDR are placed or remain on non-accrual status at the time of the restructuring. However, certain accruing loans modified in a TDR that are current at the time of restructuring may remain on accrual status if payment in full under the restructured terms is expected. For purposes of this schedule, a loan is considered in default if it is 30 or more days past due.

The remaining elements of the Company's modification programs are generally considered insignificant and do not have a material impact on financial results. For loans that the Company determines foreclosure of the collateral is probable, expected losses are measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. As of March 31, 2022 and December 31, 2021, the Company's total carrying amount of loans in the foreclosure process was $0.7 million and $2.3 million, respectively.

*PCD loans*

During the three months ended March 31, 2022 the Company acquired credit deteriorated loans in connection with the Mosaic Mergers. The table below presents details on PCD loans.

| *(in thousands)* | Three Months Ended March 31, 2022 |
|---|---|
| Unpaid principal balance | $ 21,960 |
| Allowance for credit losses at the acquisition date | (5,000) |
| Non-credit premium at acquisition | 5,000 |
| **Purchase price of loans classified as PCD** | **$ 21,960** |

The Company did not acquire any PCD loans in the three months ended March 31, 2021.

**Note 7. Fair value measurements**

Fair value is 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. U.S. GAAP has a three-level hierarchy that prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is impacted by a number of factors, including the type of investment, the characteristics specific to the investment, and the state of the marketplace (including the existence and transparency of transactions between market participants). The Company's valuation techniques for financial instruments use observable and unobservable inputs. Investments with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Investments measured and reported at fair value are classified and disclosed into one of the following categories:

*Level 1* — Quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company has the ability to access.

*Level 2* — Pricing inputs are other than quoted prices in active markets, including, but not limited to, quoted prices for similar assets and liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.

*Level 3* — One or more pricing inputs is significant to the overall valuation and unobservable. Significant unobservable inputs are based on the best information available in the circumstances, to the extent observable inputs are not available, including the Company's own assumptions used in determining the fair value of financial instruments. Fair value for these investments are determined using valuation methodologies that consider a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment.

Valuation techniques of Level 3 investments vary by instrument type, but are generally based on an income, market or cost-based approach. The income approach predominantly considers discounted cash flows which is the measure of expected future cash flows in a default scenario, implied by the value of the underlying collateral, where applicable, and current performance whereas the market-based approach predominantly considers pull-through rates, industry multiples and the unpaid principal balance. Fair value measurements of loans are sensitive to changes in assumptions regarding prepayments, probability of default, loss severity in the event of default, forecasts of home prices, and significant activity or developments in the real estate market. Fair value measurements of residential MSRs are sensitive to changes in assumptions regarding prepayments, discount rates, and cost of servicing. Fair value measurements of derivative instruments, specifically IRLC's, are sensitive to changes in assumptions related to origination pull-through rates, servicing fee multiples, and percentages of unpaid principal balances. Origination pull-through rates are also dependent on factors such as market interest rates, type of origination, length of lock, purpose of the loan (purchase or refinance), type of loan (fixed or variable), and the processing status of the loan.

The fair value of the acquired contingent consideration was determined using a Monte Carlo simulation model which considers various potential results based on Level 3 inputs, including management's latest estimates of future operating results. Fair value measurements of the contingent consideration liability, are sensitive to changes in assumptions related to earnings before tax ("EBT"), discount rate and risk-free rate of return. Contingent consideration also consists of CERs. Pursuant to the CER agreement, if, as of the revaluation date, the sum of the updated fair value of the acquired portfolio less all advances made on such assets, plus all principal payments, return of capital and liquidation proceeds received on such assets exceeds the initial discounted fair value of the acquired portfolio, then the Company will issue to the CER holders, with respect to each CER, a number of shares of common stock equal to 90% of the lesser of the valuation excess and the discount amount, divided by the number of initially issued CERs divided by the Company share value, with cash being paid in lieu of any fractional shares of common stock otherwise due to such holder. In addition, each CER holder will be entitled to receive a number of additional shares of common stock equal to (i) the amount of any dividends or other distributions paid with respect to the number of whole shares of common stock received by such CER holder in respect of such holder's CERs and having a record date on or after the closing of the Mosaic Mergers and a payment date prior to the issuance date of such shares of common stock, divided by (ii) the Company share value. The probability-weighted expected return method ("PWERM") was utilized to estimate the return of capital and liquidation proceeds of the acquired asset portfolio, considering each possible outcome, including the economic and projected performance of each acquired asset, using a probability of 65%-100% return of capital. The discounted cashflow technique was utilized by the Company to assess the updated value of the acquired portfolio as of the revaluation date. The fair value of dividend distributions to the CER holders was determined using a Monte Carlo simulation model which considers various potential results based on the CER payments, volatility of the Company's share value and projected dividend distributions.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The table below presents financial instruments carried at fair value on a recurring basis.

| *(in thousands)* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **March 31, 2022** | | | | |
| **Assets:** | | | | |
| Loans, held for sale, at fair value | $ — | $ 319,256 | $ 203,958 | $ 523,214 |
| Loans, net, at fair value | — | — | 10,722 | 10,722 |
| Investments held to maturity | — | — | 17,053 | 17,053 |
| Paycheck Protection Program loans | — | 1,843 | — | 1,843 |
| MBS, at fair value | — | 86,245 | 7,014 | 93,259 |
| Derivative instruments, at fair value | — | 36,852 | — | 36,852 |
| Residential MSRs, at fair value | — | — | 159,834 | 159,834 |
| Investment in unconsolidated joint ventures | — | — | 8,610 | 8,610 |
| **Total assets** | **$ —** | **$ 444,196** | **$ 407,191** | **$ 851,387** |
| | | | | |
| **Liabilities:** | | | | |
| Derivative instruments, at fair value | $ — | $ 4 | $ 2,616 | $ 2,620 |
| Contingent consideration | — | — | 92,148 | 92,148 |
| **Total liabilities** | **$ —** | **$ 4** | **$ 94,764** | **$ 94,768** |
| **December 31, 2021** | | | | |
| **Assets:** | | | | |
| Loans, held for sale, at fair value | $ — | $ 321,070 | $ 231,865 | $ 552,935 |
| Loans, net, at fair value | — | — | 10,766 | 10,766 |
| Paycheck Protection Program loans | — | — | 3,243 | 3,243 |
| MBS, at fair value | — | 97,915 | 1,581 | 99,496 |
| Derivative instruments, at fair value | — | 4,683 | 2,339 | 7,022 |
| Residential MSRs, at fair value | — | — | 120,142 | 120,142 |
| Investment in unconsolidated joint ventures | — | — | 8,894 | 8,894 |
| **Total assets** | **$ —** | **$ 423,668** | **$ 378,830** | **$ 802,498** |
| | | | | |
| **Liabilities:** | | | | |
| Derivative instruments, at fair value | $ — | $ 410 | $ — | $ 410 |
| Contingent consideration | — | — | 16,400 | 16,400 |
| **Total liabilities** | **$ —** | **$ 410** | **$ 16,400** | **$ 16,810** |

The table below presents the valuation techniques and significant unobservable inputs used to value Level 3 financial instruments, using third party information without adjustment.

| *(in thousands)* | Fair Value | Predominant Valuation Technique (a) | Type | Range | Weighted Average |
|---|---|---|---|---|---|
| **March 31, 2022** | | | | | |
| Investments held to maturity | $ 17,053 | Income Approach | Discount rate | 8.4 - 16.0% | 9.8% |
| Residential MSRs, at fair value | $ 159,834 | Income Approach | Forward prepayment rate \| Forward Default Rate \| Discount rate \| Servicing expense | (b) | (b) |
| Investment in unconsolidated joint ventures | $ 8,610 | Income Approach | Discount rate | 9.0% | 9.0% |
| Derivative instruments, at fair value | $ (2,616) | Market Approach | Origination pull-through rate \| Servicing Fee Multiple \| Percentage of unpaid principal balance | 63.5 - 100% \| 0.0 - 5.5% \| 0.0 to 3.1% | 88.4% \| 4.4% \| 1.4% |
| Contingent consideration- Red Stone | $ (7,800) | Monte Carlo Simulation Model | EBT volatility \| Risk-free rate of return \| EBT discount rate \| Liability discount rate | 25.0% \| 0.4% \| 12.6% \| 3.8% | 25.0% \| 0.4% \| 12.6% \| 3.8% |
| Contingent consideration- Mosaic CER dividends | $ (18,475) | Monte Carlo Simulation Model | Equity volatility \| Risk-free rate of return \| Discount Rate | 45.0% \| 2.14% \| 9.98% | 45.0% \| 2.14% \| 9.98% |
| Contingent consideration- Mosaic CER units | $ (65,873) | Income Approach and PWERM Model | Revaluation discount rate \| Discount rate | 8.50 - 12.00% \| 9.98% | 9.6% \| 9.98% |
| **December 31, 2021** | | | | | |
| Derivative instruments, at fair value | $ 2,339 | Market Approach | Origination pull-through rate \| Servicing Fee Multiple \| Percentage of unpaid principal balance | 63.0 - 100% \| 0.4 - 5.2% \| 0.1 to 3.1% | 86.7% \| 4.1% \| 1.3% |
| Residential MSRs, at fair value | $ 120,142 | Income Approach | Forward prepayment rate \| Forward Default Rate \| Discount rate \| Servicing expense | (b) | (b) |
| Investment in unconsolidated joint ventures | $ 8,894 | Income Approach | Discount rate | 9.0% | 9.0% |
| Contingent consideration | $ (16,400) | Monte Carlo Simulation Model | EBT volatility \| Risk-free rate of return \| EBT discount rate \| Liability discount rate | 25.0% \| 0.4% \| 17.6% \| 3.8% | 25.0% \| 0.4% \| 17.6% \| 3.8% |

(a) Prices are weighted based on the unpaid principal balance of the loans and securities included in the range for each class.
(b) Refer to Note 9 - Servicing Rights for more information on residential MSRs unobservable inputs.

Included within Level 3 assets of $407.2 million as of March 31, 2022 and $378.8 million as of December 30, 2021, is $221.7 million and $247.5 million of quoted or transaction prices in which quantitative unobservable inputs are not developed by the Company when measuring fair value, respectively.

The table below presents a summary of changes in fair value for Level 3 assets and liabilities.

| *(in thousands)* | MBS | Derivatives | Loans, net | Loans, held for sale, at fair value | Investments held to maturity | PPP loans | Residential MSRs | Investment in unconsolidated joint ventures | Contingent Consideration | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Three Months Ended March 31, 2022** | | | | | | | | | | |
| Beginning Balance | $ 1,581 | $ 2,339 | $ 10,766 | $ 231,865 | $ — | $ 3,243 | $ 120,142 | $ 8,894 | $ (16,400) | $ 362,430 |
| Purchases or Originations | — | — | — | 17,570 | — | — | — | — | — | 17,570 |
| Additions due to loans sold, servicing retained | — | — | — | — | — | — | 10,506 | — | — | 10,506 |
| Sales / Principal payments | — | — | — | (32,594) | — | (1,400) | (3,412) | — | 9,000 | (28,406) |
| Realized gains, net | — | — | — | (786) | — | — | — | — | — | (786) |
| Unrealized gains (losses), net | 44 | (4,955) | (44) | (10,760) | — | — | 32,598 | (284) | (400) | 16,199 |
| Merger | — | — | — | — | 17,053 | — | — | — | (84,348) | (67,295) |
| Transfer to (from) Level 3 | 5,389 | — | — | (1,337) | — | (1,843) | — | — | — | 2,209 |
| **Ending Balance** | **$ 7,014** | **$ (2,616)** | **$ 10,722** | **$ 203,958** | **$ 17,053** | **$ —** | **$ 159,834** | **$ 8,610** | **$ (92,148)** | **$ 312,427** |
| **Unrealized gains (losses), net on assets/liabilities** | **$ (2,529)** | **$ (2,616)** | **$ (233)** | **$ (9,132)** | **$ —** | **$ —** | **$ 2,309** | **$ (587)** | **$ (400)** | **$ (13,188)** |
| **Three Months Ended March 31, 2021** | | | | | | | | | | |
| Beginning Balance | $ 25,131 | $ 16,363 | $ 13,795 | $ — | $ — | $ 74,931 | $ 76,840 | $ — | $ — | $ 207,060 |
| Originations | — | — | — | — | — | 3,866 | — | — | — | 3,866 |
| Accreted discount, net | 58 | — | — | — | — | — | — | — | — | 58 |
| Additions due to loans sold, servicing retained | — | — | — | — | — | — | 12,048 | — | — | 12,048 |
| Sales / Principal payments | (92) | — | (201) | — | — | (40,409) | (5,700) | — | — | (46,402) |
| Realized gains, net | — | — | (5) | — | — | — | — | — | — | (5) |
| Unrealized gains (losses), net | 1,069 | (4,639) | 29 | — | — | — | 15,354 | — | — | 11,813 |
| Transfer to (from) Level 3 | (20,533) | — | — | — | — | — | — | — | — | (20,533) |
| **Ending Balance** | **$ 5,633** | **$ 11,724** | **$ 13,618** | **$ —** | **$ —** | **$ 38,388** | **$ 98,542** | **$ —** | **$ —** | **$ 167,905** |
| **Unrealized gains (losses), net on assets/liabilities** | **$ (319)** | **$ 11,724** | **$ (263)** | **$ —** | **$ —** | **$ —** | **$ (31,855)** | **$ —** | **$ —** | **$ (20,713)** |

The Company's policy is to recognize transfers in and transfers out as of the end of the period of the event or the date of the change in circumstances that caused the transfer. Transfers between Level 2 and Level 3 generally relate to whether there were changes in the significant relevant observable and unobservable inputs that are available for the fair value measurements of such financial instruments.

***Financial instruments not carried at fair value***

The table below presents the carrying value and estimated fair value of financial instruments that are not carried at fair value and are classified as Level 3.

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| *(in thousands)* | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| **Assets:** | | | | |
| Loans, net | $ 8,979,504 | $ 9,009,309 | $ 6,986,528 | $ 7,112,282 |
| Paycheck Protection Program loans | 552,813 | 598,222 | 867,109 | 927,766 |
| Investments held to maturity | 148,655 | 148,655 | — | — |
| Purchased future receivables, net | 8,753 | 8,753 | 7,872 | 7,872 |
| Servicing rights | 84,309 | 89,323 | 84,457 | 89,470 |
| **Total assets** | **$ 9,774,034** | **$ 9,854,262** | **$ 7,945,966** | **$ 8,137,390** |
| **Liabilities:** | | | | |
| Secured borrowings | $ 3,274,324 | $ 3,274,324 | $ 2,517,600 | $ 2,517,600 |
| Paycheck Protection Program Liquidity Facility borrowings | 627,445 | 627,445 | 941,505 | 941,505 |
| Securitized debt obligations of consolidated VIEs, net | 3,864,150 | 3,839,378 | 3,214,303 | 3,238,155 |
| Senior secured note, net | 342,454 | 327,754 | 342,035 | 338,990 |
| Guaranteed loan financing | 332,398 | 353,715 | 345,217 | 366,887 |
| Convertible notes, net | 113,531 | 116,024 | 113,247 | 118,922 |
| Corporate debt, net | 446,118 | 452,016 | 441,817 | 457,741 |
| **Total liabilities** | **$ 9,000,420** | **$ 8,990,656** | **$ 7,915,724** | **$ 7,979,800** |

Other assets of $71.5 million as of March 31, 2022, and $45.6 million as of December 31, 2021, are not carried at fair value and include due from servicers and accrued interest, which are presented in Note 19 – Other Assets and Other Liabilities. Receivables from third parties of $7.4 million as of March 31, 2022, and $29.3 million as of December 31, 2021, are not carried at fair value but generally approximate fair value and are classified as Level 3. Accounts payable and other accrued liabilities of $36.8 million as of March 31, 2022, and $27.5 million as of December 31, 2021 are not carried at fair value and include payables to related parties and accrued interest payable which are included in Note 19. For these instruments, carrying value generally approximates fair value and are classified as Level 3.

## Note 8. Investments held to maturity

The table below presents information about held to maturity investments.

| *(in thousands)* | Weighted Average Maturity (a) | Weighted Average Interest Rate (a) | Principal Balance | Amortized Cost | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
|---|---|---|---|---|---|---|---|
| **March 31, 2022** | | | | | | | |
| Construction preferred equities | 05/2024 | 14.4 % | $ 47,806 | $ 57,285 | $ 57,285 | $ — | $ — |
| Construction preferred equities in consolidated VIEs | 11/2025 | 12.0 | 108,423 | 108,423 | 108,423 | — | — |
| **Total held to maturity investments** | **05/2025** | **12.7 %** | **$ 156,229** | **$ 165,708** | **$ 165,708** | **$ —** | **$ —** |

(a) Weighted based on current principal balance

The table below presents information about the tenor of held to maturity investments.

| *(in thousands)* | Weighted Average Interest Rate (a) | Principal Balance | Amortized Cost | Fair Value |
|---|---|---|---|---|
| **March 31, 2022** | | | | |
| Within one year | 12.0 % | $ 446 | $ 446 | $ 446 |
| After one year through five years | 12.7 | 155,783 | 165,262 | 165,262 |
| **Total held to maturity investments** | **12.7 %** | **$ 156,229** | **$ 165,708** | **$ 165,708** |

(a) Weighted based on current principal balance

Provision for credit losses on held to maturity securities was not material for the three months ended March 31, 2022.

## Note 9. Servicing rights

The Company performs servicing activities for third parties, which primarily include collecting principal, interest and other payments from borrowers, remitting the corresponding payments to investors and monitoring delinquencies. The Company's servicing fees are specified by pooling and servicing agreements.

The table below presents information about servicing rights.

| (in thousands) | Three Months Ended March 31, 2022 | 2021 |
|---|---|---|
| **SBA servicing rights, at amortized cost** | | |
| Beginning net carrying amount | $ 22,157 | $ 18,764 |
| Additions due to loans sold, servicing retained | 1,734 | 959 |
| Amortization | (949) | (1,047) |
| Impairment (recovery) | (51) | (34) |
| **Ending net carrying amount** | **$ 22,891** | **$ 18,642** |
| **Multi-family servicing rights, at amortized cost** | | |
| Beginning net carrying amount | $ 62,300 | $ 19,059 |
| Additions due to loans sold, servicing retained | 1,463 | 3,559 |
| Amortization | (2,345) | (861) |
| **Ending net carrying amount** | **$ 61,418** | **$ 21,757** |
| **Total servicing rights, at amortized cost** | **$ 84,309** | **$ 40,399** |
| **Residential MSRs, at fair value** | | |
| Beginning net carrying amount | $ 120,142 | $ 76,840 |
| Additions due to loans sold, servicing retained | 10,506 | 12,048 |
| Loan pay-offs | (3,412) | (5,700) |
| Unrealized gains | 32,598 | 15,354 |
| **Ending fair value amount** | **$ 159,834** | **$ 98,542** |
| **Total servicing rights** | **$ 244,143** | **$ 138,941** |

***Servicing rights – SBA and multi-family portfolio.*** The Company's SBA and multi-family servicing rights are carried at amortized cost and evaluated quarterly for impairment. The Company estimates the fair value of these servicing rights by using a combination of internal models and data provided by third-party valuation experts. The assumptions used in our internal models include forward prepayment rates, forward default rates, discount rates, and servicing expenses.

The Company's models calculate the present value of expected future cash flows utilizing assumptions that we believe are used by market participants. We derive forward prepayment rates, forward default rates and discount rates from historical experience adjusted for prevailing market conditions. Components of the estimated future cash flows include servicing fees, late fees, other ancillary fees and cost of servicing.

The table below presents additional information about SBA and multi-family servicing rights.

| | As of March 31, 2022 | | As of December 31, 2021 | |
|---|---|---|---|---|
| (in thousands) | UPB | Carrying Value | UPB | Carrying Value |
| SBA | $ 883,303 | $ 22,891 | $ 856,188 | $ 22,157 |
| Multi-family | 4,490,286 | 61,418 | 4,232,969 | 62,300 |
| **Total** | **$ 5,373,589** | **$ 84,309** | **$ 5,089,157** | **$ 84,457** |

The table below presents significant assumptions used in the estimated valuation of SBA and multi-family servicing rights carried at amortized cost.

| | March 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Range of input values | | | Weighted Average | Range of input values | | | Weighted Average |
| **SBA servicing rights** | | | | | | | | |
| Forward prepayment rate | 8.3 | - | 21.0 % | 9.1 % | 7.9 | - | 21.0 % | 8.9 % |
| Forward default rate | 0.0 | - | 10.2 % | 9.1 % | 0.0 | - | 10.4 % | 9.1 % |
| Discount rate | 8.9 | - | 20.2 % | 9.5 % | 10.0 | - | 21.3 % | 10.7 % |
| Servicing expense | 0.4 | - | 0.4 % | 0.4 % | 0.4 | - | 0.4 % | 0.4 % |
| **Multi-family servicing rights** | | | | | | | | |
| Forward prepayment rate | 0.0 | - | 7.3 % | 3.5 % | 0.0 | - | 7.3 % | 3.5 % |
| Forward default rate | 0.0 | - | 1.3 % | 0.9 % | 0.0 | - | 1.3 % | 1.0 % |
| Discount rate | 6.0 | - | 6.0 % | 6.0 % | 6.0 | - | 6.0 % | 6.0 % |
| Servicing expense | 0.0 | - | 0.8 % | 0.1 % | 0.0 | - | 0.8 % | 0.1 % |

Assumptions can change between and at each reporting period as market conditions and projected interest rates change.

The table below presents the possible impact of 10% and 20% adverse changes to key assumptions on SBA and multi-family servicing rights.

| *(in thousands)* | | March 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **SBA servicing rights** | | | | |
| Forward prepayment rate | | | | |
| Impact of 10% adverse change | $ | (750) | $ | (670) |
| Impact of 20% adverse change | $ | (1,457) | $ | (1,305) |
| Default rate | | | | |
| Impact of 10% adverse change | $ | (169) | $ | (155) |
| Impact of 20% adverse change | $ | (335) | $ | (309) |
| Discount rate | | | | |
| Impact of 10% adverse change | $ | (729) | $ | (746) |
| Impact of 20% adverse change | $ | (1,413) | $ | (1,443) |
| Servicing expense | | | | |
| Impact of 10% adverse change | $ | (1,435) | $ | (1,344) |
| Impact of 20% adverse change | $ | (2,870) | $ | (2,687) |
| **Multi-family servicing rights** | | | | |
| Forward prepayment rate | | | | |
| Impact of 10% adverse change | $ | (287) | $ | (291) |
| Impact of 20% adverse change | $ | (566) | $ | (575) |
| Default rate | | | | |
| Impact of 10% adverse change | $ | (25) | $ | (25) |
| Impact of 20% adverse change | $ | (50) | $ | (50) |
| Discount rate | | | | |
| Impact of 10% adverse change | $ | (1,868) | $ | (1,910) |
| Impact of 20% adverse change | $ | (3,645) | $ | (3,726) |
| Servicing expense | | | | |
| Impact of 10% adverse change | $ | (2,638) | $ | (2,659) |
| Impact of 20% adverse change | $ | (5,276) | $ | (5,318) |

The table below presents estimated future amortization expense for SBA and multi-family servicing rights.

| **(in thousands)** | | **March 31, 2022** |
|---|---|---|
| 2022 | $ | 10,792 |
| 2023 | | 10,976 |
| 2024 | | 9,973 |
| 2025 | | 8,857 |
| 2026 | | 7,947 |
| Thereafter | | 35,764 |
| **Total** | **$** | **84,309** |

***Residential MSRs.*** The Company's residential MSRs consist of conforming conventional loans sold to Fannie Mae and Freddie Mac or loans securitized in Ginnie Mae securities. Similarly, the government loans serviced by the Company are securitized through Ginnie Mae, whereby the Company is insured against loss by the Federal Housing Administration or partially guaranteed against loss by the Department of Veteran Affairs.

The table below presents additional information about residential MSRs carried at fair value.

| | March 31, 2022 | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| **(in thousands)** | | **UPB** | | **Fair Value** | | **UPB** | | **Fair Value** |
| Fannie Mae | $ | 4,181,544 | $ | 55,204 | $ | 4,056,595 | $ | 41,698 |
| Freddie Mac | | 4,320,665 | | 59,001 | | 4,131,904 | | 45,017 |
| Ginnie Mae | | 2,855,121 | | 45,629 | | 2,807,186 | | 33,427 |
| **Total** | **$** | **11,357,330** | **$** | **159,834** | **$** | **10,995,685** | **$** | **120,142** |

The table below presents significant assumptions used in the valuation of residential MSRs carried at fair value.

| | March 31, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Range of input values | | Weighted Average | Range of input values | | Weighted Average |
| **Residential MSRs** | | | | | | |
| Forward prepayment rate | 6.1 - | 15.5 % | 6.7 % | 8.4 - | 20.9 % | 9.5 % |
| Discount rate | 9.0 - | 11.0 % | 9.4 % | 9.0 - | 11.0 % | 9.4 % |
| Servicing expense | $70 - | $85 | $74 | $70 - | $85 | $74 |

Assumptions can change between and at each reporting period as market conditions and projected interest rates change.

The table below presents the possible impact of 10% and 20% adverse changes to key assumptions on the fair value of residential MSRs.

| *(in thousands)* | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Residential MSRs** | | |
| Prepayment rate | | |
| Impact of 10% adverse change | $ (5,097) | $ (5,262) |
| Impact of 20% adverse change | $ (9,926) | $ (9,262) |
| Discount rate | | |
| Impact of 10% adverse change | $ (6,781) | $ (4,533) |
| Impact of 20% adverse change | $ (13,041) | $ (8,745) |
| Servicing expense | | |
| Impact of 10% adverse change | $ (2,593) | $ (2,125) |
| Impact of 20% adverse change | $ (5,186) | $ (4,251) |

**Note 10. Residential mortgage banking activities and variable expenses on residential mortgage banking activities**

Residential mortgage banking activities reflects revenue within our residential mortgage banking business directly related to loan origination and sale activity. This primarily consists of the realized gains on sales of residential loans held for sale and loan origination fee income. Residential mortgage banking activities also consists of unrealized gains and losses associated with the changes in fair value of the loans held for sale, the fair value of retained MSR additions, and the realized and unrealized gains and losses from derivative instruments. Variable expenses include correspondent fee expenses and other direct expenses relating to these loans, which vary based on loan origination volumes.

The table below presents the components of residential mortgage banking activities and associated variable expenses.

| | Three Months Ended March 31, | |
|---|---|---|
| *(in thousands)* | 2022 | 2021 |
| Realized and unrealized gain of residential mortgage loans held for sale, at fair value | $ (5,087) | $ 29,560 |
| Creation of new MSRs, net of payoffs | 7,094 | 6,348 |
| Loan origination fee income on residential mortgage loans | 4,110 | 6,232 |
| Unrealized gain (loss) on IRLCs and other derivatives | 2,307 | (731) |
| **Residential mortgage banking activities** | **$ 8,424** | **$ 41,409** |
| | | |
| **Variable expenses on residential mortgage banking activities** | **$ (979)** | **$ (15,485)** |

### Note 11. Secured borrowings

The table below presents certain characteristics of secured borrowings.

| Lender | Asset Class | Current Maturity | Pricing | Facility Size | Pledged Assets Carrying Value | Carrying Value at March 31, 2022 | Carrying Value at December 31, 2021 |
|---|---|---|---|---|---|---|---|
| JPMorgan | Acquired loans, SBA loans | August 2022 | 1M L + 2.50% to 2.875% | $ 200,000 | $ 87,348 | $ 59,716 | $ 54,164 |
| KeyBank | Freddie Mac loans | February 2023 | SOFR + 1.41% | 100,000 | 52,935 | 52,131 | 41,864 |
| East West Bank | SBA loans | October 2022 | Prime - 0.821% to + 0.00% | 75,000 | 89,993 | 62,010 | 58,622 |
| Credit Suisse | Acquired loans (non USD) | April 2022 | Euribor + 2.50% to 3.00% | 221,340 | 48,228 | 37,652 | 40,373 |
| Comerica Bank | Residential loans | June 2022 | 1M L + 1.75% | 100,000 | 71,191 | 68,571 | 63,991 |
| TBK Bank | Residential loans | February 2023 | Variable Pricing | 150,000 | 91,049 | 91,146 | 125,145 |
| Origin Bank | Residential loans | September 2022 | Variable Pricing | 60,000 | 18,621 | 17,782 | 16,052 |
| Associated Bank | Residential loans | November 2022 | 1M L + 1.50% | 60,000 | 23,751 | 23,298 | 14,449 |
| East West Bank | Residential MSRs | September 2023 | 1M L + 2.50% | 50,000 | 114,205 | 49,400 | 49,400 |
| Credit Suisse | Purchased future receivables | October 2023 | 1M L + 4.50% | 50,000 | 8,753 | 1,000 | 1,000 |
| Bank of the Sierra | Real estate | August 2050 | 3.25% to 3.45% | 22,770 | — | — | — |
| Western Alliance | Residential loans | July 2022 | Variable Pricing | 50,000 | 7,910 | 6,814 | 6,823 |
| Madison | Construction loans | August 2022 | 1 ML +7.00% | 360,000 | 91,778 | 33,766 | — |
| **Total borrowings under credit facilities and other financing agreements** | | | | **$ 1,499,110** | **$ 705,762** | **$ 503,286** | **$ 471,883** |
| Citibank | Fixed rate, Transitional, Acquired loans | October 2022 | 1M L + 2.00% to 3.00% | $ 500,000 | $ 211,879 | $ 168,967 | $ 128,851 |
| Deutsche Bank | Fixed rate, Transitional loans | November 2023 | SOFR + 1.90% to 2.75% | 350,000 | 390,632 | 292,660 | 236,073 |
| JPMorgan | Transitional loans | November 2022 | 1M L + 2.00% to 2.75% | 1,000,000 | 1,098,929 | 829,297 | 825,265 |
| Performance Trust | Fixed rate, Transitional, Acquired loans | March 2024 | 1M T + 2.00% | 263,000 | 273,779 | 233,409 | 124,057 |
| Credit Suisse | Fixed rate, Transitional, Acquired loans | February 2023 | SOFR + 2.00% to 2.35% | 750,000 | 747,787 | 584,128 | 403,644 |
| Credit Suisse | Residential loans | Matured | L + 3.00% | — | — | — | 27,058 |
| Goldman Sachs | Fixed rate, Transitional, Acquired loans | February 2024 | SOFR + 1.50%-2.25% | 250,000 | 220,640 | 175,561 | — |
| Churchill | Transitional, Acquired loans | March 2026 | SOFR + 2.50% | 500,000 | 137,258 | 103,924 | — |
| JPMorgan | MBS | April 2022 | 1.41% to 2.43% | 64,750 | 97,365 | 64,750 | 83,267 |
| Deutsche Bank | MBS | April 2022 | 2.3% | 12,767 | 19,774 | 12,767 | 12,956 |
| Citibank | MBS | April 2022 | 2.5% | 56,330 | 99,889 | 56,330 | 47,777 |
| RBC | MBS | April 2022 | 1.36% to 2.3% | 57,217 | 86,596 | 57,217 | 61,302 |
| CSFB | MBS | April 2022 | 2.14% to 3.08% | 192,027 | 371,539 | 192,028 | 95,467 |
| **Total borrowings under repurchase agreements** | | | | **$ 3,996,091** | **$ 3,756,067** | **$ 2,771,038** | **$ 2,045,717** |
| **Total secured borrowings** | | | | **$ 5,495,201** | **$ 4,461,829** | **$ 3,274,324** | **$ 2,517,600** |

In the table above:

- The current facility size for borrowings under credit facilities due to Credit Suisse is €200.0 million, but has been converted into USD for purposes of this disclosure.
- The weighted average interest rate of borrowings under credit facilities was 3.1% and 2.8% as of March 31, 2022 and December 31, 2021, respectively.
- The weighted average interest rate of borrowings under repurchase agreements was 2.1% and 2.1% as of March 31, 2022 and December 31, 2021, respectively.
- The agreements governing secured borrowings require maintenance of certain financial and debt covenants. The Company received a waiver from certain financing counterparties to exclude the Paycheck Protection Program Liquidity Fund from certain covenant calculations as of both March 31, 2022 and December 31, 2021 and therefore was in compliance with all debt and financial covenants as of the current period ended.

The table below presents the carrying value of collateral pledged with respect to secured borrowings outstanding.

| | Pledged Assets Carrying Value | |
|---|---|---|
| *(in thousands)* | March 31, 2022 | December 31, 2021 |
| **Collateral pledged - borrowings under credit facilities and other financing agreements** | | |
| Loans, held for sale, at fair value | $ 263,498 | $ 276,022 |
| Loans, net | 318,810 | 206,169 |
| MSRs | 114,205 | 86,714 |
| Purchased future receivables | 8,753 | 7,872 |
| Real estate owned, held for sale | 496 | — |
| **Total** | **$ 705,762** | **$ 576,777** |
| **Collateral pledged - borrowings under repurchase agreements** | | |
| Loans, net | $ 2,875,947 | $ 2,062,867 |
| Mortgage-backed securities | 87,650 | 53,194 |
| Retained interest in assets of consolidated VIEs | 587,513 | 379,349 |
| Loans, held for sale, at fair value | 203,532 | 208,558 |
| Real estate acquired in settlement of loans | 1,425 | 1,425 |
| **Total** | **$ 3,756,067** | **$ 2,705,393** |
| **Total collateral pledged on secured borrowings** | **$ 4,461,829** | **$ 3,282,170** |

## Note 12. Senior secured notes, convertible notes, and corporate debt, net

***Senior secured notes, net***

***ReadyCap Holdings 4.50% senior secured notes due 2026.*** On October 20, 2021, ReadyCap Holdings, an indirect subsidiary of the Company, completed the offer and sale of $350.0 million of its 4.50% Senior Secured Notes due 2026 (the “Senior Secured Notes”). The net proceeds from the sale of the Senior Secured Notes were approximately $341.8 million, after deducting discounts, commissions and estimated offering expenses. The proceeds of the Senior Secured Notes were used to redeem all of ReadyCap Holdings’ outstanding 7.50% Senior Secured Notes due 2022 and for general corporate purposes. The Senior Secured Notes are fully and unconditionally guaranteed by the Company, each direct parent entity of ReadyCap Holdings, and other direct or indirect subsidiaries of the Company from time to time that is a direct parent entity of Sutherland Asset III, LLC or otherwise pledges collateral to secure the Senior Secured Notes (collectively, the “Guarantors”).

The Senior Secured Notes bear interest at 4.50% per annum, payable semiannually on each April 20 and October 20, beginning on April 20, 2022. The Senior Secured Notes will mature on October 15, 2026, unless redeemed or repurchased prior to such date. ReadyCap Holdings may redeem the Senior Secured Notes on or after October 15, 2021, at its option, in whole or in part at any time and from time to time, at a price equal to 100% of the outstanding principal amount thereof, plus the applicable “make-whole” premium as of, and unpaid interest, if any, accrued to, the redemption date. ReadyCap Holdings’ and the Guarantors’ respective obligations under the Senior Secured Notes are secured by a perfected first-priority lien on certain capital stock and assets owned by certain subsidiaries of the Company.

***ReadyCap Holdings, LLC (“ReadyCap Holdings”) 7.50% senior secured notes due 2022.*** During 2017, ReadyCap Holdings, a subsidiary of the Company, issued $140.0 million in 7.50% Senior Secured Notes due 2022. On January 30, 2018 ReadyCap Holdings issued an additional $40.0 million in aggregate principal amount of 7.50% Senior Secured Notes due 2022, which have identical terms (other than issue date, issue price and the date from which interest will accrue) to the notes issued during 2017 (collectively, the “2022 Senior Secured Notes”). The additional $40.0 million in 2022 Senior Secured Notes were priced with a yield to par call date of 6.5%. Payments of the amounts due on the 2022 Senior Secured Notes are fully and unconditionally guaranteed by the Company and its subsidiaries: the operating partnership, Sutherland Asset I, LLC, and ReadyCap Commercial, LLC. The funds were used to fund new SBC and SBA loan originations and new SBC loan acquisitions. On October 20, 2021, the Company redeemed all of the outstanding 2022 Senior Secured Notes.

***Convertible notes, net***

On August 9, 2017, the Company closed an underwritten public sale of $115.0 million aggregate principal amount of its 7.00% convertible senior notes due 2023 ( “Convertible Notes”). The Convertible Notes will mature on August 15, 2023, unless earlier repurchased, redeemed or converted. During certain periods and subject to certain conditions, the Convertible Notes will be convertible by holders into shares of the Company's common stock. As of March 31, 2022, the conversion rate was 1.6306 shares of common stock per $25 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately $15.33 per share of common stock. Upon conversion, holders will receive, at the Company's discretion, cash, shares of the Company's common stock or a combination thereof.

The Company may redeem all or any portion of the Convertible Notes on or after August 15, 2021, if the last reported sale price of the Company's common stock has been at least 120% of the conversion price in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption, at a redemption price payable in cash equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest. Additionally, upon the occurrence of certain corporate transactions, holders may require the Company to purchase the Convertible Notes for cash at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest.

The Convertible Notes will be convertible only upon satisfaction of one or more of the following conditions: (1) the closing market price of the Company's common stock is greater than or equal to 120% of the conversion price of the respective Convertible Notes for at least 20 out of 30 days prior to the end of the preceding fiscal quarter, (2) the trading price of the Convertible Notes is less than 98% of the product of (i) the conversion rate and (ii) the closing price of the Company's common stock during any five consecutive trading day period, (3) the Company issues certain equity instruments at less than the 10 day average closing market price of its common stock or the per-share value of certain distributions exceeds the market price of the Company's common stock by more than 10%, or (4) certain other specified corporate events (significant consolidation, sale, merger share exchange, etc.) occur.

At issuance, the Company allocated $112.7 million and $2.3 million of the carrying value of the Convertible Notes to its debt and equity components, respectively, before the allocation of deferred financing costs.

As of March 31, 2022, the Company was in compliance with all covenants with respect to the Convertible Notes.

***Corporate debt, net***

***The 5.50% 2028 Notes.*** On December 21, 2021, we completed the public offer and sale of $110.0 million aggregate principal amount of 5.50% Senior Notes due 2028 (the "5.50% 2028 Notes"). The net proceeds from the sale of the 5.50% 2028 Notes were approximately $107.4 million, after deducting underwriters' discounts, commissions and estimated offering expenses. We contributed the net proceeds to the operating partnership in exchange for the issuance by the operating partnership of a senior unsecured note with terms that are substantially equivalent to the terms of the Notes.

On or after December 30, 2024, we may redeem for cash all or any portion of the notes, at our option, at the redemption prices (expressed as percentages of principal amount) plus accrued and unpaid interest thereon, if any, to, but excluding, the redemption date, if redeemed during the twelve-month period beginning on December 30 of the years indicated: 2024 equal to 102.75%; 2025 equal to 101.375%; 2026 equal to 100.6875%; 2027 and thereafter equal to 100.00%. If we undergo a change of control repurchase event, holders may require us to purchase the 5.50% 2028 Notes for cash at a repurchase price equal to 101% of the aggregate principal amount of the 5.50% 2028 Notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase.

***The 5.75% 2026 Notes.*** On February 10, 2021, the Company completed the public offer and sale of $201.3 million aggregate principal amount of 5.75% Senior Notes due 2026 (the "5.75% 2026 Notes"), which includes $26.3 million aggregate principal amount of 5.75% 2026 Notes relating to the full exercise of the underwriters' over-allotment option. The net proceeds from the sale of the 5.75% 2026 Notes were approximately $195.2 million, after deducting underwriters' discount and estimated offering expenses. The Company contributed the net proceeds to the operating partnership in exchange for the issuance by the operating partnership of a senior unsecured note with terms that are substantially equivalent to the terms of the 5.75% 2026 Notes.

The 5.75% 2026 Notes bear interest at a rate of 5.75% per annum, payable quarterly in arrears on January 30, April 30, July 30, and October 30 of each year, beginning on April 30, 2021. The 5.75% 2026 Notes will mature on February 15, 2026, unless earlier repurchased or redeemed.

Prior to February 15, 2023, the 5.75% 2026 Notes will not be redeemable by the Company. On or after February 15, 2023, the Company may redeem for cash all or any portion of the 5.75% 2026 Notes, at its option, at a redemption price equal to 100% of the principal amount of the 5.75% 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company undergoes a change of control repurchase event, holders may require it to purchase the 5.75% 2026 Notes, in whole or in part, for cash at a repurchase price equal to 101% of the aggregate principal amount of the 5.75% 2026 Notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase, as described in greater detail in the base indenture, as supplemented by the fifth supplemental indenture dated as of February 10, 2021.

The 5.75% 2026 Notes are the Company's senior unsecured obligations and will not be guaranteed by any of its subsidiaries, except to the extent described in the Indenture upon the occurrence of certain events. The 5.75% 2026 Notes rank equal in right of payment to any of the Company's existing and future unsecured and unsubordinated indebtedness; effectively junior in right of payment to any of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness, other liabilities (including trade payables) and (to the extent not held by the Company) preferred stock, if any, of its subsidiaries.

***The 6.20% 2026 Notes.*** On July 22, 2019, the Company completed the public offer and sale of $57.5 million aggregate principal amount of its 6.20% Senior Notes due 2026 (the "6.20% 2026 Notes"), which includes $7.5 million aggregate principal amount of the 6.20% 2026 Notes relating to the full exercise of the underwriters' over-allotment option. The net proceeds from the sale of the 6.20% 2026 Notes were approximately $55.3 million, after deducting underwriters' discount and estimated offering expenses. The Company contributed the net proceeds to the operating partnership in exchange for the issuance by the operating partnership of a senior unsecured note with terms that are substantially equivalent to the terms of the 6.20% 2026 Notes.

The 6.20% 2026 Notes bear interest at a rate of 6.20% per annum, payable quarterly in arrears on January 30, April 30, July 30, and October 30 of each year. The 6.20% 2026 Notes will mature on July 30, 2026, unless earlier repurchased or redeemed.

The Company may redeem for cash all or any portion of the 6.20% 2026 Notes, at its option, on or after July 30, 2022 and before July 30, 2025 at a redemption price equal to 101% of the principal amount of the 6.20% 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. On or after July 30, 2025, the Company may redeem for cash all or any portion of the 6.20% 2026 Notes, at its option, at a redemption price equal to 100% of the principal amount of the 6.20% 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company undergoes a change of control repurchase event, holders may require it to purchase the 6.20% 2026 Notes, in whole or in part, for cash at a repurchase price equal to 101% of the aggregate principal amount of the 6.20% 2026 Notes to be purchased, plus accrued and unpaid interest.

The 6.20% 2026 Notes are the Company's senior unsecured obligations and will not be guaranteed by any of its subsidiaries, except to the extent described in the Indenture upon the occurrence of certain events. The 6.20% 2026 Notes rank equal in right of payment to any of the Company's existing and future unsecured and unsubordinated indebtedness; effectively junior in right of payment to any of its existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness, other liabilities (including trade payables) and (to the extent not held by the Company) preferred stock, if any, of its subsidiaries.

On December 2, 2019, the Company completed the public offer and sale of an additional $45.0 million aggregate principal amount of the 6.20% 2026 Notes. The new notes have the same terms (except with respect to issue date, issue price and the date from which interest will accrue), are fully fungible with, and are treated as a single series of debt securities as, the 6.20% Senior Notes due 2026 the Company issued on July 22, 2019.

***The 2021 Notes.*** On April 27, 2018, the Company completed the public offer and sale of $50.0 million aggregate principal amount of its 6.50% Senior Notes due 2021 (the "2021 Notes"). The Company issued the 2021 Notes under a base indenture, dated August 9, 2017, as supplemented by the second supplemental indenture, dated as of April 27, 2018, between the Company and U.S. Bank National Association, as trustee. The 2021 Notes bear interest at a rate of 6.50% per annum, payable quarterly in arrears on January 30, April 30, July 30, and October 30 of each year. The 2021 Notes matured on April 30, 2021.

On March 25, 2021, the Company redeemed all of the outstanding 2021 Notes, at a redemption price equal to 100% of the principal amount of the 2021 Notes plus accrued and unpaid interest, for cash.

***The Debt ATM Agreement***

On May 20, 2021, the Company entered into an At Market Issuance Sales Agreement (the "Sales Agreement") with B. Riley Securities, Inc. (the "Agent"), pursuant to which the Company may offer and sell, from time to time, up to $100.0 million of the 6.20% 2026 Notes and the 5.75% 2026 Notes. Sales of the 6.20% 2026 Notes and the 5.75% 2026 Notes pursuant to the Sales Agreement, if any, may be made in transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act of 1933, as amended (the "Debt ATM Program"). The Agent is not required to sell any specific number of the notes, but the Agent will make all sales using commercially reasonable efforts consistent with its normal trading and sales practices on mutually agreed terms between the Agent and the Company. During the three months ended March 31, 2022, the Company sold an aggregate of 161.1 thousand of the 6.20% 2026 Notes and 5.75% 2026 Notes at an average price of $25.40 per note and $25.06 per note, respectively, for net proceeds of $4.0 million after related expenses paid of $0.1 million through the Debt ATM Program.

As of March 31, 2022, the Company was in compliance with all covenants with respect to Corporate debt.

The table below presents information about senior secured notes, convertible notes and corporate debt.

| *(in thousands)* | **Coupon Rate** | **Maturity Date** | | **March 31, 2022** |
|---|---|---|---|---|
| Senior secured notes principal amount(1) | 4.50 % | 10/20/2026 | $ | 350,000 |
| Unamortized deferred financing costs - Senior secured notes | | | | (7,546) |
| **Total Senior secured notes, net** | | | **$** | **342,454** |
| Convertible notes principal amount (2) | 7.00 % | 8/15/2023 | | 115,000 |
| Unamortized discount - Convertible notes (3) | | | | (534) |
| Unamortized deferred financing costs - Convertible notes | | | | (935) |
| **Total Convertible notes, net** | | | **$** | **113,531** |
| Corporate debt principal amount(4) | 5.50 % | 12/30/2028 | | 110,000 |
| Corporate debt principal amount(4) | 6.20 % | 7/30/2026 | | 104,527 |
| Corporate debt principal amount(5) | 5.75 % | 2/15/2026 | | 205,000 |
| Unamortized discount - corporate debt | | | | (6,235) |
| Unamortized deferred financing costs - corporate debt | | | | (3,424) |
| Junior subordinated notes principal amount(6) | 3M + 3.10 % | 3/30/2035 | | 15,000 |
| Junior subordinated notes principal amount(7) | 3M + 3.10 % | 4/30/2035 | | 21,250 |
| **Total corporate debt, net** | | | **$** | **446,118** |
| **Total carrying amount of debt** | | | **$** | **902,103** |
| **Total carrying amount of conversion option of equity components recorded in equity** | | | **$** | **534** |

(1) Interest on the senior secured notes is payable semiannually on April 20 and October 20 of each year.
(2) Interest on the convertible notes is payable quarterly on February 15, May 15, August 15, and November 15 of each year.
(3) Represents the discount created by separating the conversion option from the debt host instrument.
(4) Interest on the corporate debt is payable January 30, April 30, July 30, and October 30 of each year.
(5) Interest on the corporate debt is payable January 30, April 30, July 30, and October 30 of each year.
(6) Interest on the Junior subordinated notes I-A payable March 30, June 30, September 30, and December 30 of each year.
(7) Interest on the Junior subordinated notes I-B payable January 30, April 30, July 30, and October 30 of each year.

The table below presents the contractual maturities for our senior secured notes, convertible notes, and corporate debt.

| *(in thousands)* | | **March 31, 2022** |
|---|---|---|
| 2022 | $ | — |
| 2023 | | 115,000 |
| 2024 | | — |
| 2025 | | — |
| 2026 | | 659,527 |
| Thereafter | | 146,250 |
| **Total contractual amounts** | **$** | **920,777** |
| Unamortized deferred financing costs, discounts, and premiums, net | | (18,674) |
| **Total carrying amount of debt** | **$** | **902,103** |

## Note 13. Guaranteed loan financing

Participations or other partial loan sales which do not meet the definition of a participating interest remain as an investment in the consolidated balance sheets and the portion sold is recorded as guaranteed loan financing in the liabilities section of the consolidated balance sheets. For these partial loan sales, the interest earned on the entire loan balance is recorded as interest income and the interest earned by the buyer in the partial loan sale is recorded within interest expense in the accompanying consolidated statements of income. Guaranteed loan financings are secured by loans of $333.3 million and $346.1 million as of March 31, 2022 and December 31, 2021, respectively.

The table below presents guaranteed loan financing and the related interest rates and maturity dates.

| *(in thousands)* | **Weighted Average Interest Rate** | **Range of Interest Rates** | **Range of Maturities (Years)** | | **Ending Balance** |
|---|---|---|---|---|---|
| March 31, 2022 | 3.78 % | 0.99-6.50 % | 2022-2046 | $ | 332,398 |
| December 31, 2021 | 3.78 % | 0.99-6.50 % | 2022-2046 | $ | 345,217 |

The table below presents the contractual maturities of guaranteed loan financing.

| *(in thousands)* | | **March 31, 2022** |
|---|---|---|
| 2022 | $ | 681 |
| 2023 | | 641 |
| 2024 | | 1,683 |
| 2025 | | 2,260 |
| 2026 | | 5,615 |
| Thereafter | | 321,518 |
| **Total** | **$** | **332,398** |

**Note 14. Variable interest entities and securitization activities**

In the normal course of business, we enter into certain types of transactions with entities that are considered to be VIEs. Our primary involvement with VIEs has been related to our securitization transactions in which we transfer assets to securitization vehicles, most notably trusts. We primarily securitize our acquired and originated loans, which provides a source of funding and has enabled us to transfer a certain portion of economic risk on loans or related debt securities to third parties. We also transfer originated loans to securitization trusts sponsored by third parties, most notably Freddie Mac. Third-party securitizations are securitization entities in which we maintain an economic interest but do not sponsor. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE. The majority of the VIE activity in which we are involved in are consolidated within our financial statements. Refer to Note 3 – Summary of Significant Accounting Policies for a discussion of our accounting policies applied to the consolidation of the VIE and transfer of the loans in connection with the securitization.

***Securitization-related VIEs***

***Company sponsored securitizations.*** In a securitization transaction, assets are transferred to a trust, which generally meets the definition of a VIE. Our primary securitization activity is in the form of SBC and SBA loan securitizations, conducted through securitization trusts, which we typically consolidate, as we are the primary beneficiary.

As a result of the consolidation, the securitization is viewed as a loan financing to enable the creation of the senior security and ultimately, sale to a third-party investor. As such, the senior security is presented in the consolidated balance sheets as securitized debt obligations of consolidated VIEs. The third-party beneficial interest holders in the VIE have no recourse against the Company, with the exception of an obligation to repurchase assets from the VIE in the event that certain representations and warranties in relation to the loans sold to the VIE are breached. In the absence of such a breach, the Company has no obligation to provide any other explicit or implicit support to any VIE.

The securitization trust receives principal and interest on the underlying loans and distributes those payments to the certificate holders. The assets and other instruments held by the securitization trust are restricted in that they can only be used to fulfill the obligations of the securitization trust. The risks associated with the Company's involvement with the VIE is limited to the risks and rights as a certificate holder of the securities retained by the Company.

The consolidation of securitization transactions includes the senior securities issued to third parties which are shown as securitized debt obligations of consolidated VIEs in the consolidated balance sheets.

The table below presents additional information on the Company's securitized debt obligations.

| | March 31, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | Current Principal Balance | Carrying value | Weighted Average Interest Rate | Current Principal Balance | Carrying value | Weighted Average Interest Rate |
| ReadyCap Lending Small Business Trust 2019-2 | $ 69,515 | $ 69,472 | 2.6 % | $ 79,294 | $ 78,268 | 2.6 % |
| Sutherland Commercial Mortgage Trust 2017-SBC6 | 14,290 | 14,074 | 4.1 | 16,729 | 16,471 | 3.8 |
| Sutherland Commercial Mortgage Trust 2019-SBC8 | 138,775 | 136,664 | 2.9 | 145,351 | 143,153 | 2.9 |
| Sutherland Commercial Mortgage Trust 2020-SBC9 | — | — | 4.2 | 86,680 | 85,459 | 4.1 |
| Sutherland Commercial Mortgage Trust 2021-SBC10 | 144,290 | 142,196 | 1.6 | 159,745 | 157,483 | 1.6 |
| ReadyCap Commercial Mortgage Trust 2014-1 | 6,606 | 6,593 | 5.7 | 6,770 | 6,756 | 5.7 |
| ReadyCap Commercial Mortgage Trust 2015-2 | 11,032 | 9,820 | 5.1 | 17,598 | 15,960 | 5.1 |
| ReadyCap Commercial Mortgage Trust 2016-3 | 16,730 | 15,971 | 5.1 | 19,106 | 18,285 | 4.9 |
| ReadyCap Commercial Mortgage Trust 2018-4 | 80,192 | 77,698 | 4.2 | 81,379 | 78,751 | 4.1 |
| ReadyCap Commercial Mortgage Trust 2019-5 | 139,639 | 132,629 | 4.5 | 150,547 | 143,204 | 4.3 |
| ReadyCap Commercial Mortgage Trust 2019-6 | 243,261 | 237,918 | 3.3 | 269,315 | 263,752 | 3.2 |
| Ready Capital Mortgage Financing 2019-FL3 | 80,596 | 80,596 | 2.1 | 92,930 | 92,921 | 1.6 |
| Ready Capital Mortgage Financing 2020-FL4 | 247,237 | 244,495 | 3.2 | 304,157 | 300,832 | 3.1 |
| Ready Capital Mortgage Financing 2021-FL5 | 496,193 | 491,981 | 1.5 | 506,721 | 501,697 | 1.5 |
| Ready Capital Mortgage Financing 2021-FL6 | 543,223 | 536,952 | 1.4 | 543,223 | 536,270 | 1.3 |
| Ready Capital Mortgage Financing 2021-FL7 | 753,267 | 745,200 | 1.7 | 753,314 | 744,449 | 1.6 |
| Ready Capital Mortgage Financing 2022-FL8 | 913,675 | 903,880 | 2.1 | — | — | — |
| **Total** | **$ 3,898,521** | **$ 3,846,139** | **2.2 %** | **$ 3,232,859** | **$ 3,183,711** | **2.2 %** |

The table above excludes non-company sponsored securitized debt obligations of $18.0 million and $30.6 million that are consolidated in the consolidated balance sheets as of March 31, 2022 and December 31, 2021, respectively.

Repayment of our securitized debt will be dependent upon the cash flows generated by the loans in the securitization trust that collateralize such debt. The actual cash flows from the securitized loans are comprised of coupon interest, scheduled principal payments, prepayments and liquidations of the underlying loans. The actual term of the securitized debt may differ significantly from our estimate given that actual interest collections, mortgage prepayments and/or losses on liquidation of mortgages may differ significantly from those expected.

***Third-party sponsored securitizations.*** For third-party sponsored securitizations, we determined that we are not the primary beneficiary because we do not have the power to direct the activities that most significantly impact the economic performance of these entities. Specifically, we do not manage these entities or otherwise solely hold decision making powers that are significant, which include special servicing decisions. As a result of this assessment, we do not consolidate any of the underlying assets and liabilities of these trusts and only account for our specific interests in them.

***Joint Venture Investments- VIEs***

***Unconsolidated VIEs.*** The Company does not consolidate variable interests held in an acquired joint venture investment accounted for as an equity method investment as we do not have the power to direct the activities that most significantly impact their economic performance and therefore, we only account for our specific interest.

***Consolidated VIEs.*** The Company consolidates variable interests held in an acquired joint venture investment for which we are the primary beneficiary. The equity held by the remaining owners and their portions of net income (loss) are reflected in stockholders' equity on the consolidated balance sheets as Non-controlling interests and in the consolidated statements of income as Net income attributable to noncontrolling interests, respectively. As of March 31, 2022, the Company's financial results on joint venture investments identified as consolidated VIEs were not material.

***Assets and liabilities of consolidated VIEs***

The table below presents securitized assets and liabilities of consolidated VIEs.

| *(in thousands)* | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 2,113 | $ 9,041 |
| Restricted cash | 29,639 | 33,187 |
| Loans, net | 4,927,891 | 4,081,848 |
| Investments held to maturity | 108,423 | — |
| Other assets | 21,603 | 21,488 |
| **Total assets** | **$ 5,089,669** | **$ 4,145,564** |
| **Liabilities:** | | |
| Securitized debt obligations of consolidated VIEs, net | 3,864,150 | 3,214,303 |
| Due to third parties | 6,253 | — |
| Accounts payable and other accrued liabilities | 9 | — |
| **Total liabilities** | **$ 3,870,412** | **$ 3,214,303** |

***Assets of unconsolidated VIEs***

The table below reflects our variable interests in identified VIEs for which we are not the primary beneficiary.

| | Carrying Amount | | Maximum Exposure to Loss (1) | |
|---|---|---|---|---|
| *(in thousands)* | March 31, 2022 | December 31, 2021 | March 31, 2022 | December 31, 2021 |
| MBS, at fair value(2) | $ 76,373 | $ 80,756 | $ 76,373 | $ 80,756 |
| Investment in unconsolidated joint ventures | 146,609 | 74,334 | 146,609 | 74,334 |
| **Total assets in unconsolidated VIEs** | **$ 222,982** | **$ 155,090** | **$ 222,982** | **$ 155,090** |

(1) Maximum exposure to loss is limited to the greater of the fair value or carrying value of the assets as of the consolidated balance sheet date.
(2) Retained interest in Freddie Mac and other third party sponsored securitizations.

### Note 15. Interest income and interest expense

Interest income and expense are recorded in the consolidated statements of income and classified based on the nature of the underlying asset or liability. The table below presents the components of interest income and expense.

| | Three Months Ended March 31, | |
|---|---|---|
| *(in thousands)* | 2022 | 2021 |
| **Interest income** | | |
| **Loans** | | |
| Bridge | $ 64,779 | $ 25,068 |
| Fixed rate | 14,662 | 14,430 |
| Construction | 1,757 | — |
| SBA - 7(a) | 9,379 | 8,541 |
| PPP | 16,858 | 6,892 |
| Residential | 19 | 60 |
| Other | 10,246 | 12,518 |
| **Total loans (1)** | **$ 117,700** | **$ 67,509** |
| **Held for sale, at fair value, loans** | | |
| Fixed rate | $ 2,066 | $ — |
| Freddie Mac | 192 | 604 |
| Residential | 2,100 | 2,126 |
| Other | 13 | — |
| **Total loans, held for sale, at fair value (1)** | **$ 4,371** | **$ 2,730** |
| **Investments held to maturity** | **$ 607** | **$ —** |
| **MBS, at fair value** | **$ 1,727** | **$ 3,132** |
| **Total interest income** | **$ 124,405** | **$ 73,371** |
| **Interest expense** | | |
| Secured borrowings | $ (19,623) | $ (17,574) |
| Paycheck Protection Program Liquidity Facility borrowings | (688) | (334) |
| Securitized debt obligations of consolidated VIEs | (24,251) | (19,093) |
| Guaranteed loan financing | (3,085) | (3,651) |
| Senior secured note | (4,357) | (3,459) |
| Convertible note | (2,188) | (2,188) |
| Corporate debt | (6,825) | (4,462) |
| **Total interest expense** | **$ (61,017)** | **$ (50,761)** |
| **Net interest income before provision for loan losses** | **$ 63,388** | **$ 22,610** |

(1) Includes interest income on loans in consolidated VIEs.

**Note 16. Derivative instruments**

The Company is exposed to changing interest rates and market conditions, which affect cash flows associated with borrowings. The Company uses derivative instruments to manage interest rate risk and conditions in the commercial mortgage market and, as such, views them as economic hedges. Interest rate swaps are used to mitigate the exposure to changes in interest rates and involve the receipt of variable-rate interest amounts from a counterparty in exchange for making payments based on a fixed interest rate over the life of the swap contract. CDS are executed in order to mitigate the risk of deterioration in the current credit health of the commercial mortgage market. IRLCs are entered into with customers who have applied for residential mortgage loans and meet certain underwriting criteria. These commitments expose GMFS to market risk if interest rates change and if the loan is not economically hedged or committed to an investor.

For derivative instruments where the Company has not elected hedge accounting, fair value adjustments are recorded in earnings. The fair value adjustments for interest rate swaps and CDS, along with the related interest income, interest expense and gains (losses) on termination of such instruments, are reported as a net realized gain on financial instruments in the consolidated statements of income. The fair value adjustments for IRLCs and TBAs, along with the related interest income, interest expense and gains (losses) on termination of such instruments, are reported in residential mortgage banking activities in the consolidated statements of income.

As described in Note 3, for qualifying cash flow hedges, the change in the fair value of derivatives is recorded in OCI and recognized in the consolidated statements of income. Derivative movements impacting earnings are recognized on a consistent basis with the classification of the hedged item, primarily interest expense. The ineffective portions of the cash flow hedges are immediately recognized in earnings.

The table below presents average notional derivative amounts, as this is the most relevant measure of volume, and derivative assets and liabilities by type.

| | | As of March 31, 2022 | | | As of December 31, 2021 | | |
|---|---|---|---|---|---|---|---|
| *(in thousands)* | **Primary Underlying Risk** | **Notional Amount** | **Derivative Asset** | **Derivative Liability** | **Notional Amount** | **Derivative Asset** | **Derivative Liability** |
| Interest rate lock commitments | Interest rate risk | $ 537,860 | $ — | $ (2,616) | $ 348,348 | $ 2,340 | $ — |
| Interest Rate Swaps - not designated as hedges | Interest rate risk | 592,598 | 29,158 | — | 536,548 | 4,076 | — |
| TBA Agency Securities | Interest rate risk | 460,500 | 6,857 | (4) | 346,000 | — | (410) |
| FX forwards | Foreign exchange rate risk | 28,993 | 837 | — | 27,484 | 606 | — |
| **Total** | | **$ 1,619,951** | **$ 36,852** | **$ (2,620)** | **$ 1,258,380** | **$ 7,022** | **$ (410)** |

The table below presents gains and losses on derivatives.

| | Three Months Ended March 31, 2022 | | Three Months Ended March 31, 2021 | |
|---|---|---|---|---|
| *(in thousands)* | **Net Realized Gain (Loss)** | **Net Unrealized Gain (Loss)** | **Net Realized Gain (Loss)** | **Net Unrealized Gain (Loss)** |
| Credit default swaps | $ — | $ — | $ — | $ 42 |
| Interest rate swaps | (1,805) | 26,702 | (1,297) | 6,523 |
| TBA Agency Securities | — | 7,264 | — | 3,908 |
| Interest rate lock commitments | — | (4,957) | — | (4,639) |
| FX forwards | 680 | 231 | (528) | 1,577 |
| **Total** | **$ (1,125)** | **$ 29,240** | **$ (1,825)** | **$ 7,411** |

In the table above:

- Gains (losses) on credit default swaps, interest rate swaps and FX forwards are recorded in net unrealized gain (loss) on financial instruments or net realized gain (loss) on financial instruments in the consolidated statements of income.
- For qualifying hedges of interest rate risk on interest rate swaps, the effective portion relating to the unrealized gain (loss) on derivatives are recorded in accumulated other comprehensive income (loss).
- Gains (losses) on residential mortgage banking activity TBAs are recorded in residential mortgage banking activities in the consolidated statements of income.

The table below summarizes the gains and losses on derivatives which have qualified for hedge accounting.

| (in thousands) | Derivatives - effective portion reclassified from AOCI to income | Hedge ineffectiveness recorded directly in income | Total income statement impact | Derivatives- effective portion recorded in OCI | Total change in OCI for period |
|---|---|---|---|---|---|
| **Interest rate hedges- forecasted transactions:** | | | | | |
| **Three Months Ended March 31, 2022** | **$ (254)** | **$ —** | **$ (254)** | **$ (41)** | **$ 213** |
| **Three Months Ended March 31, 2021** | **$ (298)** | **$ —** | **$ (298)** | **$ 1,680** | **$ 1,978** |

In the table above:

- Forecasted transactions on interest rates consists of benchmark interest rate hedges of LIBOR-indexed floating-rate liabilities.
- Hedge ineffectiveness is the amount by which the cumulative gain or loss on the designated derivative instrument exceeds the present value of the cumulative expected change in cash flows on the hedged item attributable to the hedged risk.
- Amounts recorded in OCI for the period represents after tax amounts.

## Note 17. Real estate owned, held for sale

The table below presents details on our real estate owned, held for sale portfolio.

| (in thousands) | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Acquired ORM Portfolio:** | | |
| Mixed Use | $ 1,020 | 1,020 |
| Land | 4,750 | 6,318 |
| **Total Acquired ORM REO** | **$ 5,770** | **$ 7,338** |
| **Other REO held for sale:** | | |
| Single Family | $ 24,300 | $ 24,300 |
| Retail | 1,853 | 3,129 |
| Office | 7,125 | 7,384 |
| SBA | 68 | 137 |
| Multi-family | 79,595 | — |
| Health Care | 496 | — |
| **Total Other REO** | **$ 113,437** | **$ 34,950** |
| **Total real estate owned, held for sale** | **$ 119,207** | **$ 42,288** |

In the table above, acquired ORM REO relates to assets acquired through a merger in March 2019 with Owens Realty Mortgage, Inc. (“ORM”).

## Note 18. Agreements and transactions with related parties

***Management Agreement***

The Company has entered into a management agreement with our Manager (the “Management Agreement”), which describes the services to be provided to us by our Manager and compensation for such services. Our Manager is responsible for managing the Company’s day-to-day operations, subject to the direction and oversight of the Company’s board of directors.

***Management fee.*** Pursuant to the terms of the Management Agreement, our Manager is paid a management fee calculated and payable quarterly in arrears equal to 1.5% per annum of the Company’s stockholders’ equity (as defined in the Management Agreement) up to $500 million and 1.00% per annum of stockholders’ equity in excess of $500 million. Concurrently with entering into the Anworth Merger Agreement, we, our operating partnership and our Manager entered into an Amendment which provides that, upon the closing of the Merger, the Manager’s base management fee was to be reduced by the Temporary Fee Reduction. Other than the Temporary Fee Reduction set forth in the Amendment, the terms of the Management Agreement remain the same. Refer to Note 1 – Organization for a more detailed description of the Management Agreement terms.

The table below presents the management fee payable to our Manager.

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| Management fee - total | $ 3.2 million | $ 2.7 million |
| Management fee - amount unpaid | $ 6.1 million | $ 5.4 million |

***Incentive distribution.*** Our Manager is entitled to an incentive distribution in an amount equal to the product of (i) 15% and (ii) the excess of (a) distributable earnings (which is referred to as core earnings in the partnership agreement of the operating partnership) on a rolling four-quarter basis over (b) an amount equal to 8.00% per annum multiplied by the weighted average of the issue price per share of the common stock or OP units multiplied by the weighted average number of shares of common stock outstanding, provided that distributable earnings over the prior twelve calendar quarters is greater than zero. For purposes of determining the incentive distribution payable to our Manager, distributable earnings is defined under the partnership agreement of the operating partnership in a manner that is similar to the definition of Distributable Earnings described below under Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" included in this quarterly report on Form 10-Q but with the following additional adjustments which (i) further exclude: (a) the incentive distribution, (b) non-cash equity compensation expense, if any, (c) unrealized gains or losses on SBC loans (not just MBS and MSRs), (d) depreciation and amortization (to the extent we foreclose on any property), and (e) one-time events pursuant to changes in U.S. GAAP and certain other non-cash charges after discussions between our Manager and our independent directors and after approval by a majority of the independent directors and (ii) add back any realized gains or losses on the sales of MBS and on discontinued operations which were excluded from the definition of distributable earnings described under "Non-GAAP Financial Measures".

The table below presents the incentive fee payable to our Manager.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2021 |
| Incentive fee distribution - total | $ — | $ — |
| Incentive fee distribution - amount unpaid | $ 2.4 million | $ 1.3 million |

The Management Agreement may be terminated upon the affirmative vote of at least two-thirds of our independent directors or the holders of a majority of the outstanding common stock (excluding shares held by employees and affiliates of our Manager), based upon (1) unsatisfactory performance by our Manager that is materially detrimental to the Company or (2) a determination that the management fee payable to our Manager is not fair, subject to our Manager's right to prevent such a termination based on unfair fees by accepting a mutually acceptable reduction of management fees agreed to by at least two-thirds of our independent directors. The Manager must be provided with written notice of any such termination at least 180 days prior to the expiration of the then existing term. Additionally, upon such a termination by the Company without cause (or upon termination by the Manager due to the Company's material breach), the management agreement provides that the Company will pay the Manager a termination fee equal to three times the average annual base management fee earned by our Manager during the prior 24 month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination, except upon an internalization. Additionally, if the management agreement is terminated under circumstances in which the Company is obligated to make a termination payment to the Manager, the operating partnership shall repurchase, concurrently with such termination, the Class A special unit for an amount equal to three times the average annual amount of the incentive distribution paid or payable in respect of the Class A special unit during the 24 month period immediately preceding such termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

The current term of the Management Agreement will expire on October 31, 2022, and is automatically renewed for successive one-year terms on each anniversary thereafter; provided, however, that either the Company, under the certain limited circumstances described above that would require the Company and the operating partnership to make the payments described above, or the Manager may terminate the Management Agreement annually upon 180 days prior notice.

***Expense reimbursement.*** In addition to the management fees and incentive distribution described above, the Company is also responsible for reimbursing our Manager for certain expenses paid by our Manager on behalf of the Company and for certain services provided by our Manager to the Company. Expenses incurred by our Manager and reimbursed by us are typically included in salaries and benefits or general and administrative expense in the consolidated statements of income.

The table below presents reimbursable expenses payable to our Manager.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2021 |
| Reimbursable expenses payable to our Manager - total | $ 3.5 million | $ 2.0 million |
| Reimbursable expenses payable to our Manager - amount unpaid | $ 9.5 million | $ 2.3 million |

***Other.*** During 2021, the Company acquired $6.3 million of interests in unconsolidated joint ventures from a fund which is managed by an affiliate of its Manager.

***Co-Investment with Manager***

On January 14, 2022, we committed to invest, in the form of an asset contribution of existing commercial real estate equity positions and additional capital, an aggregate amount equal to at least $50 million, into a parallel vehicle, Waterfall Atlas Fund, LP (the "Fund"), a fund managed by our Manager in exchange for interests in the Fund. We committed to invest as of the final closing date of the Fund, subject to available capacity in the Fund. In exchange for our commitment, we will be entitled to 15% of any carried interest distributions received by the general partner of the Fund such that over the life of the Fund, we receive an internal rate of return of 1.5% over the internal rate of return of the Fund. The Fund will focus on commercial real estate equity through the acquisition of distressed and value-add real estate across property types with local operating partners.

## Note 19. Other assets and other liabilities

The table below presents the composition of other assets and other liabilities.

| *(in thousands)* | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Other assets:** | | |
| Deferred tax asset | $ 3,601 | $ 3,601 |
| Deferred loan exit fees | 30,394 | 25,923 |
| Accrued interest | 46,364 | 21,873 |
| Goodwill | 32,704 | 31,470 |
| Due from servicers | 25,116 | 23,729 |
| Right-of-use lease asset | 2,089 | 2,402 |
| Intangible assets | 14,435 | 14,842 |
| Deferred financing costs | 3,893 | 3,840 |
| PPP fee receivable | 370 | 407 |
| Receivable from third party | 7,319 | 29,298 |
| Other assets | 19,804 | 14,713 |
| **Other assets** | **$ 186,089** | **$ 172,098** |
| **Accounts payable and other accrued liabilities:** | | |
| Deferred tax liability | $ 11,986 | $ 11,986 |
| Accrued salaries, wages and commissions | 26,914 | 42,715 |
| Accrued interest payable | 28,374 | 22,278 |
| Servicing principal and interest payable | 12,218 | 19,100 |
| Repair and denial reserve | 17,532 | 19,725 |
| Payable to related parties | 8,471 | 5,232 |
| Accrued professional fees | 3,816 | 4,324 |
| Lease payable | 2,363 | 3,002 |
| Deferred LSP revenue | 213 | 286 |
| Accrued PPP related costs | 9,160 | 12,460 |
| Other liabilities | 63,545 | 42,303 |
| **Total accounts payable and other accrued liabilities** | **$ 184,592** | **$ 183,411** |

***Goodwill***

The table below presents the carrying value of goodwill by reportable segment.

| *(in thousands)* | March 31, 2022 | December 31, 2021 |
|---|---|---|
| SBC Lending and Acquisitions | $ 21,498 | $ 20,264 |
| Small Business Lending | 11,206 | 11,206 |
| Residential Mortgage Banking | — | — |
| **Total** | **$ 32,704** | **$ 31,470** |

***Intangible assets***

The table below presents information on intangible assets.

| *(in thousands)* | March 31, 2022 | December 31, 2021 | Estimated Useful Life |
|---|---|---|---|
| Customer Relationships - Red Stone | $ 6,561 | $ 6,651 | 19 years |
| Internally developed software - Knight Capital | 2,269 | 2,428 | 6 years |
| Trade name - Red Stone | 2,500 | 2,500 | Indefinite life |
| SBA license | 1,000 | 1,000 | Indefinite life |
| Broker network - Knight Capital | 556 | 622 | 4.5 years |
| Favorable lease | 610 | 640 | 12 years |
| Trade name - Knight Capital | 526 | 562 | 6 years |
| Trade name - GMFS | 413 | 439 | 15 years |
| **Total intangible assets** | **$ 14,435** | **$ 14,842** | |

The amortization expense related to intangible assets was $0.4 million for the three months ended March 31, 2022 and $0.3 million for the three months ended March 31, 2021. Such amounts are recorded as other operating expenses in the consolidated statements of income.

The table below presents accumulated amortization for finite-lived intangible assets.

| *(in thousands)* | | March 31, 2022 |
|---|---|---|
| Internally developed software - Knight Capital | $ | 1,531 |
| Favorable lease | | 870 |
| Trade name - GMFS | | 803 |
| Broker network - Knight Capital | | 644 |
| Trade name - Knight Capital | | 354 |
| Customer Relationship – Red Stone | | 239 |
| **Total accumulated amortization** | **$** | **4,441** |

The table below presents amortization expense related to finite-lived intangible assets for the subsequent five years.

| *(in thousands)* | | March 31, 2022 |
|---|---|---|
| 2022 | $ | 1,219 |
| 2023 | | 1,599 |
| 2024 | | 1,390 |
| 2025 | | 1,144 |
| 2026 | | 477 |
| Thereafter | | 5,106 |
| **Total** | **$** | **10,935** |

***Loan indemnification reserve***

A liability has been established for potential losses related to representations and warranties made by GMFS for loans sold with a corresponding provision recorded for loan indemnification losses. The liability is included in accounts payable and other accrued liabilities in the Company's consolidated balance sheets and the provision for loan indemnification losses is included in variable expenses on residential mortgage banking activities, in the Company's consolidated statements of income. In assessing the adequacy of the liability, management evaluates various factors including historical repurchases and indemnifications, historical loss experience, known delinquent and other problem loans, outstanding repurchase demand, historical rescission rates and economic trends and conditions in the industry. Actual losses incurred are reflected as a reduction of the reserve liability. As of March 31, 2022 and December 31, 2021, the loan indemnification reserve was $3.6 million and $4.0 million, respectively.

Due to the uncertainty in the various estimates underlying the loan indemnification reserve, there is a range of losses in excess of the recorded loan indemnification reserve that is reasonably possible. The estimate of the range of possible losses for representations and warranties does not represent a probable loss, and is based on current available information, significant judgment, and a number of assumptions that are subject to change. As of March 31, 2022 and December 31, 2021, the reasonably possible loss above the recorded loan indemnification reserve was not material.

**Note 20. Other income and operating expenses**

***Paycheck Protection Program***

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act” or “Round 1”), signed into law on March 27, 2020, and the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the “Economic Aid Act” or “Round 2”), signed into law on December 27, 2020, established and extended the PPP, respectively. Both the CARES Act and the Economic Aid Act, among other things, provide certain measures to support individuals and businesses in maintaining solvency through monetary relief in the form of financing and loan forgiveness and/or forbearance. The primary catalyst of small business stimulus is the PPP, an SBA loan that temporarily supports businesses to retain their workforce and cover certain operating expenses during the COVID-19 pandemic. Furthermore, the PPP includes a 100% guarantee from the federal government and principal forgiveness for borrowers if the funds are used for defined purposes.

The Company has participated in the PPP as both direct lender and service provider. Under the CARES Act, we originated $109.5 million of PPP loans and were a Lender Service Provider (“LSP”) for $2.5 billion of PPP loans. For our originations as direct lender, we elected the fair value option and thus, classified the loans as held at fair value on our consolidated balance sheets. Fees totaling $5.2 million were recognized in the period of origination. For loans processed under the LSP, we were obligated to perform certain services including: 1) assistance and services to the third-party in the underwriting, marketing, processing and funding of loans, 2) processing forgiveness of the loans with the SBA and 3) servicing and management of subsequently resulting PPP loan portfolios. Such loans are not carried on our consolidated balance sheet and fees totaling $43.3 million were recognized as services were performed. Unrecognized fees as of March 31, 2022 were $0.2 million. Expenses related to PPP loans under the CARES Act are recognized in the period in which they are incurred.

The table below presents details about the Company's assets and liabilities related to its PPP activities.

| *(in thousands)* | | March 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **Assets** | | | | |
| Paycheck Protection Program loans | | 552,813 | | 867,109 |
| Paycheck Protection Program loans, at fair value | | 1,843 | | 3,243 |
| PPP fee receivable | | 370 | | 407 |
| Accrued interest receivable | | 5,920 | | 7,025 |
| **Total PPP related assets** | **$** | **560,946** | **$** | **877,784** |
| **Liabilities** | | | | |
| Paycheck Protection Program Liquidity Facility borrowings | $ | 627,445 | $ | 941,505 |
| Interest payable | | 2,095 | | 2,358 |
| Deferred LSP revenue | | 213 | | 286 |
| Accrued PPP related costs | | 9,160 | | 12,460 |
| Payable to third parties | | 1,946 | | 2,091 |
| Repair and denial reserve | | 10,164 | | 12,844 |
| **Total PPP related liabilities** | **$** | **651,023** | **$** | **971,544** |

In the table above,

- Originations of PPP loans under the Economic Aid Act were $2.2 billion. These loans are classified as held-for-investment and are accounted for under ASC 310-10, *Receivables*.
- Total net fees of $123.7 million are deferred over the expected life of the loans and will be recognized as interest income.
- As of March 31, 2022, PPPLF borrowings exceed PPP loans on the balance sheet due to net fees of $45.4 million. In addition, PPP loans are forgiven before the related PPPLF borrowings are repaid. These proceeds are unrestricted and held in cash and cash equivalents on the consolidated balance sheet.

The table below presents details about the Company's income and expenses related to its pre-tax PPP activities.

| | Three Months Ended March 31, | | | | | Financial statement account |
|---|---|---|---|---|---|---|
| *(in thousands)* | | 2022 | | 2021 | | |
| **Income** | | | | | | |
| LSP fee income | $ | 37 | $ | 6,741 | | Servicing income |
| Interest income | | 16,858 | | 6,892 | | Interest income |
| Repair and denial reserve | | 2,244 | | (1,656) | | Other income - change in repair and denial reserve |
| **Total PPP related income** | **$** | **19,139** | **$** | **11,977** | **$** | |
| **Expense** | | | | | | |
| Direct operating expenses | $ | 150 | $ | 4,545 | $ | Other operating expenses - origination costs |
| Interest expense | | 688 | | 3,861 | | Interest expense |
| **Total PPP related expenses (direct)** | **$** | **838** | **$** | **8,406** | **$** | |
| **Net PPP related income** | **$** | **18,301** | **$** | **3,571** | **$** | |

***Other income and expenses***

The table below presents the composition of other income and operating expenses.

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| *(in thousands)* | | 2022 | | 2021 |
| **Other income:** | | | | |
| Origination income | $ | 1,654 | $ | 1,613 |
| Change in repair and denial reserve | | 2,193 | | (2,069) |
| Other | | 2,654 | | 1,027 |
| **Total other income** | **$** | **6,501** | **$** | **571** |
| **Other operating expenses:** | | | | |
| Origination costs | $ | 4,934 | $ | 8,145 |
| Technology expense | | 2,040 | | 1,872 |
| Impairment on real estate | | 1,827 | | — |
| Rent and property tax expense | | 1,095 | | 1,686 |
| Recruiting, training and travel expense | | 302 | | 496 |
| Marketing expense | | 328 | | 576 |
| Loan acquisition costs | | 105 | | 34 |
| Financing costs on purchased future receivables | | 30 | | 24 |
| Other | | 1,992 | | 2,651 |
| **Total other operating expenses** | **$** | **12,653** | **$** | **15,484** |

## Note 21. Redeemable Preferred Stock and Stockholders' Equity

***Common stock dividends***

The table below presents dividends declared by the board of directors on common stock during the last twelve months.

| Declaration Date | Record Date | Payment Date | Dividend per Share | |
|---|---|---|---|---|
| March 1, 2021 | March 15, 2021 | March 18, 2021 | $ | 0.30 |
| March 24, 2021 | April 5, 2021 | April 30, 2021 | $ | 0.10 |
| June 14, 2021 | June 30, 2021 | July 30, 2021 | $ | 0.42 |
| September 15, 2021 | September 30, 2021 | October 29, 2021 | $ | 0.42 |
| December 14, 2021 | December 31, 2021 | January 31, 2022 | $ | 0.42 |
| March 15, 2022 | March 31, 2022 | April 29, 2022 | $ | 0.42 |

***Stock incentive plan***

The Company currently maintains the 2012 equity incentive plan (the "2012 Plan"). The 2012 Plan authorizes the Compensation Committee to approve grants of equity-based awards to our officers, directors, and employees of our Manager and its affiliates. The equity incentive plan provides for grants of equity-based awards up to an aggregate of 5% of the shares of the Company's common stock issued and outstanding from time to time on a fully diluted basis.

The Company's current policy for issuing shares upon settlement of stock-based incentive awards is to issue new shares. The fair value of the RSUs and RSAs granted, which is determined based upon the stock price on the grant date, is recorded as compensation expense on a straight-line basis over the vesting periods for the awards, with an offsetting increase in stockholders' equity.

The table below summarizes RSU and RSA activity.

| | Restricted Stock Awards | | | | |
|---|---|---|---|---|---|
| *(in thousands, except share data)* | Number of Shares | | Grant date fair value | | Weighted-average grant date fair value (per share) |
| Outstanding, December 31, 2021 | 888,777 | $ | 13,517 | $ | 15.21 |
| Granted | 349,824 | | 4,964 | | 14.19 |
| Vested | (252,259) | | (3,791) | | 15.03 |
| Forfeited | (2,064) | | (26) | | 12.82 |
| **Outstanding, March 31, 2022** | **984,278** | **$** | **14,664** | **$** | **14.90** |

The Company recognized $2.0 million and $1.6 million for the three months ended March 31, 2022 and 2021, respectively, of non-cash compensation expense related to its stock-based incentive plan in our consolidated statements of income.

As of March 31, 2022 and December 31, 2021, approximately $14.7 million and $13.5 million, respectively, of non-cash compensation expense related to unvested awards had not yet been charged to net income. These costs are expected to be amortized into compensation expense ratably over the course of the remaining vesting periods.

***Performance-based equity awards***

In February 2021, the Company granted, to certain key employees, 43,327 shares of performance-based equity awards which are allocated 50% to awards that vest based on absolute total shareholder return ("TSR") for the three-year forward-looking period ending December 31, 2023 and 50% to awards that vest based on TSR for such three-year forward-looking performance period relative to the performance of a designated peer group. Subject to the absolute and relative TSR achieved during the vesting period, the actual number of shares that the key employees receive at the end of the period may range from 0% to 300% of the target shares granted.

The fair value of the performance-based equity awards granted is recorded as compensation expense and will cliff vest at the end of a three year vesting period, with an offsetting increase in stockholders' equity.

In February 2022, the Company granted, to certain key employees 84,566 shares of performance-based equity awards which are allocated 50% to awards that vest based on return metrics and relative total shareholder return ("TSR") for the three-year forward-looking period ending December 31, 2024 and 50% to awards that vest based on TSR for such three-year forward-looking performance period relative to the performance of a designated peer group. Subject to the return metrics and relative TSR achieved during the vesting period, the actual number of shares that the key employees receive at the end of the period may range from 0% to 300% of the target shares granted.

The fair value of the performance-based equity awards granted is recorded as compensation expense and will cliff vest at the end of a three year vesting period, with an offsetting increase in stockholders' equity.

***Preferred Stock***
In the event of a liquidation or dissolution of the Company, any outstanding preferred stock ranks senior to the outstanding common stock with respect to payment of dividends and the distribution of assets.

We classify Series C Cumulative Convertible Preferred Stock, or Series C Preferred Stock, on our balance sheets using the guidance in ASC 480‑10‑S99. Our Series C Preferred Stock contains certain fundamental change provisions that allow the holder to redeem the preferred stock for cash only if certain events occur, such as a change in control. As redemption under these circumstances is not solely within our control, we have classified our Series C Preferred Stock as temporary equity. We have analyzed whether the conversion features should be bifurcated under the guidance in ASC 815‑10 and have determined that bifurcation is not necessary.

The table below presents details on preferred equity by series.

| | | | Preferential Cash Dividends | | | Carrying Value (in thousands) |
|---|---|---|---|---|---|---|
| **Series** | **Shares Issued and Outstanding (in thousands)** | **Par Value** | **Liquidation Preference** | **Rate per Annum** | **Annual Dividend (per share)** | **March 31, 2022** |
| C | 335 | 0.0001 | $ 25.00 | 6.25% | $ 1.56 | $ 8,361 |
| E | 4,600 | 0.0001 | $ 25.00 | 6.50% | $ 1.63 | $ 111,378 |

In the table above,

- Shareholders are entitled to receive dividends, when and as authorized by the Company's Board, out of funds legally available for the payment of dividends. Dividends for Series C Preferred Stock are payable quarterly on the 15th day of January, April, July and October of each year or if not a business day, the next succeeding business day. Dividends for Series E preferred stock are payable quarterly on or about the last day of each January, April, July and October of each year. Any dividend payable on the preferred stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable in arrears to holders of record as they appear on the Company’s records at the close of business on the last day of each of March, June, September and December, as the case may be, immediately preceding the applicable dividend payment date.
- The Company declared dividends of $0.1 million and $1.9 million of its Series C Preferred Stock and Series E Preferred Stock during the three months ended March 31, 2022. The dividends are payable on April 15, 2022 for Series C Preferred Stock and on April 29, 2022 for Series E Preferred Stock to the holders of record as of the close of business on March 31, 2022.
- The Company may, at its option, redeem the Series E Preferred Stock, in whole or in part, at any time and from time to time, for cash at a redemption price equal to 100% of the liquidation preference of $25.00 per share, plus accrued and unpaid dividends, if any, to the redemption date. Series E Preferred Stock is not redeemable prior to June 10, 2026, except under certain conditions.

***Equity ATM Program***
On July 9, 2021, the Company entered into an Equity Distribution Agreement, as amended on March 8, 2022, (the “Equity Distribution Agreement”) with JMP Securities LLC, (the “Sales Agent”), pursuant to which the Company may sell, from time to time, shares of the Company’s common stock, par value $0.0001 per share, having an aggregate offering price of up to $150 million, through the Sales Agent either as agent or principal (the “Equity ATM Program”). During the three months ended March 31, 2022, the Company sold 1.1 million shares of common stock at an average price of $15.83 per share through the Equity ATM Program, for net proceeds of $16.79 million, after offering related expenses paid of $0.3 million. As of March 31, 2022, shares representing approximately $78.7 million remain available for sale under the Equity ATM Program.

***Other***
On January 14, 2022, the Company completed a public offering of 7 million shares of common stock, par value $0.0001 per share, at a price of $15.30 per share. The Company received aggregate net proceeds of approximately $106.6 million, after deducting offering expenses.

## Note 22. Earnings per Share of Common Stock

The table below provides information on the basic and diluted earnings per share computations, including the number of shares of common stock used for purposes of these computations.

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| *(in thousands, except for share and per share amounts)* | 2022 | | 2021 | |
| **Basic Earnings** | | | | |
| Net income | $ | 64,263 | $ | 28,947 |
| Less: Income attributable to non-controlling interest | | 775 | | 659 |
| Less: Income attributable to participating shares | | 2,412 | | 657 |
| **Basic earnings** | **$** | **61,076** | **$** | **27,631** |
| **Diluted Earnings** | | | | |
| Net income | $ | 64,263 | $ | 28,947 |
| Less: Income attributable to non-controlling interest | | 775 | | 659 |
| Less: Income attributable to participating shares | | 2,412 | | 657 |
| Add: Expenses attributable to dilutive instruments | | 2,319 | | - |
| **Diluted earnings** | **$** | **63,395** | **$** | **27,631** |
| **Number of Shares** | | | | |
| Basic — Average shares outstanding | | 87,707,281 | | 56,817,632 |
| Effect of dilutive securities — Unvested participating shares | | 7,695,213 | | 25,816 |
| **Diluted — Average shares outstanding** | | **95,402,494** | | **56,843,448** |
| **Earnings Per Share Attributable to RC Common Stockholders:** | | | | |
| Basic | $ | 0.70 | $ | 0.49 |
| Diluted | $ | 0.66 | $ | 0.49 |

In the table above, participating unvested RSUs were excluded from the computation of diluted shares as their effect was already considered under the more dilutive two-class method used above.

The Company adopted ASU 2020-06 , *Debt – Debt with Conversion and other Options and Derivatives and Hedging-Contracts in Entity's Own Equity*, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method.

Certain investors own OP units in our operating partnership. An 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. OP unit holders have the right to redeem their OP units, subject to certain restrictions. The redemption is required to be satisfied in shares of common stock or cash at the Company's option, 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 OP unit. When an OP unit holder redeems an OP unit, non-controlling interests in the operating partnership is reduced and the Company's equity is increased. As of March 31, 2022 and December 31, 2021, the non-controlling interest OP unit holders owned 1,749,746 and 293,003 OP units, respectively.

**Note 23. Offsetting assets and liabilities**

In order to better define its contractual rights and to secure rights that will help the Company mitigate its counterparty risk, the Company may enter into an International Swaps and Derivatives Association ("ISDA") Master Agreement with multiple derivative counterparties. An ISDA Master Agreement, published by ISDA, is a bilateral trading agreement between two parties that allow both parties to enter into over-the-counter ("OTC"), derivative contracts. The ISDA Master Agreement contains a Schedule to the Master Agreement and a Credit Support Annex, which governs the maintenance, reporting, collateral management and default process (netting provisions in the event of a default and/or a termination event). Under an ISDA Master Agreement, the Company may, under certain circumstances, offset with the counterparty certain derivative financial instruments' payables and/or receivables with collateral held and/or posted and create one single net payment. The provisions of the ISDA Master Agreement typically permit a single net payment in the event of default, including the bankruptcy or insolvency of the counterparty. However, bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against the right of offset in bankruptcy, insolvency or other events. In addition, certain ISDA Master Agreements allow counterparties to terminate derivative contracts prior to maturity in the event the Company's stockholders' equity declines by a stated percentage or the Company fails to meet the terms of its ISDA Master Agreements, which would cause the Company to accelerate payment of any net liability owed to the counterparty. As of March 31, 2022 and December 31, 2021, the Company was in good standing on all of its ISDA Master Agreements or similar arrangements with its counterparties.

For derivatives traded under an ISDA Master Agreement, the collateral requirements are listed under the Credit Support Annex, which is the sum of the mark to market for each derivative contract, the independent amount due to the derivative counterparty and any thresholds, if any. Collateral may be in the form of cash or any eligible securities, as defined in the respective ISDA agreements. Cash collateral pledged to and by the Company with the counterparty, if any, is reported separately in the consolidated balance sheets as restricted cash. All margin call amounts must be made before the notification time and must exceed a minimum transfer amount threshold before a transfer is required. All margin calls must be responded to and completed by the close of business on the same day of the margin call, unless otherwise specified. Any margin calls after the notification time must be completed by the next business day. Typically, the Company and its counterparties are not permitted to sell, rehypothecate or use the collateral posted. To the extent amounts due to the Company from its counterparties are not fully collateralized, the Company bears exposure and the risk of loss from a defaulting counterparty. The Company attempts to mitigate counterparty risk by establishing ISDA agreements with only high grade counterparties that have the financial health to honor their obligations and diversification by entering into agreements with multiple counterparties.

In accordance with ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, the Company is required to disclose the impact of offsetting of assets and liabilities represented in the consolidated balance sheets to enable users of the consolidated financial statements to evaluate the effect or potential effect of netting arrangements on its financial position for recognized assets and liabilities. These recognized assets and liabilities are financial instruments and derivative instruments that are either subject to enforceable master netting arrangements or ISDA Master Agreements or meet the following right of setoff criteria: (a) the amounts owed by the Company to another party are determinable, (b) the Company has the right to set off the amounts owed with the amounts owed by the counterparty, (c) the Company intends to offset, and (d) the Company's right of offset is enforceable at law. As of March 31, 2022 and December 31, 2021, the Company has elected to offset assets and liabilities associated with its OTC derivative contracts in the consolidated balances sheets.

The table below presents the gross fair value of derivative contracts by product type and secured borrowings, the amount of netting reflected in the consolidated balance sheets, as well as the amount not offset in the consolidated balance sheets as they do not meet the enforceable credit support criteria for netting under U.S. GAAP.

| | | | | Gross amounts not offset in the Consolidated Balance Sheets[(1)] | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | Gross amounts of Assets / Liabilities | Gross amounts offset | Balance in Consolidated Balance Sheets | Financial Instruments | Cash Collateral Received / Paid | Net Amount |
| **March 31, 2022** | | | | | | |
| **Assets** | | | | | | |
| FX forwards | $ 837 | $ — | $ 837 | $ — | $ — | $ 837 |
| TBA Agency Securities | 6,857 | — | 6,857 | — | — | 6,857 |
| Interest rate swaps | 29,264 | 106 | 29,158 | — | 15,345 | 13,813 |
| **Total** | **$ 36,958** | **$ 106** | **$ 36,852** | **$ —** | **$ 15,345** | **$ 21,507** |
| **Liabilities** | | | | | | |
| Interest rate swaps | $ 306 | $ 306 | $ — | $ — | $ — | $ — |
| Interest rate lock commitments | 2,616 | — | 2,616 | — | — | 2,616 |
| TBA Agency Securities | 4 | — | 4 | — | — | 4 |
| Secured borrowings | 3,274,324 | — | 3,274,324 | 3,274,324 | — | — |
| Paycheck Protection Program Liquidity Facility | 627,445 | — | 627,445 | 554,656 | — | 72,789 |
| **Total** | **$ 3,904,695** | **$ 306** | **$ 3,904,389** | **$ 3,828,980** | **$ —** | **$ 75,409** |
| **December 31, 2021** | | | | | | |
| **Assets** | | | | | | |
| Interest rate lock commitments | $ 2,340 | $ — | $ 2,340 | $ — | $ — | $ 2,340 |
| FX forwards | 606 | — | 606 | — | — | 606 |
| TBA Agency Securities | 128 | 128 | — | — | — | — |
| Interest rate swaps | 6,076 | 2,000 | 4,076 | — | — | 4,076 |
| **Total** | **$ 9,150** | **$ 2,128** | **$ 7,022** | **$ —** | **$ —** | **$ 7,022** |
| **Liabilities** | | | | | | |
| Interest rate swaps | $ 3,830 | $ 3,830 | $ — | $ — | $ — | $ — |
| TBA Agency Securities | 538 | 128 | 410 | — | — | 410 |
| Secured borrowings | 2,517,600 | — | 2,517,600 | 2,517,600 | — | — |
| Paycheck Protection Program Liquidity Facility | 941,505 | — | 941,505 | 870,349 | — | 71,156 |
| **Total** | **$ 3,463,473** | **$ 3,958** | **$ 3,459,515** | **$ 3,387,949** | **$ —** | **$ 71,566** |

(1) Amounts presented in these columns are limited in total to the net amount of assets or liabilities presented in the prior column by instrument. In certain cases, there is excess cash collateral or financial assets we have pledged to a counterparty that exceed the financial liabilities subject to a master netting repurchase arrangement or similar agreement. Additionally, in certain cases, counterparties may have pledged excess cash collateral to us that exceeds our corresponding financial assets. In each case, any of these excess amounts are excluded from the table although they are separately reported in our consolidated balance sheets as assets or liabilities, respectively.

### Note 24. Financial instruments with off-balance sheet risk, credit risk, and certain other risks

In the normal course of business, the Company enters into transactions in various financial instruments that expose us to various types of risk, both on and off balance sheet. Such risks are associated with financial instruments and markets in which the Company invests. These financial instruments expose us to varying degrees of market risk, credit risk, interest rate risk, liquidity risk, off balance sheet risk and prepayment risk.

***Market Risk*** — Market risk is the potential adverse changes in the values of the financial instrument due to unfavorable changes in the level or volatility of interest rates, foreign currency exchange rates, or market values of the underlying financial instruments. We attempt to mitigate our exposure to market risk by entering into offsetting transactions, which may include purchase or sale of interest-bearing securities and equity securities.

***Credit Risk*** — The Company is subject to credit risk in connection with our investments in SBC loans and SBC MBS and other target assets we may acquire in the future. The credit risk related to these investments pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is granted or renewed and periodically reviewed throughout the loan or security term. We believe that loan credit quality is primarily determined by the borrowers' credit profiles and loan characteristics. We seek to mitigate this risk by seeking to acquire assets at appropriate prices given anticipated and unanticipated losses and by deploying a value−driven approach to underwriting and diligence, consistent with our historical investment strategy, with a focus on projected cash flows and potential risks to cash flow. We further mitigate our risk of potential losses while managing and servicing our loans by performing various workout and loss mitigation strategies with delinquent borrowers. Nevertheless, unanticipated credit losses could occur, which could adversely impact operating results.

The Company is also subject to credit risk with respect to the counterparties to derivative contracts. If a counterparty becomes bankrupt or otherwise fails to perform its obligation under a derivative contract due to financial difficulties, we may experience significant delays in obtaining any recovery under the derivative contract in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If we are owed this fair market value in the termination of the derivative transaction and its claim is unsecured, we will be treated as a general creditor of such counterparty and will not have any claim with respect to the underlying security. We may obtain only a limited recovery or may obtain no recovery in such circumstances. In addition, the business failure of a counterparty with whom we enter a hedging transaction will most likely result in its default, which may result in the loss of potential future value and the loss of our hedge and force us to cover our commitments, if any, at the then current market price.

Counterparty credit risk is the risk that counterparties may fail to fulfill their obligations, including their inability to post additional collateral in circumstances where their pledged collateral value becomes inadequate. The Company attempts to manage its exposure to counterparty risk through diversification, use of financial instruments and monitoring the creditworthiness of counterparties.

The Company finances the acquisition of a significant portion of its loans and investments with repurchase agreements and borrowings under credit facilities and other financing agreements. In connection with these financing arrangements, the Company pledges its loans, securities and cash as collateral to secure the borrowings. The amount of collateral pledged will typically exceed the amount of the borrowings (i.e., the haircut) such that the borrowings will be over-collateralized. As a result, the Company is exposed to the counterparty if, during the term of the repurchase agreement financing, a lender should default on its obligation and the Company is not able to recover its pledged assets. The amount of this exposure is the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged by the Company to the lender including accrued interest receivable on such collateral.

GMFS sells loans to investors without recourse. As such, the investors have assumed the risk of loss or default by the borrower. However, GMFS is usually required by these investors to make certain standard representations and warranties relating to credit information, loan documentation and collateral. To the extent that GMFS does not comply with such representations, or there are early payment defaults, GMFS may be required to repurchase the loans or indemnify these investors for any losses from borrower defaults. In addition, if loans pay-off within a specified time frame, GMFS may be required to refund a portion of the sales proceeds to the investors.

***Liquidity Risk*** — Liquidity risk arises in our investments and the general financing of our investing activities. It includes the risk of not being able to fund acquisition and origination activities at settlement dates and/or liquidate positions in a timely manner at reasonable prices, in addition to potential increases in collateral requirements during times of heightened market volatility. If we were forced to dispose of an illiquid investment at an inopportune time, we might be forced to do so at a substantial discount to the market value, resulting in a realized loss. We attempt to mitigate our liquidity risk by regularly monitoring the liquidity of our investments in SBC loans, MBS and other financial instruments. Factors such as our expected exit strategy for, the bid to offer spread of, and the number of broker dealers making an active market in a particular strategy and the availability of long-term funding, are considered in analyzing liquidity risk. To reduce any perceived disparity between the liquidity and the terms of the debt instruments in which we invest, we attempt to minimize our reliance on short-term financing arrangements. While we may finance certain investment in security positions using traditional margin arrangements and borrowings under repurchase agreements, other financial instruments such as collateralized debt obligations, and other longer term financing vehicles may be utilized to attempt to provide us with sources of long-term financing.

***Off-Balance Sheet Risk*** —The Company has undrawn commitments on outstanding loans which are disclosed in Note 25.

***Interest Rate*** — Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

Our operating results will depend, in part, on differences between the income from our investments and our financing costs. Generally, our debt financing is based on a floating rate of interest calculated on a fixed spread over the relevant index, subject to a floor, as determined by the particular financing arrangement. In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us, which could materially and adversely affect our business, financial condition, liquidity, results of operations and prospects. Furthermore, such defaults could have an adverse effect on the spread between our interest-earning assets and interest-bearing liabilities.

Additionally, non-performing SBC loans are not as interest rate sensitive as performing loans, as earnings on non-performing loans are often generated from restructuring the assets through loss mitigation strategies and opportunistically disposing of them. Because non-performing SBC loans are short-term assets, the discount rates used for valuation are based on short-term market interest rates, which may not move in tandem with long-term market interest rates. A rising rate environment often means an improving economy, which might have a positive impact on commercial property values, resulting in increased gains on the disposition of these assets.

While rising rates could make it more costly to refinance these assets, we expect that the impact of this would be mitigated by higher property values. Moreover, small business owners are generally less interest rate sensitive than large commercial property owners, and interest cost is a relatively small component of their operating expenses. An improving economy will likely spur increased property values and sales, thereby increasing the need for SBC financing.

***Prepayment Risk* —** As we receive prepayments of principal on our investments, premiums paid on such investments will be amortized against interest income. In general, an increase in prepayment rates will accelerate the amortization of purchase premiums, thereby reducing the interest income earned on the investments and this is also affected by interest rate movements. Conversely, discounts on such investments are accreted into interest income. In general, an increase in prepayment rates will accelerate the accretion of purchase discounts, thereby increasing the interest income earned on the investments. An increase in prepayment rates will also adversely affect the fair value of our MSRs.

**Note 25. Commitments, contingencies and indemnifications**

***Litigation***

The Company may be subject to litigation and administrative proceedings arising in the ordinary course of its business and as such, has entered into agreements which provide for indemnifications against losses, costs, claims, and liabilities arising from the performance of individual obligations under such agreements. The Company has had no prior claims or payments pursuant to these agreements and the individual maximum exposure is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on history and experience, the risk of loss is expected to be remote. Management is not aware of any other contingencies that would require accrual or disclosure in the consolidated financial statements.

***Unfunded Loan Commitments***

The table below presents unfunded loan commitments for SBC loans.

| *(in thousands)* | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Loans, net | $ | 705,050 | $ | 455,119 |
| Loans, held for sale at fair value | $ | 26,662 | $ | 24,150 |
| Investments held to maturity | $ | 3,606 | $ | — |

***Commitments to Originate Loans***

GMFS enters into IRLCs with customers who have applied for residential mortgage loans and meet certain credit and underwriting criteria. These commitments expose GMFS to market risk if interest rates change, and the loan is not economically hedged or committed to an investor. GMFS is also exposed to credit loss if the loan is originated and not sold to an investor and the borrower does not perform. Commitments to originate loans do not necessarily reflect future cash requirements as some commitments are expected to expire without being drawn upon.

The table below presents commitments to originate residential agency loans.

| *(in thousands)* | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Commitments to originate residential agency loans | $ | 417,175 | $ | 346,660 |

**Note 26. Income Taxes**

The Company is a REIT pursuant to Internal Revenue Code Section 856. Our qualification as a REIT depends on our ability to meet various requirements imposed by the Internal Revenue Code, which relate to our organizational structure, diversity of stock ownership and certain requirements with regard to the nature of our assets and the sources of our income. As a REIT, we generally must distribute annually dividends equal to at least 90% of our net taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four taxable years. As of March 31, 2022 and December 31, 2021, we are in compliance with all REIT requirements.

Certain of our subsidiaries have elected to be treated as taxable REIT subsidiaries ("TRSs"). TRSs permit us to participate in certain activities that would not be qualifying income if earned directly by the parent REIT, as long as these activities meet specific criteria, are conducted within the parameters of certain limitations established by the Internal Revenue Code, and are conducted in entities which elect to be treated as taxable subsidiaries under the Internal Revenue Code. To the extent these criteria are met, we will continue to maintain our qualification as a REIT. Our TRSs engage in various real estate - related operations, including originating and securitizing commercial and residential mortgage loans, and investments in real property. Our TRSs are not consolidated for federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred income taxes is established for the portion of earnings recognized by us with respect to our interest in TRSs.

During 2020, the CARES Act and the Consolidated Appropriations Act of 2021 (the "CAA") were signed into law. Among other things, the provisions of these laws relate to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, and technical corrections to tax depreciation methods for qualified improvement property. We have recognized a benefit of $2.7 million due to changes in net operating loss carryback provisions which allow net operating losses from tax years beginning in 2018, 2019, or 2020 to be carried back for five years. We will continue to monitor the impacts on our business due to legislative developments related to the COVID-19 pandemic.

**Note 27. Segment reporting**

The Company reports its results of operations through the following three business segments: i) *SBC Lending and Acquisitions*, ii) *Small Business Lending* and iii) *Residential Mortgage Banking*. The Company's organizational structure is based on a number of factors that the Chief Operating Decision Maker ("CODM"), the Chief Executive Officer, uses to evaluate, view, and run its business operations, which includes customer base and nature of loan program types. The segments are based on this organizational structure and the information reviewed by the CODM and management to evaluate segment results.

***SBC Lending and Acquisitions***

The Company originates SBC loans across the full life-cycle of an SBC property including construction, transitional, stabilized and agency channels. As part of this segment, we originate and service multi-family loan products under the Freddie Mac SBL program. SBC originations include construction and permanent financing activities for the preservation and construction of affordable housing, primarily utilizing tax-exempt bonds, through Red Stone. This segment also reflects the impact of SBC securitization activities. The Company acquires performing and non-performing SBC loans and intends to continue to acquire these loans as part of the Company's business strategy.

***Small Business Lending***

The Company acquires, originates and services loans guaranteed by the SBA under the SBA Section 7(a) Program. This segment also reflects the impact of our SBA securitization activities. The Company also acquires purchased future receivables through our Knight Capital platform.

***Residential mortgage banking***
The Company originates residential mortgage loans eligible to be purchased, guaranteed or insured by Fannie Mae, Freddie Mac, FHA, USDA and VA through retail, correspondent and broker channels.

***Corporate- Other***
Corporate - Other consists primarily of unallocated activities including interest expense relating to our senior secured and convertible notes, allocated employee compensation from our Manager, management and incentive fees paid to our Manager and other general corporate overhead expenses.

Prior to the fourth quarter of 2021, we reported our activities in the following four business segments: Acquisitions, SBC Originations, Small Business Lending and Residential Mortgage Banking. Our Chief Executive Officer, as our CODM, realigned our business segments to incorporate results from our Acquisitions segment in our SBC Lending and Acquisitions segment. We believe this to be more closely aligned with the activities for and projections of our business models. We have recast prior period amounts and segment information to conform to this presentation.

***Results of business segments and all other.*** The tables below present reportable business segments, along with remaining unallocated amounts recorded within Corporate- Other.

| | Three Months Ended March 31, 2022 | | | | |
|---|---|---|---|---|---|
| *(in thousands)* | SBC Lending and Acquisitions | Small Business Lending | Residential Mortgage Banking | Corporate- Other | Consolidated |
| Interest income | $ 96,343 | $ 26,237 | $ 1,825 | $ — | $ 124,405 |
| Interest expense | (53,093) | (5,690) | (1,958) | (276) | (61,017) |
| **Net interest income before provision for loan losses** | **$ 43,250** | **$ 20,547** | **$ (133)** | **$ (276)** | **$ 63,388** |
| Provision for loan losses | (270) | (1,272) | — | — | (1,542) |
| **Net interest income after provision for loan losses** | **$ 42,980** | **$ 19,275** | **$ (133)** | **$ (276)** | **$ 61,846** |
| **Non-interest income** | | | | | |
| Residential mortgage banking activities | $ — | $ — | $ 8,424 | $ — | $ 8,424 |
| Net realized gain on financial instruments and real estate owned | 882 | 7,125 | — | — | 8,007 |
| Net unrealized gain on financial instruments | 12,429 | 288 | 32,598 | — | 45,315 |
| Servicing income, net | 920 | 1,493 | 8,115 | — | 10,528 |
| Income on purchased future receivables, net | — | 2,469 | — | — | 2,469 |
| Income on unconsolidated joint ventures | 6,563 | — | — | — | 6,563 |
| Other income | 3,014 | 2,871 | 24 | 592 | 6,501 |
| **Total non-interest income** | **$ 23,808** | **$ 14,246** | **$ 49,161** | **$ 592** | **$ 87,807** |
| **Non-interest expense** | | | | | |
| Employee compensation and benefits | (10,160) | (9,518) | (7,534) | (756) | (27,968) |
| Allocated employee compensation and benefits from related party | (300) | — | — | (2,700) | (3,000) |
| Variable expenses on residential mortgage banking activities | — | — | (979) | — | (979) |
| Professional fees | (2,401) | (1,468) | (264) | (993) | (5,126) |
| Management fees – related party | — | — | — | (3,196) | (3,196) |
| Loan servicing expense | (5,875) | (502) | (2,543) | — | (8,920) |
| Transaction related expenses | — | — | — | (5,699) | (5,699) |
| Other operating expenses | (5,376) | (3,787) | (2,024) | (1,466) | (12,653) |
| **Total non-interest expense** | **$ (24,112)** | **$ (15,275)** | **$ (13,344)** | **$ (14,810)** | **$ (67,541)** |
| **Income (loss) before provision for income taxes** | **$ 42,676** | **$ 18,246** | **$ 35,684** | **$ (14,494)** | **$ 82,112** |
| **Total assets** | **$ 9,520,677** | **$ 1,217,726** | **$ 493,671** | **$ 244,170** | **$ 11,476,244** |

| (in thousands) | SBC Lending and Acquisitions | Small Business Lending | Residential Mortgage Banking | Corporate-Other | Consolidated |
|---|---|---|---|---|---|
| | Three Months Ended March 31, 2021 | | | | |
| Interest income | $ 55,895 | $ 15,432 | $ 2,044 | $ — | $ 73,371 |
| Interest expense | (37,217) | (9,207) | (2,328) | (2,009) | (50,761) |
| **Net interest income before provision for loan losses** | **$ 18,678** | **$ 6,225** | **$ (284)** | **$ (2,009)** | **$ 22,610** |
| Recovery of (provision for loan losses) | (347) | 355 | — | — | 8 |
| **Net interest income after (provision for) recovery of loan losses** | **$ 18,331** | **$ 6,580** | **$ (284)** | **$ (2,009)** | **$ 22,618** |
| **Non-interest income** | | | | | |
| Residential mortgage banking activities | $ — | $ — | $ 41,409 | $ — | $ 41,409 |
| Net realized gain on financial instruments and real estate owned | 3,946 | 4,900 | — | — | 8,846 |
| Net unrealized gain on financial instruments | 5,127 | 514 | 15,355 | — | 20,996 |
| Servicing income, net | 726 | 7,803 | 7,106 | — | 15,635 |
| Income on purchased future receivables, net | — | 2,317 | — | — | 2,317 |
| Income (loss) on unconsolidated joint ventures | (809) | — | — | — | (809) |
| Other income (loss) | 2,144 | (1,600) | 15 | 12 | 571 |
| **Total non-interest income** | **$ 11,134** | **$ 13,934** | **$ 63,885** | **$ 12** | **$ 88,965** |
| **Non-interest expense** | | | | | |
| Employee compensation and benefits | (2,252) | (6,046) | (13,588) | (891) | (22,777) |
| Allocated employee compensation and benefits from related party | (212) | — | — | (1,911) | (2,123) |
| Variable expenses on residential mortgage banking activities | — | — | (15,485) | — | (15,485) |
| Professional fees | (845) | (644) | (251) | (1,242) | (2,982) |
| Management fees – related party | — | — | — | (2,693) | (2,693) |
| Loan servicing expense | (3,842) | 102 | (2,364) | — | (6,104) |
| Transaction related expenses | — | — | — | (6,307) | (6,307) |
| Other operating expenses | (4,957) | (7,665) | (2,204) | (658) | (15,484) |
| **Total non-interest expense** | **$ (12,108)** | **$ (14,253)** | **$ (33,892)** | **$ (13,702)** | **$ (73,955)** |
| **Income (loss) before provision for income taxes** | **$ 17,357** | **$ 6,261** | **$ 29,709** | **$ (15,699)** | **$ 37,628** |
| **Total assets** | **$ 4,980,745** | **$ 1,999,228** | **$ 672,255** | **$ 364,727** | **$ 8,016,955** |

## Note 28. Subsequent events

On April 14, 2022 the Company completed the securitization of $276.8 million of fixed rate SBC loans and issued $204.5 million of senior bonds at a weighted average pass-through rate of 4.2%.

On April 18, 2022 the Company closed an underwritten public offering of $120.0 million in aggregate principal amount of 6.125% senior unsecured notes due 2025. The Company intends to use the net proceeds to originate or acquire target assets consistent with its investment strategy and for general business purposes.

**Item 1A. Forward-Looking Statements**

Except where the context suggests otherwise, the terms “Company,” “we,” “us” and “our” refer to Ready Capital Corporation and its subsidiaries. We make forward-looking statements in this quarterly report on Form 10-Q within the meaning of the Private Securities Litigation Reform Act of 1995 and 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”). We intend such statements to be covered by the safe harbor provisions for forward-looking statements contained therein. Forward-looking statements contained in this quarterly report reflect our current views about future events and are inherently subject to substantial risks and uncertainties, many of which are difficult to predict and beyond our control, that may cause our actual results to materially differ. These forward-looking statements include information about possible or assumed future results of our operations, financial condition, liquidity, plans and objectives. When we use the words “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “could,” “would,” “may,” “potential” or other comparable terminology, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- the severity and duration of the novel coronavirus (“COVID-19”) pandemic and its impact on our business and operations, financial condition, results of operations, liquidity and capital resources;
- the impact of the COVID-19 pandemic on our borrowers, the real estate industry and global markets;
- our investment objectives and business strategy;
- our ability to borrow funds or otherwise raise capital on favorable terms;
- our expected leverage;
- our expected investments;
- estimates or statements relating to, and our ability to make, future distributions;
- projected capital and operating expenditures;
- availability of qualified personnel;
- prepayment rates; and
- projected default rates;
- increased rates of default and/or decreased recovery rates on our investments;
- changes in interest rates, interest rate spreads, the yield curve or prepayment rates; changes in prepayments of our assets;
- our ability to achieve the expected synergies, cost savings and other benefits from the acquisition of the Mosaic Funds (as defined herein);
- risks associated with achieving expected synergies, cost savings and other benefits from acquisitions and our increased scale;
- risks related to integrating a construction lending platform into our existing operations and the origination and ownership of construction loans, which are subject to additional risks as compared to loans secured by existing structures or land, following the acquisition of the Mosaic Funds;
- market, industry and economic trends;
- our ability to compete in the marketplace;

- the availability of attractive risk-adjusted investment opportunities in small to medium balance commercial loans (“SBC loans”), loans guaranteed by the U.S. Small Business Administration (the “SBA”) under its Section 7(a) loan program (the “SBA Section 7(a) Program”), mortgage backed securities (“MBS”), residential mortgage loans and other real estate-related investments that satisfy our investment objectives and strategies;

- general volatility of the capital markets;

- changes in our investment objectives and business strategy;

- the availability, terms and deployment of capital;

- the availability of suitable investment opportunities;

- recent market developments and actions taken and to be taken by the U.S. Government, the U.S. Department of the Treasury (“Treasury”) and the Board of Governors of the Federal Reserve System, the Federal Depositary Insurance Corporation, the Federal National Mortgage Association (“Fannie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac” and together with Fannie Mae, the “GSEs”), the Government National Mortgage Association (“Ginnie Mae”), Federal Housing Administration (“FHA”) Mortgagee, U.S. Department of Agriculture (“USDA”), U.S. Department of Veterans Affairs (“VA”) and the U.S. Securities and Exchange Commission (“SEC”);

- applicable regulatory changes;

- changes in our assets, interest rates or the general economy;

- mortgage loan modification programs and future legislative actions;

- our ability to maintain our qualification as a real estate investment trust (“REIT”) and limitations on our business as a result of our qualifications as a REIT;

- our ability to maintain our exemption from qualification under the Investment Company Act of 1940, as amended (the “1940 Act”);

- factors described in our annual report on Form 10-K, including those set forth under the captions “Risk Factors” and “Business”;

- our dependence on our external advisor, Waterfall Asset Management, LLC (“Waterfall” or the “Manager”), and our ability to find a suitable replacement if we or Waterfall were to terminate the management agreement we have entered into with Waterfall (the “management agreement”); and

- the degree and nature of our competition, including competition for SBC loans, MBS, residential mortgage loans and other real estate-related investments that satisfy our investment objectives and strategies.

Upon the occurrence of these or other factors, our business, financial condition, liquidity and consolidated results of operations may vary materially from those expressed in, or implied by, any such forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we 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. We are not obligated, and do not intend, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. See Item 1A. “Risk Factors” of the Company’s annual report on Form 10-K.

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

**Introduction**
Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in five main sections:

- Overview
- Results of Operations
- Liquidity and Capital Resources
- Contractual Obligations and Off-Balance Sheet Arrangements
- Critical Accounting Estimates

The following discussion should be read in conjunction with our unaudited interim consolidated financial statements and accompanying Notes included in Part I, Item 1, "Financial Statements," of this quarterly report on Form 10-Q and with Items 6, 7, 8, and 9A of our annual report on Form 10-K. See "Forward-Looking Statements" in this quarterly report on Form 10-Q and in our annual report on Form 10-K and "Critical Accounting Estimates" in our annual report on Form 10-K for certain other factors that may cause actual results to differ, materially, from those anticipated in the forward-looking statements included in this quarterly report on Form 10-Q.

**Overview**

***Our Business***
We are a multi-strategy real estate finance company that originates, acquires, finances, and services SBC loans, SBA loans, residential mortgage loans, construction loans, and to a lesser extent, MBS collateralized primarily by SBC loans, or other real estate-related investments. Our loans generally range in original principal amounts up to $40 million and are used by businesses to purchase real estate used in their operations or by investors seeking to acquire multi-family, office, retail, mixed use or warehouse properties. Our objective is to provide attractive risk-adjusted returns to our stockholders, primarily through dividends as well as through capital appreciation. In order to achieve this objective, we continue to grow our investment portfolio and believe that the breadth of our full service real estate finance platform will allow us to adapt to market conditions and deploy capital in our asset classes and segments with the most attractive risk-adjusted returns. We report our activities in the following three operating segments:

- ***SBC Lending and Acquisitions***. We originate SBC loans across the full life-cycle of an SBC property including construction, transitional, stabilized and agency loan origination channels through our wholly-owned subsidiary, ReadyCap Commercial, LLC ("ReadyCap Commercial"). These originated loans are generally held-for-investment or placed into securitization structures. As part of this segment, we originate and service multi-family loan products under the Freddie Mac SBL program. These originated loans are held for sale, then sold to Freddie Mac. We provide construction and permanent financing for the preservation and construction of affordable housing, primarily utilizing tax-exempt bonds through Red Stone, a wholly owned subsidiary. In addition, we acquire small balance commercial loans as part of our business strategy. We hold performing SBC loans to term and seek to maximize the value of the non-performing SBC loans acquired by us through borrower-based resolution strategies. We typically acquire non-performing loans at a discount to their unpaid principal balance when we believe that resolution of the loans will provide attractive risk-adjusted returns.

- ***Small Business Lending.*** We acquire, originate and service owner-occupied loans guaranteed by the SBA under the SBA Section 7(a) Program through our wholly-owned subsidiary, ReadyCap Lending. We hold an SBA license as one of only 14 non-bank SBLCs and have been granted preferred lender status by the SBA. These originated loans are either held-for-investment, placed into securitization structures, or sold. We also acquire purchased future receivables through Knight Capital, which is a technology-driven platform that provides working capital to small and medium sized businesses across the U.S.

- ***Residential Mortgage Banking***. We operate our residential mortgage loan origination segment through our wholly-owned subsidiary, GMFS. GMFS originates residential mortgage loans eligible to be purchased, guaranteed or insured by Fannie Mae, Freddie Mac, FHA, USDA and VA through retail, correspondent and broker channels. These originated loans are then sold to third parties, primarily agency lending programs.

We are organized and conduct our operations to qualify as a REIT under the Code. So long as we qualify as a REIT, we are generally not subject to U.S. federal income tax on our net taxable income to the extent that we annually distribute substantially all of our net taxable income to stockholders. We are organized in a traditional UpREIT format pursuant to which we serve as the general partner of, and conduct substantially all of our business through our operating partnership. We also intend to operate our business in a manner that will permit us to be excluded from registration as an investment company under the 1940 Act.

For additional information on our business, refer to Part I, Item 1, "Business" in the Company's Annual Report on Form 10-K.

***Acquisitions***

***Anworth Mortgage Asset Corporation.*** On March 19, 2021, we completed the acquisition of Anworth, through a merger of Anworth with and into a wholly-owned subsidiary of ours, in exchange for approximately 16.8 million shares of our common stock ("Anworth Merger"). In accordance with the Agreement and Plan of Merger, dated as of December 6, 2020 ("the Anworth Merger Agreement"), by and among us, RC Merger Subsidiary, LLC and Anworth, the number of shares of our common stock issued was based on an exchange ratio of 0.1688 per share plus $0.61 in cash. The total purchase price for the merger of $417.9 million consists of our common stock issued in exchange for shares of Anworth common stock and cash paid in lieu of fractional shares of our common stock, which was based on a price of $14.28 per share of our common stock on the acquisition date and $0.61 in cash per share.

In addition, we issued 1,919,378 shares of newly designated 8.625% Series B Cumulative Preferred Stock, par value $0.0001 per share (the "Series B Preferred Stock"), 779,743 shares of newly designated 6.25% Series C Cumulative Convertible Preferred Stock, par value $0.0001 per share (the "Series C Preferred Stock") and 2,010,278 shares of newly designated 7.625% Series D Cumulative Redeemable Preferred Stock, par value $0.0001 per share (the "Series D Preferred Stock"), in exchange for all shares of Anworth's 8.625% Series A Cumulative Preferred Stock, 6.25% Series B Cumulative Convertible Preferred Stock and 7.625% Series C Cumulative Redeemable preferred stock outstanding prior to the effective time of the Anworth Merger. On July 15, 2021, the Company redeemed all of the outstanding Series B and Series D Preferred Stock, in each case at a redemption price equal to $25.00 per share, plus accrued and unpaid dividends up to, but excluding, the redemption date.

Upon the closing of the transaction and after giving effect to the issuance of shares of common stock as consideration in the merger, our historical stockholders owned approximately 77% of our outstanding common stock, while historical Anworth stockholders owned approximately 23% of our outstanding common stock.

The acquisition of Anworth increased our equity capitalization, supported continued growth of our platform and execution of our strategy, and provided us with improved scale, liquidity and capital alternatives, including additional borrowing capacity. Also, the stockholder base resulting from the acquisition of Anworth enhanced the trading volume and liquidity for our stockholders. In addition, part of our strategy in acquiring Anworth was to manage the liquidation and runoff of certain assets within the Anworth portfolio and repay certain indebtedness on the Anworth portfolio following the completion of the Anworth Merger, and to redeploy the capital into opportunities in our core SBC strategies and other assets we expect will generate attractive risk-adjusted returns and long-term earnings accretion. Consistent with this strategy, as of March 31, 2022, we have liquidated approximately $2.1 billion of assets within the Anworth portfolio, primarily consisting of agency residential mortgage-backed securities, which are guaranteed by the U.S. government or by federally sponsored enterprises, and repaid approximately $1.8 billion of indebtedness on the portfolio.

In addition, concurrently with entering into the Anworth Merger Agreement, we, our operating partnership and the Manager entered into the First Amendment to the Amended and Restated Management Agreement (the "Amendment"), pursuant to which, upon the closing of the Anworth Merger, the Manager's base management fee was reduced by $1,000,000 per quarter for each of the first full four quarters following the effective time of the Anworth Merger (the "Temporary Fee Reduction"). Other than the Temporary Fee Reduction set forth in the Amendment, the terms of the Management Agreement remain the same.

***Red Stone.*** On July 31, 2021, the Company acquired Red Stone, a privately owned real estate finance and investment company that provides innovative financial products and services to multifamily affordable housing, in exchange for an initial purchase price of approximately $63 million paid in cash, retention payments to key executives aggregating $7 million in cash and 128,533 shares of common stock of the Company issued to Red Stone executives under the 2012 Plan. Additional purchase price payments may be made over the next three years if the Red Stone business achieves certain hurdles. The acquisition of Red Stone supported a significant growth opportunity for the Company by expanding presence in a sector with otherwise low correlation to our assets. Part of the Company's strategy in acquiring Red Stone includes the value of the anticipated synergies arising from the acquisition and the value of the acquired assembled workforce, neither of which qualify for recognition as an intangible asset.

***Mosaic.*** On March 16, 2022, pursuant to the terms of that certain Merger Agreement, dated as of November 3, 2021, as amended on February 7, 2022, the Company acquired, in a series of mergers (collectively, the "Mosaic Mergers"), a group of privately held, real estate structured finance opportunities funds, with a focus on construction lending (collectively, the "Mosaic Funds"), managed by MREC Management, LLC ("the "Mosaic Manager").

As consideration for the Mosaic Mergers, each former investor was entitled to receive an equal number of shares of each of Class B-1 Common Stock, $0.0001 par value per share (the "Class B-1 Common Stock"), Class B-2 Common Stock, $0.0001 par value per share (the "Class B-2 Common Stock") Class B-3 Common Stock, $0.0001 par value per share (the "Class B-3 Common Stock"), and Class B-4 Common Stock, $0.0001 par value per share (the "Class B-4 Common Stock" and, together with the Class B-1 Common Stock, the Class B-2 Common Stock and the Class B-3 Common Stock, the "Class B Common Stock"), of Ready Capital, contingent equity rights ("CERs") representing the potential right to receive shares of Common Stock as of the end of the three-year period following the closing date of the Mosaic Mergers based upon the performance of the assets acquired by Ready Capital pursuant to the Mosaic Mergers, and cash consideration in lieu of any fractional shares of Class B Common Stock.

The Class B Common Stock rank equally with the common stock, except that the shares of Class B Common Stock are not listed on the New York Stock Exchange. Each tranche of Class B Common Stock will automatically convert into an equal number of shares of common stock on a quarterly basis over the course of a year following the closing date of the Mosaic Mergers. The CERs are contractual rights and do not represent any equity or ownership interest in Ready Capital or any of its affiliates. If any shares of common stock are issued in settlement of the CERs, each former investor will also be entitled to receive a number of additional shares of common stock equal to (i) the amount of any dividends or other distributions paid with respect to the number of whole shares of common stock received in respect of CERs and having a record date on or after the closing date of the Mosaic Mergers and a payment date prior to the issuance date of such shares of common stock, divided by (ii) the greater of (a) the average of the volume weighted average prices of one share of common stock over the ten trading days preceding the determination date and (b) the most recently reported book value per share of common stock as of the determination date.

The acquisition further expanded the Company's investment portfolio and origination platform to include a diverse portfolio of construction assets with attractive portfolio yields. Refer to Note 5 for assets acquired and liabilities assumed in the merger.

***Factors Impacting Operating Results***

We expect that our results of operations will be affected by a number of factors and will primarily depend on the level of interest income from our assets, the market value of our assets and the supply of, and demand for, SBC loans, SBA loans, residential loans, construction loans, MBS and other assets we may acquire in the future, demand for housing, population trends, construction costs, the availability of alternative real estate financing from other lenders and the financing and other costs associated with our business. These factors may have an impact on our ability to originate new loans or the performance of our existing loan portfolio. Our net investment income, which includes the amortization of purchase premiums and accretion of purchase discounts, varies primarily as a result of changes in market interest rates, the rate at which our distressed assets are liquidated and the prepayment speed of our performing assets. Interest rates and 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 impacted by our available borrowing capacity, conditions in the financial markets, credit losses in excess of initial estimates or unanticipated credit events experienced by borrowers whose loans are held directly by us or are included in our MBS. Difficult market conditions as well as inflation, energy costs, geopolitical issues, health epidemics and outbreaks of contagious diseases, such as the outbreak of COVID-19 and the emergence and severity of variants, unemployment and the availability and cost of credit are factors which could also impact our operating results.

***Changes in Market Interest Rates.*** We own and expect to acquire or originate fixed rate mortgages ("FRMs") and adjustable rate mortgages ("ARMs") with maturities ranging from five to 30 years. Our loans typically have amortization periods of 15 to 30 years or balloon payments due in five to 10 years. ARM loans generally have a fixed interest rate for a period of five, seven or 10 years and then an adjustable interest rate equal to the sum of an index rate, such as SOFR, while FRM loans bear interest that is fixed for the term of the loan. As of March 31, 2022, approximately 79% of the loans in our portfolio were ARMs, and 21% were FRMs, based on UPB. We utilize derivative financial and hedging instruments in an effort to hedge the interest rate risk associated with our FRMs. As of March 31, 2022, 52% of fixed rate loans are match funded in securitization.

With respect to our business operations, increases in interest rates may generally over time cause the interest expense associated with our variable-rate borrowings to increase, the value of fixed-rate loans, MBS and other real estate-related assets to decline, coupons on variable-rate loans and MBS to reset to higher interest rates, and prepayments on loans and MBS to slowdown. Conversely, decreases in interest rates generally tend to have the opposite effect.

Non-performing loans are not as interest rate sensitive as performing loans, as earnings on non-performing loans are often generated from restructuring the assets through loss mitigation strategies and opportunistically disposing of them. Because non-performing loans are short-term assets, the discount rates used for valuation are based on short-term market interest rates, which may not move in tandem with long-term market interest rates. A rising rate environment often means an improving economy, which might have a positive impact on commercial property values, resulting in increased gains on the disposition of these assets. While rising rates could make it more costly to refinance these assets, we expect that the impact of this would be mitigated by higher property values. Moreover, small business owners are generally less interest rate sensitive than large commercial property owners, and interest cost is a relatively small component of their operating expenses. An improving economy will likely spur increased property values and sales, thereby increasing the need for loan financing.

***Changes in Fair Value of Our Assets.*** Certain originated loans, mortgage backed securities, and servicing rights are carried at fair value, while future assets may also be carried at fair value. Accordingly, changes in the fair value of our assets may impact the results of our operations in the period such changes occur. The expectation of changes in real estate prices is a key determinant for the value of loans and ABS. This factor is beyond our control.

***Prepayment Speeds.*** Prepayment speeds on loans vary according to interest rates, the type of investment, conditions in the financial markets, competition, foreclosures and other factors that cannot be predicted with any certainty. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their mortgage loans and, as a result, prepayment speeds tend to decrease. This can extend the period over which we earn interest income. When interest rates fall, prepayment speeds increase on loans, and therefore, ABS and servicing rights tend to increase, thereby decreasing the period over which we earn interest income or servicing fee income. Additionally, other factors such as the credit rating of the borrower, the rate of property value appreciation or depreciation, financial market conditions, foreclosures and lender competition, none of which can be predicted with any certainty, may affect prepayment speeds on loans.

***Credit Spreads.*** Our investment portfolio may be subject to changes in credit spreads. Credit spreads measure the yield demanded on loans and securities by the market based on their credit relative to a specific benchmark and is a measure of the perceived risk of the investment. Fixed rate loans and securities are valued based on a market credit spread over the rate payable on fixed rate swaps or fixed rate U.S. Treasuries of similar maturity. Floating rate securities are typically valued based on a market credit spread over LIBOR (or another floating rate index) and are affected similarly by changes in LIBOR spreads. Excessive supply of these loans and securities, or reduced demand, may cause the market to require a higher yield on these securities, resulting in the use of a higher, or "wider," spread over the benchmark rate to value such assets. Under such conditions, the value of our portfolios would tend to decline. Conversely, if the spread used to value such assets were to decrease, or "tighten," the value of our loans and securities would tend to increase. Such changes in the market value of these assets may affect our net equity, net income or cash flow directly through their impact on unrealized gains or losses.

The spread between the yield on our assets and our funding costs is an important factor in the performance of this aspect of our business. Wider spreads imply greater income on new asset purchases but may have a negative impact on our stated book value. Wider spreads generally 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 lower income on new asset purchases but may have a positive impact on our stated book value. Tighter spreads generally have a positive impact on asset prices. In this case, we may be able to reduce the amount of collateral required to secure borrowings.

***Loan and ABS Extension Risk.*** The Company estimates the projected weighted-average life of our investments based on assumptions regarding the rate at which the borrowers will prepay the underlying mortgages and/or the speed at which we are able to liquidate an asset. If the timeline to resolve non-performing assets extends, this could have a negative impact on our results of operations, as carrying costs may therefore be higher than initially anticipated. This situation may also cause the fair market value of our investment to decline if real estate values decline over the extended period. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

***Credit Risk.*** We are subject to credit risk in connection with our investments in loans and ABS and other target assets we may acquire in the future. Increases in defaults and delinquencies will adversely impact our operating results, while declines in rates of default and delinquencies will improve our operating results from this aspect of our business. Default rates are influenced by a wide variety of factors, including, property performance, property management, supply and demand factors, construction trends, consumer behavior, regional economics, interest rates, the strength of the United States economy and other factors beyond our control. All loans are subject to the possibility of default. We seek to mitigate this inherent risk by seeking to acquire assets at appropriate prices given anticipated and unanticipated losses and by deploying a value-driven approach to underwriting and diligence, consistent with our historical investment strategy, with a focus on projected cash flows and potential risks to cash flow. We further mitigate our risk of potential losses while managing and servicing our loans by performing various workout and loss mitigation strategies with delinquent borrowers. Nevertheless, unanticipated credit losses could occur which could adversely impact operating results.

***Current market conditions.*** The COVID-19 pandemic around the globe continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. Although more normalized activities have resumed, the full impact of COVID-19 on the commercial real estate market, the small business lending market and the credit markets generally, and consequently on the Company's financial condition and results of operations, is uncertain and cannot be predicted as it depends on several factors beyond the control of the Company including, but not limited to, (i) the uncertainty around the severity and duration of the pandemic, including the emergence and severity of COVID-19 variants (ii) the effectiveness of the United States public health response, including the administration and effectiveness of COVID-19 vaccines throughout the United States, (iii) the pandemic's impact on the U.S. and global economies, (iv) the timing, scope and effectiveness of governmental responses to the pandemic, and (v) the timing and speed of economic recovery.

**Results of Operations**

***Key Financial Measures and Indicators***

As a real estate finance company, we believe the key financial measures and indicators for our business are earnings per share, dividends declared per share, distributable earnings, and net book value per share. As further described below, distributable earnings is a measure that is not prepared in accordance with GAAP. We use distributable earnings to evaluate our performance and determine dividends, excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current loan activity and operations. See "—Non-GAAP Financial Measures" below for a reconciliation of net income to distributable earnings.

The table below sets forth certain information on our operating results.

| | Three Months Ended March 31, | |
|---|---|---|
| *($ in thousands, except share data)* | **2022** | **2021** |
| Net Income | $ 64,263 | $ 28,947 |
| Earnings per common share - basic | $ 0.70 | $ 0.49 |
| Earnings per common share - diluted | $ 0.66 | $ 0.49 |
| Distributable earnings | $ 48,863 | $ 24,708 |
| Distributable earnings per common share - basic | $ 0.52 | $ 0.41 |
| Distributable earnings per common share - diluted | $ 0.48 | $ 0.41 |
| Dividends declared per common share | $ 0.42 | $ 0.40 |
| Dividend yield | 11.2 % | 11.7 % |
| Return on equity | 18.0 % | 12.8 % |
| Distributable return on equity | 13.6 % | 10.9 % |
| Book value per common share | $ 15.22 | $ 14.90 |
| Adjusted net book value per common share | $ 15.21 | $ 14.89 |

In the table above,

- Dividend yield is based on the respective period end closing share price.
- Adjusted net book value per common share excludes the equity component of our 2017 convertible note issuance.

***Our Loan Pipeline***

We have a large and active pipeline of potential acquisition and origination opportunities that are in various stages of our investment process. We refer to assets as being part of our acquisition or origination pipeline if an asset or portfolio opportunity has been presented to us and we have determined, after a preliminary analysis, that the assets fit within our investment strategy and exhibit the appropriate risk/reward characteristics. In the case of acquired loans, we have executed a non-disclosure agreement (“NDA”) or an exclusivity agreement and commenced the due diligence process or we have executed more definitive documentation, such as a letter of intent (“LOI”), and in the case of originated loans, we have issued an LOI, and the borrower has paid a deposit.

We operate in a competitive market for investment opportunities and competition may limit our ability to originate or acquire the potential investments in the pipeline. The consummation of any of the potential loans in the pipeline depends upon, among other things, one or more of the following: available capital and liquidity, our Manager’s allocation policy, satisfactory completion of our due diligence investigation and investment process, approval of our Manager’s Investment Committee, market conditions, our agreement with the seller on the terms and structure of such potential loan, and the execution and delivery of satisfactory transaction documentation. Historically, we have acquired less than a majority of the assets in our Manager’s pipeline at any one time and there can be no assurance the assets currently in its pipeline will be acquired or originated by our Manager in the future.

The table below presents information on our investment portfolio originations and acquisitions (based on fully committed amounts).

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| *(in thousands)* | 2022 | | 2021 | |
| **Loan originations:** | | | | |
| SBC loans | $ | 2,194,885 | $ | 823,193 |
| SBA loans | | 100,956 | | 52,045 |
| Residential agency mortgage loans | | 769,133 | | 1,240,083 |
| **Total loan originations** | **$** | **3,064,974** | **$** | **2,115,321** |
| **Total loan acquisitions** | **$** | **5,253** | **$** | **—** |
| **Total loan investment activity** | **$** | **3,070,227** | **$** | **2,115,321** |

## ***Balance Sheet Analysis and Metrics***

| *(in thousands)* | March 31, 2022 | December 31, 2021 | $ Change | % Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 211,369 | $ 229,531 | $ (18,162) | (7.9)% |
| Restricted cash | 56,963 | 51,569 | 5,394 | 10.5 |
| Loans, net (including $10,722 and $10,766 held at fair value) | 4,062,335 | 2,915,446 | 1,146,889 | 39.3 |
| Loans, held for sale, at fair value | 523,214 | 552,935 | (29,721) | (5.4) |
| Paycheck Protection Program loans (including $1,843 and $3,243 held at fair value) | 554,656 | 870,352 | (315,696) | (36.3) |
| Mortgage-backed securities, at fair value | 93,259 | 99,496 | (6,237) | (6.3) |
| Loans eligible for repurchase from Ginnie Mae | 82,975 | 94,111 | (11,136) | (11.8) |
| Investment in unconsolidated joint ventures (including $8,610 and $8,894 held at fair value) | 149,475 | 141,148 | 8,327 | 5.9 |
| Investments held to maturity (including $17,053 held at fair value) | 57,285 | — | 57,285 | 100.0 |
| Purchased future receivables, net | 8,753 | 7,872 | 881 | 11.2 |
| Derivative instruments | 36,852 | 7,022 | 29,830 | 424.8 |
| Servicing rights (including $159,834 and $120,142 held at fair value) | 244,143 | 204,599 | 39,544 | 19.3 |
| Real estate owned, held for sale | 119,207 | 42,288 | 76,919 | 181.9 |
| Other assets | 186,089 | 172,098 | 13,991 | 8.1 |
| Assets of consolidated VIEs | 5,089,669 | 4,145,564 | 944,105 | 22.8 |
| **Total Assets** | **$ 11,476,244** | **$ 9,534,031** | **$ 1,942,213** | **20.4 %** |
| **Liabilities** | | | | |
| Secured borrowings | 3,274,324 | 2,517,600 | 756,724 | 30.1 |
| Paycheck Protection Program Liquidity Facility (PPPLF) borrowings | 627,445 | 941,505 | (314,060) | (33.4) |
| Securitized debt obligations of consolidated VIEs, net | 3,864,150 | 3,214,303 | 649,847 | 20.2 |
| Convertible notes, net | 113,531 | 113,247 | 284 | 0.3 |
| Senior secured notes, net | 342,454 | 342,035 | 419 | 0.1 |
| Corporate debt, net | 446,118 | 441,817 | 4,301 | 1.0 |
| Guaranteed loan financing | 332,398 | 345,217 | (12,819) | (3.7) |
| Contingent consideration | 92,148 | 16,400 | 75,748 | 461.9 |
| Liabilities for loans eligible for repurchase from Ginnie Mae | 82,975 | 94,111 | (11,136) | (11.8) |
| Derivative instruments | 2,620 | 410 | 2,210 | 539.0 |
| Dividends payable | 51,161 | 34,348 | 16,813 | 48.9 |
| Loan participations sold | 56,386 | — | 56,386 | 100.0 |
| Due to third parties | 38,846 | 668 | 38,178 | 5,715.3 |
| Accounts payable and other accrued liabilities | 184,592 | 183,411 | 1,181 | 0.6 |
| **Total Liabilities** | **$ 9,509,148** | **$ 8,245,072** | **$ 1,264,076** | **15.3 %** |
| Preferred stock Series C, liquidation preference $25.00 per share | 8,361 | 8,361 | — | — |
| | | | | |
| **Commitments & contingencies** | | | | |
| | | | | |
| **Stockholders' Equity** | | | | |
| Preferred stock Series E liquidation preference $25.00 per share | 111,378 | 111,378 | — | — |
| Common stock, $0.0001 par value, 500,000,000 shares authorized, 114,335,948 and 75,838,050 shares issued and outstanding, respectively | 11 | 8 | 3 | 37.5 |
| Additional paid-in capital | 1,723,099 | 1,161,853 | 561,246 | 48.3 |
| Retained earnings | 21,661 | 8,598 | 13,063 | 151.9 |
| Accumulated other comprehensive income (loss) | (4,704) | (5,733) | 1,029 | (17.9) |
| Total Ready Capital Corporation equity | 1,851,445 | 1,276,104 | 575,341 | 45.1 |
| Non-controlling interests | 107,290 | 4,494 | 102,796 | 2,287.4 |
| **Total Stockholders' Equity** | **$ 1,958,735** | **$ 1,280,598** | **$ 678,137** | **53.0 %** |
| **Total Liabilities, Redeemable Preferred Stock, and Stockholders' Equity** | **$ 11,476,244** | **$ 9,534,031** | **$ 1,942,213** | **20.4 %** |

As of March 31, 2022, total assets in our consolidated balance sheet were $11.5 billion, an increase of $1.9 billion from December 31, 2021, primarily reflecting an increase in Loans, net and Assets of consolidated VIEs, partially offset by a decrease in PPP loans. Loans, net increased $1.1 billion reflecting increases in loan originations, partially offset by paydowns. Assets of consolidated VIEs increased $944 million primarily due to the closing of RCMF 2022-FL8, partially offset by paydowns including the collapse of SCMT 2020-SBC9. PPP loans decreased $316 million due to principal forgiveness.

As of March 31, 2022, total liabilities in our consolidated balance sheet were $9.5 billion, an increase of $1.3 billion from December 31, 2021, primarily reflecting an increase in Secured borrowings and Secured debt obligations of consolidated VIEs, net, partially offset by a decrease in PPPLF borrowings. Secured borrowings increased $757 million reflecting increased borrowings on originations and acquisitions of loans, partially offset by payments. Securitized debt obligations of consolidated VIEs, net increased $650 million due to the closing of RCMF 2022-FL8, partially offset by paydowns including the collapse of SCMT 2020-SBC9. PPPLF decreased $314 million due to PPP principal forgiveness.

As of March 31, 2022, Stockholders' Equity increased $678 million to $2.0 billion, due to equity raised in connection with the Mosaic Mergers, the issuance of common equity through an underwritten public offering and the issuance of common equity through the Equity ATM Program.

***Selected Balance Sheet Information by Business Segment.*** The table below presents certain selected balance sheet data by each of our three business segments, with the remaining amounts reflected in *Corporate –Other*.

| *(in thousands)* | SBC Lending and Acquisitions | Small Business Lending | Residential Mortgage Banking | Total |
|---|---|---|---|---|
| **March 31, 2022** | | | | |
| **Assets** | | | | |
| Loans, net | $ 8,460,496 | $ 577,108 | $ 3,866 | $ 9,041,470 |
| Loans, held for sale, at fair value | 261,716 | 50,008 | 211,490 | 523,214 |
| Paycheck Protection Program loans | — | 554,656 | — | 554,656 |
| MBS, at fair value | 93,259 | — | — | 93,259 |
| Servicing rights | 61,418 | 22,891 | 159,834 | 244,143 |
| Investment in unconsolidated joint ventures | 149,475 | — | — | 149,475 |
| Investments held to maturity | 57,285 | — | — | 57,285 |
| Purchased future receivables, net | — | 8,753 | — | 8,753 |
| Real estate owned, held for sale | 119,139 | 68 | — | 119,207 |
| | | | | |
| **Liabilities** | | | | |
| Secured borrowings | $ 2,898,897 | $ 118,416 | $ 257,011 | $ 3,274,324 |
| Paycheck Protection Program Liquidity Facility (PPPLF) borrowings | — | 627,445 | — | 627,445 |
| Securitized debt obligations of consolidated VIEs | 3,794,678 | 69,472 | — | 3,864,150 |
| Guaranteed loan financing | — | 332,398 | — | 332,398 |
| Senior secured notes, net | 329,025 | 13,429 | — | 342,454 |
| Corporate debt, net | 446,118 | — | — | 446,118 |
| Convertible notes, net | 107,863 | 5,668 | — | 113,531 |
| Loan participations sold | 56,386 | — | — | 56,386 |

In the table above,

- Loans, net includes assets of consolidated VIEs and excludes allowance for loan losses.
- Investments held to maturity includes assets of consolidated VIEs.

***Income Statement Analysis and Metrics***

| *(in thousands)* | Three Months Ended March 31, 2022 | 2021 | $ Change |
|---|---|---|---|
| **Interest income** | | | |
| SBC lending and acquisitions | 96,343 | 55,895 | 40,448 |
| Small business lending | 26,237 | 15,432 | 10,805 |
| Residential mortgage banking | 1,825 | 2,044 | (219) |
| **Total interest income** | **$ 124,405** | **$ 73,371** | **$ 51,034** |
| **Interest expense** | | | |
| SBC lending and acquisitions | (53,093) | (37,217) | (15,876) |
| Small business lending | (5,690) | (9,207) | 3,517 |
| Residential mortgage banking | (1,958) | (2,328) | 370 |
| Corporate - other | (276) | (2,009) | 1,733 |
| **Total interest expense** | **$ (61,017)** | **$ (50,761)** | **$ (10,256)** |
| **Net interest income before provision for loan losses** | **$ 63,388** | **$ 22,610** | **$ 40,778** |
| **Recovery of (provision for) loan losses** | | | |
| SBC lending and acquisitions | (270) | (347) | 77 |
| Small business lending | (1,272) | 355 | (1,627) |
| **Total recovery of (provision for) loan losses** | **$ (1,542)** | **$ 8** | **$ (1,550)** |
| **Net interest income after recovery of (provision for) loan losses** | **$ 61,846** | **$ 22,618** | **$ 39,228** |
| **Non-interest income** | | | |
| SBC lending and acquisitions | 23,808 | 11,134 | 12,674 |
| Small business lending | 14,246 | 13,934 | 312 |
| Residential mortgage banking | 49,161 | 63,885 | (14,724) |
| Corporate - other | 592 | 12 | 580 |
| **Total non-interest income** | **$ 87,807** | **$ 88,965** | **$ (1,158)** |
| **Non-interest expense** | | | |
| SBC lending and acquisitions | (24,112) | (12,108) | (12,004) |
| Small business lending | (15,275) | (14,253) | (1,022) |
| Residential mortgage banking | (13,344) | (33,892) | 20,548 |
| Corporate - other | (14,810) | (13,702) | (1,108) |
| **Total non-interest expense** | **$ (67,541)** | **$ (73,955)** | **$ 6,414** |
| **Net income (loss) before provision for income taxes** | | | |
| SBC lending and acquisitions | 42,676 | 17,357 | 25,319 |
| Small business lending | 18,246 | 6,261 | 11,985 |
| Residential mortgage banking | 35,684 | 29,709 | 5,975 |
| Corporate - other | (14,494) | (15,699) | 1,205 |
| **Total net income before provision for income taxes** | **$ 82,112** | **$ 37,628** | **$ 44,484** |

***Results of Operations – Supplemental Information.*** Realized and unrealized gains (losses) on financial instruments are recorded in the consolidated statements of income and classified based on the nature of the underlying asset or liability.

The table below presents the components of realized and unrealized gains (losses) on financial instruments.

| *(in thousands)* | Three Months Ended March 31, 2022 | 2021 | $ Change |
|---|---|---|---|
| **Realized gain (loss) on financial instruments** | | | |
| Realized gain on loans - Freddie Mac | $ 1,178 | $ 2,407 | $ (1,229) |
| Creation of MSRs - Freddie Mac | 1,268 | 3,559 | (2,291) |
| Realized gain on loans - SBA | 5,362 | 3,888 | 1,474 |
| Creation of MSRs - SBA | 1,734 | 959 | 775 |
| Creation of MSRs - Red Stone | 195 | — | 1,785 |
| Realized gain (loss) on derivatives, at fair value | (1,125) | (1,825) | 700 |
| Realized gain (loss) on MBS, at fair value | 1,373 | 293 | 1,080 |
| Net realized gain (loss) - all other | (1,978) | (435) | (1,543) |
| **Net realized gain (loss) on financial instruments** | **$ 8,007** | **$ 8,846** | **$ 751** |
| **Unrealized gain (loss) on financial instruments** | | | |
| Unrealized gain (loss) on loans - Freddie Mac and CMBS | $ (4,923) | $ (553) | $ (4,370) |
| Unrealized gain (loss) on loans - SBA | 288 | 514 | (226) |
| Unrealized gain (loss) on residential MSRs, at fair value | 32,598 | 15,354 | 17,244 |
| Unrealized gain (loss) on derivatives, at fair value | 26,933 | 5,832 | 21,101 |
| Unrealized gain (loss) on MBS, at fair value | (2,612) | 1,828 | (4,440) |
| Net unrealized gain (loss) - all other | (6,969) | (1,979) | (4,990) |
| **Net unrealized gain (loss) on financial instruments** | **$ 45,315** | **$ 20,996** | **$ 24,319** |

***SBC Lending and Acquisitions Segment Results.***

***Q1 2022 versus Q1 2021.*** Interest income of $96.3 million represented an increase of $40.4 million, due to loan acquisitions and originations, resulting in higher average loan balances. Interest expense of $53.1 million represented an increase of $15.9 million, driven by an increase in borrowing needs required to finance new originations. The provision for loan losses of $0.3 million was essentially unchanged from the respective prior year period. Non-interest income of $23.8 million represented an increase of $12.7 million, primarily due to unrealized gains on interest rate swaps, partially offset by reduced pricing on loans and mortgage-backed securities, held at fair value, as well as an increase in income from unconsolidated subsidiaries. Non-interest expense of $24.1 million represented an increase of $12.0 million, primarily due to an increase in compensation expense.

***Small Business Lending Segment Results.***

***Q1 2022 versus Q1 2021.*** Interest income of $26.2 million represented an increase of $10.8 million, due to increased loan balances, including PPP loans. Interest expense of $5.7 million represented a decrease of $3.5 million, primarily due to a decrease in costs to support PPP loan originations. The provision for loan losses of $1.3 million represented an increase of $1.6 million, due to increases in SBA 7(a) loan originations. Non-interest income of $14.2 million represented an increase of $0.3 million, primarily due to realized gains on loan sales, partially offset by a decrease in servicing income from PPP loans. Non-interest expense of $15.3 million represented an increase of $1.0 million, primarily due to an increase in compensation expense.

***Residential Mortgage Banking Segment Results.***

***Q1 2022 versus Q1 2021.*** Interest income of $1.8 million represented a decrease of $0.2 million, due to a decrease in loan originations. Interest expense of $2.0 million represented a decrease of $0.4 million, primarily due to a decrease in loan originations. Non-interest income of $49.2 million represented a decrease of $14.7 million, primarily due to decreased loan originations, partially offset by unrealized gains on MSRs. Non-interest expense of $13.3 million represented a decrease of $20.5 million, primarily due to a decrease in loan originations.

***Corporate – Other.***

***Q1 2022 versus Q1 2021.*** Interest expense decreased by $1.7 million due to a decrease in unallocated corporate debt. Non-interest expense of $14.8 million increased by $1.1 million, driven by an increase in compensation expense and management fees.

***<u>Non-GAAP financial measures</u>***

We believe that providing investors with distributable earnings, formerly referred to as core earnings, gives investors greater transparency into the information used by management in our financial and operational decision-making, including the determination of dividends. Distributable earnings is a non-U.S. GAAP financial measure and because distributable earnings is an incomplete measure of our financial performance and involves differences from net income computed in accordance with U.S. GAAP, it should be considered along with, but not as an alternative to, our net income as a measure of our financial performance. In addition, because not all companies use identical calculations, our presentation of distributable earnings may not be comparable to other similarly-titled measures of other companies.

We calculate distributable earnings as GAAP net income (loss) excluding the following:

- i) any unrealized gains or losses on certain MBS not retained by us as part of our loan origination businesses
- ii) any realized gains or losses on sales of certain MBS
- iii) any unrealized gains or losses on Residential MSRs
- iv) any unrealized current non-cash provision for credit losses on accrual loans
- v) any unrealized gains or losses on de-designated cash flow hedges
- vi) one-time non-recurring gains or losses, such as gains or losses on discontinued operations, bargain purchase gains, or merger related expenses

In calculating distributable earnings, net income (in accordance with GAAP) is adjusted to exclude unrealized gains and losses on MBS acquired by us in the secondary market, but is not adjusted to exclude unrealized gains and losses on MBS retained by us as part of our loan origination businesses, where we transfer originated loans into an MBS securitization and retain an interest in the securitization. In calculating distributable earnings, we do not adjust net income (in accordance with GAAP) to take into account unrealized gains and losses on MBS retained by us as part of our loan origination businesses because we consider the unrealized gains and losses that are generated in the loan origination and securitization process to be a fundamental part of this business and an indicator of the ongoing performance and credit quality of our historical loan originations. In calculating distributable earnings, net income (in accordance with GAAP) is adjusted to exclude realized gains and losses on certain MBS securities due to a variety of reasons which may include collateral type, duration, and size. In 2016, we liquidated the majority of our MBS portfolio excluded from distributable earnings to fund our recurring operating segments.

In addition, in calculating distributable earnings, net income (in accordance with GAAP) is adjusted to exclude unrealized gains or losses on residential MSRs, held at fair value. We treat our commercial MSRs and residential MSRs as two separate classes based on the nature of the underlying mortgages and our treatment of these assets as two separate pools for risk management purposes. Servicing rights relating to our small business commercial business are accounted for under ASC 860, *Transfer and Servicing*, while our residential MSRs are accounted for under the fair value option under ASC 825, *Financial Instruments*. In calculating distributable earnings, we do not exclude realized gains or losses on either commercial MSRs or residential MSRs, held at fair value, as servicing income is a fundamental part of our business and as an indicator of the ongoing performance.

To qualify as a REIT, we must distribute to our stockholders each calendar year dividends equal to at least 90% of our REIT taxable income (including certain items of non-cash income), determined without regard to the deduction for dividends paid and excluding net capital gain. There are certain items, including net income generated from the creation of MSRs, that are included in distributable earnings but are not included in the calculation of the current year's taxable income. These differences may result in certain items that are recognized in the current period's calculation of distributable earnings not being included in taxable income, and thus not subject to the REIT dividend distribution requirement, until future years.

The table below presents a reconciliation of net income to distributable earnings.

| *(in thousands)* | Three Months Ended March 31, 2022 | | 2021 | | Change | |
|---|---|---|---|---|---|---|
| **Net Income** | **$** | **64,263** | **$** | **28,947** | **$** | **35,316** |
| **Reconciling items:** | | | | | | |
| Unrealized (gain) loss on mortgage servicing rights | | (32,599) | | (15,356) | | (17,243) |
| Impact of ASU 2016-13 on accrual loans | | 1,968 | | (29) | | 1,997 |
| Non-recurring REO impairment | | 1,567 | | — | | 1,567 |
| Merger transaction costs and other non-recurring expenses | | 6,655 | | 7,263 | | (608) |
| **Total reconciling items** | **$** | **(22,409)** | **$** | **(8,122)** | **$** | **(14,287)** |
| Income tax adjustments | | 7,009 | | 3,883 | | 3,126 |
| **Distributable earnings** | **$** | **48,863** | **$** | **24,708** | **$** | **24,155** |
| Less: Distributable earnings attributable to non-controlling interests | | 589 | | 563 | | 26 |
| Less: Income attributable to participating shares | | 2,412 | | 657 | | 1,755 |
| **Distributable earnings attributable to common stockholders** | **$** | **45,862** | **$** | **23,488** | **$** | **22,374** |
| **Distributable earnings per common share - basic** | **$** | **0.52** | **$** | **0.41** | **$** | **0.11** |
| **Distributable earnings per common share - diluted** | **$** | **0.48** | **$** | **0.41** | **$** | **0.07** |

***Q1 2022 versus Q1 2021.*** Consolidated net income of $64.3 million for the first quarter of 2022 represented an increase of $35.3 million from the first quarter of 2021, primarily due to an increase in net interest income after provision for loan losses driven by higher loan volumes, interest income recognized from PPP loans and unrealized gains on financial instruments. Consolidated distributable earnings of $48.9 million for the first quarter of 2022 represented an increase of $24.2 million from the first quarter of 2021. The increase in the distributable earnings reconciling items is primarily due to an increase in unrealized gains on MSRs, partially offset by increased CECL reserves and non-recurring merger transaction costs.

***COVID-19 Impact on Operating Results***

There has been a wide-ranging response of international, federal, state and local public health and governmental authorities to the COVID-19 pandemic in regions across the United States and the world. The full magnitude and duration of the COVID-19 pandemic and the extent to which it impacts our financial condition, results of operations and cash flows will depend on future developments, which continue to be uncertain, including new information that may emerge concerning the severity of COVID-19 variants, the administration and effectiveness of vaccines, the impact of COVID-19 on economic activity and on our borrowers' businesses and their ability to meet their financial obligations to us. We will continue to monitor for any material or adverse effects on our business resulting from the COVID-19 pandemic. Further discussion of the potential impacts on our business from the COVID-19 pandemic is provided in the section entitled "Risk Factors" in Part I, Item 1A of the Company's Annual Report on Form 10-K.

***Incentive distribution payable to our Manager***
Under the partnership agreement of our operating partnership, our Manager, the holder of the Class A special unit in our operating partnership, is entitled to receive an incentive distribution, distributed quarterly in arrears in an amount, not less than zero, equal to the difference between (i) the product of (A) 15% and (B) the difference between (x) distributable earnings (as described below) of our operating partnership, on a rolling four-quarter basis and before the incentive distribution for the current quarter, and (y) the product of (1) the weighted average of the issue price per share of common stock or operating partnership unit ("OP unit") (without double counting) in all of our offerings multiplied by the weighted average number of shares of common stock outstanding (including any restricted shares of common stock and any other shares of common stock underlying awards granted under our 2012 equity incentive plan) and OP units (without double counting) in such quarter and (2) 8%, and (ii) the sum of any incentive distribution paid to our Manager with respect to the first three quarters of such previous four quarters; provided, however, that no incentive distribution is payable with respect to any calendar quarter unless cumulative distributable earnings is greater than zero for the most recently completed 12 calendar quarters.

The incentive distribution shall be calculated within 30 days after the end of each quarter and such calculation shall promptly be delivered to our Company. We are obligated to pay the incentive distribution 50% in cash and 50% in either common stock or OP units, as determined in our discretion, within five business days after delivery to our Company of the written statement from the holder of the Class A special unit setting forth the computation of the incentive distribution for such quarter. Subject to certain exceptions, our Manager may not sell or otherwise dispose of any portion of the incentive distribution issued to it in common stock or OP units until after the three year anniversary of the date that such shares of common stock or OP units were issued to our Manager. The price of shares of our common stock for purposes of determining the number of shares payable as part of the incentive distribution is the closing price of such shares on the last trading day prior to the approval by our board of the incentive distribution.

For purposes of determining the incentive distribution payable to our Manager, distributable earnings (which is referred to as core earnings in the partnership agreement of our operating partnership) is defined under the partnership agreement of our operating partnership in a manner that is similar to the definition of distributable earnings described above under "Non-GAAP Financial Measures" but with the following additional adjustments which (i) further exclude: (a) the incentive distribution, (b) non-cash equity compensation expense, if any, (c) unrealized gains or losses on SBC loans (not just MBS and MSRs), (d) depreciation and amortization (to the extent we foreclose on any property), and (e) one-time events pursuant to changes in U.S. GAAP and certain other non-cash charges after discussions between our Manager and our independent directors and after approval by a majority of the independent directors and (ii) add back any realized gains or losses on the sales of MBS and on discontinued operations which were excluded from the definition of distributable earnings described above under "Non-GAAP Financial Measures".

**Liquidity and Capital Resources**

Liquidity is a measure of our ability to turn non-cash assets into cash and to meet potential cash requirements. We use significant cash to purchase SBC loans and other target assets, originate new SBC loans, pay dividends, repay principal and interest on our borrowings, fund our operations and meet other general business needs. Our primary sources of liquidity will include our existing cash balances, borrowings, including securitizations, re-securitizations, repurchase agreements, warehouse facilities, bank credit facilities and other financing agreements (including term loans and revolving facilities), the net proceeds of offerings of equity and debt securities, including our senior secured notes, corporate debt, and convertible notes, and net cash provided by operating activities.

We are continuing to monitor the COVID-19 pandemic and its impact on us, the borrowers underlying our real estate-related assets, the tenants in the properties we own, our financing sources, and the economy as a whole. Because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences remain uncertain, rapidly changing and difficult to predict, the pandemic's impact on our operations and liquidity remains uncertain and difficult to predict. Further discussion of the potential impacts on us from the COVID-19 pandemic is provided in the section entitled "Risk Factors" in Part I, Item 1A of the Company's Annual Report on Form 10-K.

***Cash flow***

***Three Months Ended March 31, 2022.*** Cash and cash equivalents as of March 31, 2022, decreased by $23.2 million to $300.1 million from December 31, 2021, primarily due to net cash used for investing activities, partially offset by net cash provided from financing and operating activities. The net cash used for investing activities primarily reflected loan originations and purchases, partially offset by paydowns and principal forgiveness. The net cash provided from financing activities primarily reflected net proceeds from secured borrowings as a result of an increase in our origination activities, proceeds from issuances of securitized debt and proceeds from equity issuances primarily in connection with the Mosaic Merger, partially offset by repayment of PPPLF borrowings. The net cash provided by operating activities primarily reflected net proceeds on disposition and principal payments of loans, held for sale, at fair value and an increase in operating assets, partially offset by an increase in operating liabilities and realized and unrealized gains on financial instruments.

***Three Months Ended March 31, 2021.*** Cash and cash equivalents as of March 31, 2021, increased by $171.6 million to $372.0 million from December 31, 2020, primarily due to net cash provided from financing activities, partially offset by net cash used for operating and investing activities. The net cash provided from financing activities primarily reflected net proceeds from secured borrowings as a result of an increase in our origination and acquisition activities, proceeds from issuances of securitized debt, and net proceeds from corporate debt issuance, partially offset by paydowns of borrowings under repurchase agreements and dividend payments. The net cash used by operating activities primarily reflected net settlement of derivative instruments and gain on sale of residential mortgages held for sale. The net cash used for investing activities primarily reflected loan originations and purchases, partially offset by paydowns.

***Collateralized borrowings under repurchase agreements***

The table below presents the amount of collateralized borrowings outstanding under repurchase agreements as of the end of each quarter, the average amount of collateralized borrowings outstanding under repurchase agreements during the quarter and the highest balance of any month end during the quarter.

| *(in thousands)* | Quarter End Balance | Average Balance in Quarter | Highest Month End Balance in Quarter |
|---|---|---|---|
| Q2 2019 | 612,383 | 605,173 | 612,383 |
| Q3 2019 | 876,163 | 744,273 | 876,163 |
| Q4 2019 | 809,189 | 842,676 | 876,163 |
| Q1 2020 | 1,159,357 | 984,273 | 1,159,357 |
| Q2 2020 | 714,162 | 936,760 | 1,057,522 |
| Q3 2020 | 624,549 | 669,356 | 831,200 |
| Q4 2020 | 827,569 | 726,059 | 827,569 |
| Q1 2021 | 1,320,644 | 1,785,656 | 2,481,436 |
| Q2 2021 | 1,223,527 | 1,145,354 | 1,223,527 |
| Q3 2021 | 1,552,135 | 1,497,324 | 1,552,135 |
| Q4 2021 | 2,045,717 | 1,824,260 | 2,045,717 |
| Q1 2022 | 2,771,038 | 2,835,212 | 3,065,412 |

The net increase in the outstanding balances during the first quarter of 2022 was primarily due to increased borrowings to fund origination volumes.

***Financing facilities***

We maintain various forms of short-term and long-term financing arrangements. Borrowings underlying these arrangements are primarily secured by loans and investments.

***Churchill loan repurchase facility.*** Our subsidiaries, ReadyCap Warehouse Financing IV LLC ("ReadyCap Warehouse Financing IV") and Sutherland Asset IV-CH, LLC ("Sutherland Asset IV-CH") entered into a master repurchase agreement in March 2022, pursuant to which ReadyCap Warehouse Financing IV and Sutherland Asset IV-CH, may sell, and later repurchase, mortgage loans in an aggregate principal amount of up to $500 million. The Churchill Loan Repurchase Facility is used to finance commercial transitional loans, conventional commercial loans and commercial mezzanine loans and securities and the interest rate is Adjusted Term SOFR plus a spread. The Churchill Loan Repurchase Facility is committed through March 2026, subject to one or more one-year extensions to be mutually agreed to by ReadyCap Warehouse Financing IV, Sutherland Asset IV-CH and Churchill. As of March 31, 2022, we had $103.9 million outstanding under the Churchill Loan Repurchase Facility.

The eligible assets for the Churchill Loan Repurchase Facility are loans secured by first mortgage liens on residential properties and mixed-use properties of which more than 50% of the square footage is designated for residential purposes and subject to approval by Churchill as the Buyer. ReadyCap Warehouse Financing IV and Sutherland Asset IV-CH paid the bank a structuring fee and are also required to pay the bank unused fees for the Churchill Loan Repurchase Facility, as well as certain other administrative costs and expenses. The Churchill Loan Repurchase Facility also includes financial maintenance covenants, which include requirements that we maintain (i) a ratio of recourse indebtedness to stockholders equity of not more than 4:1, (ii) stockholders equity of not less than $500,000,000, and (iii) liquidity of not less than 1% of our recourse indebtedness.

***Goldman loan repurchase facility.*** Our subsidiaries, ReadyCap Warehouse Financing III, LLC ("ReadyCap Warehouse Financing III") and Sutherland Asset IV-GS, LLC ("Sutherland Asset IV-GS") entered into a master repurchase agreement in February 2022, pursuant to which ReadyCap Warehouse Financing III and Sutherland Asset IV-GS, may sell, and later repurchase, mortgage loans in an aggregate principal amount of up to $250 million, with the option to increase the maximum size of the Goldman Loan Repurchase Facility to $350 million subject to the satisfaction of certain conditions. The Goldman Loan Repurchase Facility is used to finance commercial transitional loans, conventional commercial loans and commercial mezzanine loans and securities and the interest rate is Term SOFR plus a spread. The Goldman Loan Repurchase Facility is committed through February 2024, subject to one one-year extension upon the satisfaction of certain conditions. As of March 31, 2022, we had $175.6 million outstanding under the Goldman Loan Repurchase Facility.

The eligible assets for the Goldman Loan Repurchase Facility are loans secured by first mortgage liens on residential or commercial properties and subject to approval by Goldman as the Buyer. ReadyCap Warehouse Financing III and Sutherland Asset IV-GS paid the bank a structuring fee and are also required to pay the bank unused fees for the Goldman Loan Repurchase Facility, as well as certain other administrative costs and expenses. The Goldman Loan Repurchase Facility also includes financial maintenance covenants, which include requirements that we (i) not permit stockholders equity to decline by (x) more than 25% in any calendar quarter, (y) 35% in any calendar year, or (z) 50% since the date of the Goldman Loan Repurchase Facility, (ii) maintain cash liquidity of not less than the greater of (x) $15 million and (y) 3.0% of the aggregate outstanding loans sold under the Goldman Loan Repurchase Facility, and (iii) maintain a ratio of total indebtedness to tangible net worth of not more than 3:1.

***Deutsche Bank loan repurchase facility.*** Our subsidiaries, ReadyCap Commercial, LLC ("ReadyCap Commercial"), Sutherland Asset I, LLC ("Sutherland Asset I"), Ready Capital Subsidiary REIT I, LLC ("Ready Capital Sub-REIT") and Sutherland Warehouse Trust II, LLC ("Sutherland Warehouse Trust II") renewed their master repurchase agreement in February 2020, pursuant to which ReadyCap Commercial, Sutherland Asset I, Ready Capital Sub REIT and Sutherland Warehouse Trust II may be advanced an aggregate principal amount of up to $350 million on originated mortgage loans (the "DB Loan Repurchase Facility"). The DB Loan Repurchase Facility is used to finance SBC loans, and the interest rate is SOFR plus a spread, which varies depending on the type and age of the loan. The DB Loan Repurchase Facility has been extended through November 2023 and our subsidiaries have an option to extend the DB Loan Repurchase Facility for an additional year, subject to certain conditions. ReadyCap Commercial's, Sutherland Asset I's, Ready Capital Sub REIT's and Sutherland Warehouse Trust II's obligations are fully guaranteed by us. As of March 31, 2022, we had $292.7 million outstanding under the DB Loan Repurchase Facility.

The eligible assets for the DB Loan Repurchase Facility are loans secured by a first mortgage lien on commercial properties subject to certain eligibility criteria, such as property type, geographical location, LTV ratios, debt yield and debt service coverage ratios. The principal amount paid by the bank for each mortgage loan is based on a percentage of the lesser of the mortgaged property value or the principal balance of such mortgage loan. ReadyCap Commercial, Sutherland Asset I, Ready Capital Sub REIT and Sutherland Warehouse Trust II paid the bank an up-front fee and are also required to pay the bank availability fees, and a minimum utilization fee for the DB Loan Repurchase Facility, as well as certain other administrative costs and expenses. The DB Loan Repurchase Facility also includes financial maintenance covenants applicable to our operating partnership, which include (i) an adjusted tangible net worth that does not decline by more than 25% in any calendar quarter, 35% in any calendar year or 50% from the highest adjusted tangible net worth set forth in recent audited financial statements, (ii) a minimum liquidity amount of the greater of (a) $5 million and (b) 3% of the sum of any outstanding recourse indebtedness plus the aggregate repurchase price of the mortgage loans on the Repurchase Agreement; provided however, that no less than two-thirds of the liquidity maintained by the Guarantor to satisfy the covenant shall be cash liquidity, (iii) ratio of recourse indebtedness to adjusted net worth shall not exceed 4:1.

***JPMorgan loan repurchase facility.*** Our subsidiaries, ReadyCap Warehouse Financing, LLC ("ReadyCap Warehouse Financing") and Sutherland Warehouse Trust, LLC ("Sutherland Warehouse Trust") entered into a master repurchase agreement in December 2015, pursuant to which ReadyCap Warehouse Financing and Sutherland Warehouse Trust, may sell, and later repurchase, mortgage loans in an aggregate principal amount of up to $400 million. As of October 2019, Ready Capital Mortgage Depositor II, LLC ("Ready Capital Mortgage Depositor II") was added to the agreement. Our subsidiaries renewed their master repurchase agreement with JPMorgan in November 2020 (the "JPM Loan Repurchase Facility"). In January 2021 the facility was amended for an upsize to $650 million from an effective date of January 14, 2021, through but excluding April 30, 2021, and thereafter downsized to $400 million. In June 2021, the facility was amended for an upsize to $600 million. In September 2021, the facility was amended for an upsize to $700 million. In October 2021, the facility was amended for an upsize to $850 million. In November 2021, the facility was amended for an upsize to $1.0 billion. The JPM Loan Repurchase Facility is used to finance commercial transitional loans, conventional commercial loans and commercial mezzanine loans and securities and the interest rate is LIBOR plus a spread, which is determined by the lender on an asset-by-asset basis. The JPM Loan Repurchase Facility is committed through November 2022, and up to 25% of the then current unpaid obligations of ReadyCap Warehouse Financing, Sutherland Warehouse Trust and Ready Capital Mortgage Depositor II, LLC Trust are guaranteed by us. As of March 31, 2022, we had $829.3 million outstanding under the JPM Loan Repurchase Facility.

The eligible assets for the JPM Loan Repurchase Facility are loans secured by first and junior mortgage liens on commercial properties and subject to approval by JPM as the Buyer. The principal amount paid by the bank for each mortgage loan is based on the principal balance of such mortgage loan. ReadyCap Warehouse Financing and Sutherland Warehouse Trust paid the bank a structuring fee and are also required to pay the bank unused fees for the JPM Loan Repurchase Facility, as well as certain other administrative costs and expenses. The JPM Loan Repurchase Facility also includes financial maintenance covenants, which include (i) total stockholders' equity must not be permitted to be less than the sum of (a) 65% of total stockholders' equity as of the most recent renewal date of the facility plus (b) 65% of the net proceeds of any equity issuance after the most recent renewal date (ii) maximum leverage of 3:1, excluding non-recourse indebtedness and (iii) liquidity equal to at least the lesser of (a) 5% of the sum of (without duplication) (1) any outstanding indebtedness plus (2) amounts due under the repurchase agreement and (b) $15.0 million.

***Madison loan agreement.*** Our subsidiaries, Mosaic North Bergen, LLC, Mosaic Merced, LLC, Mosaic Portland Hotel, LLC and Mosaic LV MF, LLC (collectively, the "Madison Borrowers") are party to an agreement for construction draw allocations on four properties (the "Underlying Loan Transaction"). The Madison Borrowers entered into the loan agreement in September, 2021 with MRC RE Holdings II LLC ("Madison"), pursuant to which the Madison Borrowers were provided a loan in an amount not to exceed $380 million. In connection with the Madison Loan Agreement, the Madison Borrowers provided as security collateral assignments of the first priority mortgages the Madison Borrowers hold as security for the Underlying Loan Transaction, and matures concurrently with the Underlying Loan Transaction, subject to extension in the event the Underlying Loan Transaction's maturity date is extended or there is an event of default under the Underlying Loan Transaction. The Madison Loan Agreement accrues interest at LIBOR plus a spread. As of March 31, 2022, we had $33.8 million outstanding under the Madison Loan Agreement. The Madison Borrowers paid Madison an origination fee in connection with the Madison Loan Agreement, have guaranteed at least 12 months of interest to Madison and are obligated to pay an exit fee upon repayment of the Madison Loan Agreement.

***Performance Trust repurchase agreement.*** Our subsidiaries, ReadyCap Commercial, LLC and Sutherland Asset I, LLC entered a master repurchase agreement in March 2021, pursuant to which ReadyCap Commercial, LLC and Sutherland Asset I, LLC may be advanced an aggregate principal amount of up to $113 million on performing and non-performing acquired legacy small balance commercial loans (the “Performance Trust Loan Repurchase Facility”). In June 2021 the facility was amended for an upsize to $123 million. In July 2021 the facility was amended for an upsize to $143 million. In August 2021 the facility was amended for an upsize to $169 million. In September 2021 the facility was amended for an upsize to $174 million. In October 2021, the facility was amended for an upsize to $204 million. In November 2021, the facility was amended for an upsize to $239 million. In January 2022, the facility was amended for an upsize to $258 million. In February 2022, the facility was amended for an upsize to $263 million. The Performance Trust Loan Repurchase Facility is committed until March 2024, and up to 25% of the then current unpaid obligations of ReadyCap Commercial, LLC and Sutherland Asset I, LLC are guaranteed by us. As of March 31, 2022, we had $233.4 million outstanding under the Performance Trust Loan Repurchase Facility.

***Citibank loan repurchase agreement.*** Our subsidiaries, Waterfall Commercial Depositor, LLC, Sutherland Asset I, LLC, ReadyCap Commercial, LLC and Ready Capital Subsidiary REIT I, LLC renewed a master repurchase agreement in October 2020 with Citibank, N.A., pursuant to where these subsidiaries may sell, and later repurchase, a trust certificate (the “Trust Certificate”), representing interests in mortgage loans in an aggregate principal amount of up to $500 million. The Citi Loan Repurchase Facility is used to finance SBC loans, and the interest rate is one month LIBOR plus a spread, depending on asset characteristics. The Citi Loan Repurchase Facility is committed for a period of 364 days, and up to 25% of the then current unpaid obligations of Waterfall Commercial Depositor, Sutherland Asset I, Ready Capital Sub REIT and ReadyCap Commercial, LLC are guaranteed by us. As of March 31, 2022, we had $169.0 million outstanding under the Citi Loan Repurchase Facility.

The eligible assets for the Citi Loan Repurchase Facility are loans secured by a first mortgage lien on commercial properties, which, amongst other things, generally have a UPB of less than $10 million. The principal amount paid by the bank for the Trust Certificate is based on a percentage of the lesser of the market value or the UPB of such mortgage loans backing the Trust Certificate. Waterfall Commercial Depositor, Sutherland Asset I, ReadyCap Commercial, LLC and Ready Capital Sub REIT are required to pay the bank a commitment fee for the Citi Loan Repurchase Facility, as well as certain other administrative costs and expenses. The Citi Loan Repurchase Facility includes financial maintenance covenants, which include (i) our operating partnership’s net asset value not (A) declining more than 15% in any calendar month, (B) declining more than 25% in any calendar quarter, (C) declining more than 35% in any calendar year, or (D) declining more than 50% from our operating partnership’s highest net asset value set forth in any audited financial statement provided to the bank; (ii) our operating partnership maintaining liquidity in an amount equal to at least 1% of our outstanding indebtedness(excluding non-recourse liabilities in connection with any securitization transaction) of which no more than 20% could be Marketable Securities; and (iii) the ratio of our operating partnership’s total indebtedness (excluding non-recourse liabilities in connection with any securitization transaction) to our net asset value not exceeding 4:1 at any time.

***Credit Suisse repurchase agreement.*** Our subsidiaries, ReadyCap Warehouse Financing II, LLC and Sutherland Asset I-CS, LLC entered a master repurchase agreement in May 2021, pursuant to which Ready Cap Warehouse Financing II, LLC and Sutherland Asset I-CS, LLC may be advanced an aggregate principal amount of up to $500 million on newly originated and acquired commercial products (excluding SBA and Freddie Small Balance Loans) (the “Credit Suisse Loan Repurchase Facility”). In February 2022, the facility was amended for an upsize to $750 million. The Credit Suisse Loan Repurchase Facility is committed until May 2022, and obligations of ReadyCap Warehouse Financing II, LLC and Sutherland Asset I-CS, LLC are guaranteed by us. As of March 31, 2022, we had $584.1 million outstanding under the Credit Suisse Loan Repurchase Facility.

***Securities repurchase agreements.*** As of March 31, 2022, we had $383.1 million of secured borrowings related to ABS with various counterparties.

***General statements regarding loan and securities repurchase facilities.*** As of March 31, 2022, we had $3.1 billion in carrying value of loans pledged against our borrowings under the loan repurchase facilities and $675.2 million in carrying value of ABS pledged against our securities repurchase agreement borrowings.

Under the loan repurchase facilities and securities repurchase agreements, we may be required to pledge additional assets to our counterparties in the event that the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional assets or cash. Generally, the loan repurchase facilities and securities repurchase agreements contain a LIBOR-based financing rate, term and haircuts depending on the types of collateral and the counterparties involved.

If the estimated fair values of the assets increase due to changes in market interest rates or other market factors, lenders may release collateral back to us. Margin calls may result from a decline in the value of the investments securing the loan repurchase facilities and securities repurchase agreements, prepayments on the loans securing such investments and from changes in the estimated fair value of such investments generally due to principal reduction of such investments from scheduled amortization and resulting from changes in market interest rates and other market factors. Counterparties also may choose to increase haircuts based on credit evaluations of our Company and/or the performance of the assets in question. Historically, disruptions in the financial and credit markets have resulted in increased volatility in these levels, and this volatility could persist as market conditions continue to change. Should prepayment speeds on the mortgages underlying our investments or market interest rates suddenly increase, margin calls on the loan repurchase facilities and securities repurchase agreements could result, causing an adverse change in our liquidity position. To date, we have satisfied all of our margin calls and have never sold assets in response to any margin call under these borrowings.

Our borrowings under repurchase agreements are renewable at the discretion of our lenders and, as such, our ability to roll-over such borrowings are not guaranteed. The terms of the repurchase transaction borrowings under our repurchase agreements generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association, as to repayment, margin requirements and the segregation of all assets we have initially sold under the repurchase transaction. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions, which differ by lender, may include changes to the margin maintenance requirements, required haircuts and purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction, and cross default and setoff provisions.

***JPMorgan credit facility.*** We amended our credit facility with JPMorgan in June 2021 providing for a total borrowing capacity of up to $200 million. Under this facility, ReadyCap Lending ("RCL") and Sutherland 2016-1 JPM Grantor Trust pledge loans guaranteed by the SBA under the SBA Section 7(a) Loan Program, SBA 504 loans and other loans. We act as a guarantor under this facility. The agreement contains financial maintenance covenants, which include (i) total stockholders' equity must not be permitted to be less than the sum of (a) 60% of total stockholders' equity as of the most recent renewal date of the facility plus (b) 50% of the net proceeds of any equity issuance after the most recent renewal date (ii) maximum leverage of 3:1, excluding non-recourse indebtedness and (iii) liquidity equal to at least the lesser of (a) 4% of the sum of (without duplication) (1) any outstanding recourse indebtedness plus (2) the aggregate amount of indebtedness outstanding under the agreement. The amended terms have an interest rate based on loan type ranging from one month LIBOR (reset daily), plus a spread. As of March 31, 2022, we had $59.7 million outstanding under this credit facility.

We maintain certain assets, which, from time to time, may include cash, unpledged SBC loans, SBC ABS and short-term investments (which may be subject to various haircuts if pledged as collateral to meet margin requirements) and collateral in excess of margin requirements held by our counterparties, or collectively, the "Cushion", to meet routine margin calls and protect against unforeseen reductions in our borrowing capabilities. Our ability to meet future margin calls will be impacted by the Cushion, which varies based on the fair value of our investments, our cash position and margin requirements. Our cash position fluctuates based on the timing of our operating, investing and financing activities and is managed based on our anticipated cash needs.

***East West Bank credit facility.*** RCL renewed a senior secured revolving credit facility with East West Bank in October 2020, which provides financing of up to $50.0 million. In May 2021 the facility was amended for an upsize to $75 million. The agreement extends for two years, with an additional one-year extension at the Company's request and pays interest equal to the Prime Rate minus 0.821% on SBA 7(a) guaranteed loans and the Prime Rate plus 0.000% on non-guaranteed loans. As of March 31, 2022, we had $62.0 million outstanding under this credit facility.

***Other credit facilities.*** GMFS funds its origination platform through warehouse lines of credit with six counterparties with total borrowings outstanding of $257.0 million as of March 31, 2022. GMFS utilizes committed warehouse lines of credit agreements ranging from $50 million to $150 million, with expiration dates between June 2022 and September 2023. The lines of credit are collateralized by the underlying mortgages, related documents, and instruments, and contain a LIBOR-based financing rate and term, haircut and collateral posting provisions which depend on the types of collateral and the counterparties involved. These agreements contain covenants that include certain financial requirements, including maintenance of minimum liquidity, minimum tangible net worth, maximum debt to net worth ratio and current ratio and limitations on capital expenditures, indebtedness, distributions, transactions with affiliates and maintenance of positive net income, as defined in the agreements. In addition, in connection with the acquisition of Anworth, we assumed approximately $2.1 billion of secured borrowings, of which approximately $1.8 billion has been repaid as of March 31, 2022.

***PPP borrowing facilities***

On March 27, 2020, the U.S. Congress approved, and President Trump signed into law the CARES Act. The CARES Act provides approximately $2 trillion in financial assistance to individuals and businesses resulting from the outbreak of COVID-19. The CARES Act, among other things, provides certain measures to support individuals and businesses in maintaining solvency through monetary relief, including in the form of financing and loan forgiveness and/or forbearance. The primary catalyst of small business stimulus in the CARES Act is the PPP, an SBA loan that temporarily supports businesses in order to retain their workforce during the COVID-19 pandemic.

In January 2021, PPP was reopened to provide funding to new borrowers and certain existing borrowers. We have elected to participate again in PPP in 2021 as both a direct lender and a service provider. We used the following two facilities in order to participate in funding PPP loans.

***PPP Participant Bank financing agreements.*** In late January 2021 RCL entered into two agreements with a certain PPP participant bank, as follows:

1) Master PPP Loan Participation Purchase Agreement: RCL sold to such PPP participant bank 100% undivided, beneficial ownership interests in certain PPP originated loans with RCL retaining the record legal title to each participated PPP loan. RCL continued to service such loans. The purchase price was 99.825% for the first one-billion dollars of PPP loans originated and 99.55% for all subsequent PPP loans originated by RCL; and provided that if a participation limit increase was in effect, the purchase price for any participation effected under such participation limit increase was 98.75%. The purchase commitment fee paid to such PPP participant bank was $2 million.

2) Letter Agreement Repurchase Option: RCL had the option to repurchase any participation that was purchased by such PPP participant bank at a purchase price equal to the outstanding loan amount of the related PPP loan as of the repurchase date plus any accrued interest. RCL could only exercise the repurchase option with respect to a participation during the seven business day period commencing on the business day immediately following the purchase date with respect to such participation. RCL established a bank account at the PPP participant bank, and was to maintain a balance of at least $10 million.

The termination date of the agreement was the date as of which all of the PPP loans related to a participation sold have been paid in full and all collections with respect thereto have been paid, or when we no longer hold legal title to any PPP loan related to a participation sold. As such, this financing agreement was fully repaid in June 2021 and therefore, has been terminated.

***Paycheck Protection Program Facility borrowings.*** RCL utilizes the ability to receive advances from the Federal Reserve through the Paycheck Protection Program Facility (“PPPLF”). Loans are participated with a PPP participant bank in accordance with the financing agreement described above, repurchased from such PPP participant bank, and then pledged using PPPLF. The program charges an interest rate of 0.35%. As of March 31, 2022, we had approximately $627.4 million outstanding under this credit facility.

***Public debt offerings***

***Convertible notes*.** On August 9, 2017, we closed an underwritten public sale of $115.0 million aggregate principal amount of its 7.00% convertible senior notes due 2023 (the “Convertible Notes”). The Convertible Notes will mature on August 15, 2023, unless earlier repurchased, redeemed or converted. During certain periods and subject to certain conditions, the Convertible Notes will be convertible by holders into shares of our common stock. As of March 31, 2022, the conversion rate was 1.6306 shares of common stock per $25 principal amount of the Convertible Notes, which equals a conversion price of approximately $15.33 per share of our common stock. Upon conversion, holders will receive, at our discretion, cash, shares of our common stock or a combination thereof.

We may redeem all or any portion of the Convertible Notes on or after August 15, 2021, if the last reported sale price of our common stock has been at least 120% of the conversion price in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption, at a redemption price payable in cash equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest. Additionally, upon the occurrence of certain corporate transactions, holders may require us to purchase the Convertible Notes for cash at a purchase price equal to 100% of the principal amount of the Convertible Notes to be purchased, plus accrued and unpaid interest.

***Corporate debt***

***The 2021 Notes.*** On April 27, 2018, we completed the public offer and sale of $50.0 million aggregate principal amount of 6.50% Senior Notes due 2021 (the “2021 Notes”). We issued the 2021 Notes under a base indenture, dated August 9, 2017, (the “base indenture”) as supplemented by the second supplemental indenture, dated as of April 27, 2018, between us and U.S. Bank National Association, as trustee. The 2021 Notes accrued interest at a rate of 6.50% per annum, payable quarterly in arrears on January 30, April 30, July 30, and October 30 of each year. The 2021 Notes matured on April 30, 2021.

On March 25, 2021, we redeemed all of the outstanding 2021 Notes, at a redemption price equal to 100% of the principal amount of the 2021 Notes plus accrued and unpaid interest, for cash.

***The 6.20% 2026 Notes.*** On July 22, 2019, we completed the public offer and sale of $57.5 million aggregate principal amount of its 6.20% Senior Notes due 2026 (the “6.20% 2026 Notes”), which includes $7.5 million aggregate principal amount of the 6.20% 2026 Notes relating to the full exercise of the underwriters’ over-allotment option. The net proceeds from the sale of the 6.20% 2026 Notes were approximately $55.3 million, after deducting underwriters’ discount and estimated offering expenses. We contributed the net proceeds to our operating partnership in exchange for the issuance by our operating partnership of a senior note with terms that are substantially equivalent to the terms of the 6.20% 2026 Notes.

The 6.20% 2026 Notes bear interest at a rate of 6.20% per annum, payable quarterly in arrears on January 30, April 30, July 30, and October 30 of each year. The 6.20% 2026 Notes will mature on July 30, 2026, unless earlier repurchased or redeemed.

We may redeem for cash all or any portion of the 6.20% 2026 Notes, at our option, on or after July 30, 2022 and before July 30, 2025 at a redemption price equal to 101% of the principal amount of the 6.20% 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. On or after July 30, 2025, we may redeem for cash all or any portion of the 6.20% 2026 Notes, at its option, at a redemption price equal to 100% of the principal amount of the 6.20% 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If we undergo a change of control repurchase event, holders may require us to purchase the 6.20% 2026 Notes, in whole or in part, for cash at a repurchase price equal to 101% of the aggregate principal amount of the 6.20% 2026 Notes to be purchased, plus accrued and unpaid interest.

The 6.20% 2026 Notes are our senior unsecured obligations and will not be guaranteed by any of its subsidiaries, except to the extent described in the Indenture upon the occurrence of certain events. The 6.20% 2026 Notes rank equal in right of payment to any of our existing and future unsecured and unsubordinated indebtedness; effectively junior in right of payment to any of existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness, other liabilities (including trade payables) and (to the extent not held by us) preferred stock, if any, of its subsidiaries.

On December 2, 2019, we completed the public offer and sale of $45.0 million aggregate principal amount of the 6.20% 2026 Notes. The new notes have the same terms (except with respect to issue date, issue price and the date from which interest will accrue), are fully fungible with, and are treated as a single series of debt securities as the 6.20% Senior Notes we issued on July 22, 2019.

***The 5.75% 2026 Notes.*** On February 10, 2021, we completed the public offer and sale of $201.3 million aggregate principal amount of 5.75% Senior Notes due 2026 (the "5.75% 2026 Notes") which includes $26.3 million aggregate principal amount of 5.75% 2026 Notes relating to the full exercise of the underwriters' over-allotment option. The net proceeds from the sale of the 5.75% 2026 Notes were approximately $195.2 million, after deducting underwriters' discount and estimated offering expenses. We contributed the net proceeds to our operating partnership in exchange for the issuance by our operating partnership of a senior note with terms that are substantially equivalent to the terms of the 5.75% 2026 Notes.

The 5.75% 2026 Notes bear interest at a rate of 5.75% per annum, payable quarterly in arrears on January 30, April 30, July 30, and October 30 of each year, beginning on April 30, 2021. The 5.75% 2026 Notes will mature on February 15, 2026, unless earlier repurchased or redeemed.

Prior to February 15, 2023, the 5.75% 2026 Notes will not be redeemable by us. On or after February 15, 2023, we may redeem for cash all or any portion of the 5.75% 2026 Notes, at our option, at a redemption price equal to 100% of the principal amount of the 5.75% 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If we undergo a change of control repurchase event, holders may require us to purchase the 5.75% 2026 Notes, in whole or in part, for cash at a repurchase price equal to 101% of the aggregate principal amount of the 5.75% 2026 Notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase, as described in greater detail in the base indenture, as supplemented by the fifth supplemental indenture dated as of February 10, 2021.

The 5.75% 2026 Notes are our senior unsecured obligations and will not be guaranteed by any of our subsidiaries, except to the extent described in the Indenture upon the occurrence of certain events. The 5.75% 2026 Notes rank equal in right of payment to any of our existing and future unsecured and unsubordinated indebtedness; effectively junior in right of payment to any of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness, other liabilities (including trade payables) and (to the extent not held by us) preferred stock, if any, of our subsidiaries.

***The 5.50% 2028 Notes.*** On December 21, 2021, we completed the public offer and sale of $110.0 million aggregate principal amount of the 5.50% 2028 Notes. The net proceeds from the sale of the 5.50% 2028 Notes were approximately $107.4 million, after deducting underwriters' discounts, commissions and estimated offering expenses. We contributed the net proceeds to our operating partnership in exchange for the issuance by our operating partnership of a senior unsecured note with terms that are substantially equivalent to the terms of the Notes.

On or after December 30, 2024, we may redeem for cash all or any portion of the notes, at our option, at the redemption prices (expressed as percentages of principal amount) plus accrued and unpaid interest thereon, if any, to, but excluding, the redemption date, if redeemed during the twelve-month period beginning on of the years indicated: 2024 equal to 102.75%; 2025 equal to 101.375%; 2026 equal to 100.6875%; 2027 and thereafter equal to 100.00%. If we undergo a change of control repurchase event, holders may require us to purchase the 5.50% 2028 Notes for cash at a repurchase price equal to 101% of the aggregate principal amount of the 5.50% 2028 Notes to be purchased, plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase.

***Junior subordinated notes.*** On March 19, 2021, we completed the Anworth Merger which included the Company inheriting the outstanding junior subordinated notes ("Junior subordinated notes") issued of Anworth. On March 15, 2005 Anworth issued $37.38 million of junior subordinated notes to a newly formed statutory trust, Anworth Capital Trust I, organized by Anworth under Delaware law. The trust issued $36.25 million in trust preferred securities, of which $15 million were for I-A notes and $21.25 million for I-B notes, to unrelated third party investors. Both the junior subordinated notes and the trust preferred securities require quarterly payments and bear interest at the prevailing three-month LIBOR rate plus 3.10%, reset quarterly. Both the junior subordinated notes and the trust preferred securities will mature in 2035 and are currently redeemable, at our option, in whole or in part, without penalty. Anworth used the net proceeds of this issuance to invest in Agency MBS. In accordance with ASC 810-10, Anworth Capital Trust I does not meet the requirements for consolidation.

***The Debt ATM Agreement***

On May 20, 2021, we entered into an At Market Issuance Sales Agreement (the "Sales Agreement") with B. Riley Securities, Inc. (the "Agent"), pursuant to which we may offer and sell, from time to time, up to $100.0 million of the 6.20% 2026 Notes and the 5.75% 2026 Notes. Sales of the 6.20% 2026 Notes and the 5.75% 2026 Notes pursuant to the Sales Agreement, if any, may be made in transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act (the "Debt ATM Program"). The Agent is not required to sell any specific number of the notes, but the Agent will make all sales using commercially reasonable efforts consistent with its normal trading and sales practices on mutually agreed terms between the Agent and us. During the three months ended March 31, 2022, the Company sold an aggregate of 161.1 thousand of the 6.20% 2026 Notes and 5.75% 2026 Notes at an average price of $25.40 per note and $25.06 per note, respectively, for net proceeds of $4.0 million after related expenses paid of $0.1 million through the Debt ATM Program.

***Other long-term financing***

***ReadyCap Holdings 7.50% senior secured notes due 2022.*** During 2017, ReadyCap Holdings, a subsidiary of the Company, issued $140.0 million in 7.50% Senior Secured Notes due 2022. On January 30, 2018, ReadyCap Holdings LLC, issued an additional $40.0 million in aggregate principal amount of 7.50% Senior Secured Notes due 2022, which have identical terms (other than issue date, issue price and the date from which interest will accrue) to the notes issued during 2017 (collectively the "2022 Senior Secured Notes"). The additional $40.0 million in 2022 Senior Secured Notes were priced with a yield to par call date of 6.5%. Payments of the amounts due on the 2022 Senior Secured Notes are fully and unconditionally guaranteed by the Company and its subsidiaries: our operating partnership, Sutherland Asset I, LLC, and ReadyCap Commercial. The funds were used to fund new SBC and SBA loan originations and new SBC loan acquisitions.

The 2022 Senior Secured Notes bear interest at 7.50% per annum payable semiannually on each February 15 and August 15. The 2022 Senior Secured Notes will mature on February 15, 2022, unless redeemed or repurchased prior to such date. ReadyCap Holdings may redeem the 2022 Senior Secured Notes prior to November 15, 2021, at its option, in whole or in part at any time and from time to time, at a price equal to 100% of the outstanding principal amount thereof, plus the applicable "make-whole" premium as of, and unpaid interest, if any, accrued to, the redemption date. On and after November 15, 2021, ReadyCap Holdings may redeem the 2022 Senior Secured Notes, at its option, in whole or in part at any time and from time to time, at a price equal to 100% of the outstanding principal amount thereof plus unpaid interest, if any, accrued to the redemption date.

ReadyCap Holdings' and the Guarantors' respective obligations under the 2022 Senior Secured Notes and the Guarantees are secured by a perfected first-priority lien on the capital stock of ReadyCap Holdings and ReadyCap Commercial and certain other assets owned by certain of our Company's subsidiaries as described in greater detail in our Current Report on Form 8-K filed on June 15, 2017. The 2022 Senior Secured Notes were issued pursuant to an indenture (the "Indenture") and a first supplemental indenture (the "First Supplemental Indenture"), which contains covenants that, among other things: (i) limit the ability of our Company and its subsidiaries (including ReadyCap Holdings and the other Guarantors) to incur additional indebtedness; (ii) require that our Company maintain, on a consolidated basis, quarterly compliance with the applicable consolidated recourse indebtedness to equity ratio of our Company and consolidated indebtedness to equity ratio of our Company and specified ratios of our Company's stockholders' equity to aggregate principal amount of the outstanding 2022 Senior Secured Notes and our Company's consolidated unencumbered assets to aggregate principal amount of the outstanding 2022 Senior Secured Notes; (iii) limit the ability of ReadyCap Holdings and ReadyCap Commercial to pay dividends or distributions on, or redeem or repurchase, the capital stock of ReadyCap Holdings or ReadyCap Commercial; (iv) limit (1) ReadyCap Holdings' ability to create or incur any lien on the collateral and (2) unless the 2022 Senior Secured Notes are equally and ratably secured, (a) ReadyCap Holdings' ability to create or incur any lien on the capital stock of its wholly-owned subsidiary, ReadyCap Lending and (b) ReadyCap Holdings' ability to permit ReadyCap Lending to create or incur any lien on its assets to secure indebtedness of its affiliates other than its subsidiaries or any securitization entity; and (v) limit ReadyCap Holdings' and the Guarantors' ability to consolidate, merge or transfer all or substantially all of ReadyCap Holdings' and the Guarantors' respective properties and assets. The First Supplemental Indenture also requires that our Company ensure that the Replaceable Collateral Value (as defined therein) is not less than the aggregate principal amount of the 2022 Senior Secured Notes outstanding as of the last day of each of our Company's fiscal quarters.

On October 20, 2021, the Company redeemed all of the outstanding 2022 Senior Secured Notes.

***ReadyCap Holdings 4.50% senior secured notes due 2026.*** On October 20, 2021, ReadyCap Holdings, an indirect subsidiary of the Company, completed the offer and sale of $350.0 million of its 4.50% Senior Secured Notes due 2026 (the “Senior Secured Notes”). The net proceeds from the sale of the Senior Secured Notes were approximately $341.8 million, after deducting discounts, commissions and estimated offering expenses. The proceeds of the Senior Secured Notes were used to redeem all of ReadyCap Holdings’ outstanding 7.50% Senior Secured Notes due 2022 and for general corporate purposes. The Senior Secured Notes are fully and unconditionally guaranteed by the Company, each direct parent entity of ReadyCap Holdings, and other direct or indirect subsidiaries of the Company from time to time that is a direct parent entity of Sutherland Asset III, LLC or otherwise pledges collateral to secure the Senior Secured Notes (collectively, the “Guarantors”).

The Senior Secured Notes bear interest at 4.50% per annum, payable semiannually on each April 20 and October 20, beginning on April 20, 2022. The Senior Secured Notes will mature on October 15, 2026, unless redeemed or repurchased prior to such date. ReadyCap Holdings may redeem the Senior Secured Notes on or after October 15, 2021, at its option, in whole or in part at any time and from time to time, at a price equal to 100% of the outstanding principal amount thereof, plus the applicable “make-whole” premium as of, and unpaid interest, if any, accrued to, the redemption date.

ReadyCap Holdings’ and the Guarantors’ respective obligations under the Senior Secured Notes are secured by a perfected first-priority lien on certain capital stock and assets (collectively, the “Collateral”) owned by certain subsidiaries of the Company. The Senior Secured Notes were issued pursuant to a Note Purchase Agreement, dated as of October 20, 2021, by and among ReadyCap Holdings, the Guarantors, and UMB Bank, N.A., as collateral agent (the “Note Purchase Agreement”), which contains covenants that require the Company and its subsidiaries on a consolidated basis to, among other things: (i) maintain a minimum net asset value, as of the close of business on the last day of each fiscal quarter, equal to or greater than $645 million plus the greater of (x) zero dollars and (y) 50% of net equity capital activity; (ii) maintain a ratio of (x) consolidated unencumbered assets as of the close of business on the last day of each fiscal quarter to (y) the aggregate principal amount of the Senior Secured Notes outstanding as of such date, equal to or greater than 1.1 to 1.0; (iii) maintain a net recourse debt to equity ratio on the last day of each fiscal quarter not to exceed 4.0 to 1.0; and (iv) maintain a ratio of (x) Collateral Value (as defined in the Note Purchase Agreement) as of the close of business on the last day of each fiscal quarter to (y) the aggregate principal amount of the Senior Secured Notes as of such date, equal to or greater than 1.0 to 1.0. The Note Purchase Agreement also (i) limits the ability of the Company to pay dividends or make distributions on, or redeem or repurchase, its capital stock, subject to customary baskets and exceptions; (ii) limits ReadyCap Holdings’ and the Guarantors' ability to create or incur any lien on the Collateral; and (iii) includes customary restrictions on the Company’s ability to transfer all or substantially all of its assets or merge/consolidate into any entity.

***Financing Strategy and Leverage***

In addition to raising capital through public offerings of our equity and offerings of our debt securities, we finance our investment portfolio through securitization and secured borrowings. We generally seek to match-fund our investments to minimize the differences in terms between our investments and those of our liabilities. Our secured borrowings have various recourse levels including full recourse, partial recourse and non-recourse, as well as varied mark-to-market provisions including full mark-to-market, credit mark only and non-mark-to-market. Securitizations allow us to match fund loans pledged as collateral on a long-term, non-recourse basis. Securitization structures typically consist of trusts with principal and interest collections allocated to senior debt and losses on liquidated loans to equity and subordinate tranches, and provide debt equal to 50% to 90% of the cost basis of the assets.

We also finance originated Freddie Mac SBL and residential loans with secured borrowings until the loans are sold, generally within 30 days.

As of March 31, 2022, we had a total leverage ratio of 4.4x and recourse leverage ratio of 1.4x. Our operating segments have varying levels of recourse debt due to the differentiated nature of each segment. Our SBC Lending and Acquisitions, Small Business Lending and Residential Mortgage Banking segments have recourse leverage ratios of 0.6x, 7.1x and 2.0x, respectively. The remaining recourse leverage ratio is from our various corporate debt offerings.

***Securitization transactions***

Our Manager's extensive experience in loan acquisition, origination, servicing and securitization strategies has enabled us to complete several securitizations of SBC and SBA loan assets since January 2011. These securitizations allow us to match fund the SBC and SBA loans on a long-term, non-recourse basis. The assets pledged as collateral for these securitizations were contributed from our portfolio of assets. By contributing these SBC and SBA assets to the various securitizations, these transactions created capacity for us to fund other investments.

The table below presents information on the securitization structures and related issued tranches of notes to investors.

| *(in millions)* | Collateral Asset Class | Issuance | Active / Collapsed | | Bonds Issued |
|---|---|---|---|---|---|
| ***Trusts (Firm sponsored)*** | | | | | |
| Waterfall Victoria Mortgage Trust 2011-1 (SBC1) | SBC Acquired loans | February 2011 | Collapsed | $ | 40.5 |
| Waterfall Victoria Mortgage Trust 2011-3 (SBC3) | SBC Acquired loans | October 2011 | Collapsed | | 143.4 |
| Sutherland Commercial Mortgage Trust 2015-4 (SBC4) | SBC Acquired loans | August 2015 | Collapsed | | 125.4 |
| Sutherland Commercial Mortgage Trust 2018 (SBC7) | SBC Acquired loans | November 2018 | Collapsed | | 217.0 |
| ReadyCap Lending Small Business Trust 2015-1 (RCLT 2015-1) | Acquired SBA 7(a) loans | June 2015 | Collapsed | | 189.5 |
| ReadyCap Lending Small Business Loan Trust 2019-2 (RCLT 2019-2) | Originated SBA 7(a) loans, Acquired SBA 7(a) loans | December 2019 | Active | | 131.0 |
| ***Real Estate Mortgage Investment Conduits (REMICs)*** | | | | | |
| ReadyCap Commercial Mortgage Trust 2014-1 (RCMT 2014-1) | SBC Originated conventional | September 2014 | Active | $ | 181.7 |
| ReadyCap Commercial Mortgage Trust 2015-2 (RCMT 2015-2) | SBC Originated conventional | November 2015 | Active | | 218.8 |
| ReadyCap Commercial Mortgage Trust 2016-3 (RCMT 2016-3) | SBC Originated conventional | November 2016 | Active | | 162.1 |
| ReadyCap Commercial Mortgage Trust 2018-4 (RCMT 2018-4) | SBC Originated conventional | March 2018 | Active | | 165.0 |
| Ready Capital Mortgage Trust 2019-5 (RCMT 2019-5) | SBC Originated conventional | January 2019 | Active | | 355.8 |
| Ready Capital Mortgage Trust 2019-6 (RCMT 2019-6) | SBC Originated conventional | November 2019 | Active | | 430.7 |
| Waterfall Victoria Mortgage Trust 2011-2 (SBC2) | SBC Acquired loans | March 2011 | Collapsed | | 97.6 |
| Sutherland Commercial Mortgage Trust 2018 (SBC6) | SBC Acquired loans | August 2017 | Active | | 154.9 |
| Sutherland Commercial Mortgage Trust 2019 (SBC8) | SBC Acquired loans | June 2019 | Active | | 306.5 |
| Sutherland Commercial Mortgage Trust 2020 (SBC9) | SBC Acquired loans | June 2020 | Collapsed | | 203.6 |
| Sutherland Commercial Mortgage Trust 2021 (SBC10) | SBC Acquired loans | May 2021 | Active | | 232.6 |
| ***Collateralized Loan Obligations (CLOs)*** | | | | | |
| Ready Capital Mortgage Financing 2017– FL1 | SBC Originated transitional | August 2017 | Collapsed | $ | 198.8 |
| Ready Capital Mortgage Financing 2018 – FL2 | SBC Originated transitional | June 2018 | Collapsed | | 217.1 |
| Ready Capital Mortgage Financing 2019 – FL3 | SBC Originated transitional | April 2019 | Active | | 320.2 |
| Ready Capital Mortgage Financing 2020 – FL4 | SBC Originated transitional | June 2020 | Active | | 405.3 |
| Ready Capital Mortgage Financing 2021 – FL5 | SBC Originated transitional | March 2021 | Active | | 628.9 |
| Ready Capital Mortgage Financing 2021 – FL6 | SBC Originated transitional | August 2021 | Active | | 652.5 |
| Ready Capital Mortgage Financing 2021 – FL7 | SBC Originated transitional | November 2021 | Active | | 927.2 |
| Ready Capital Mortgage Financing 2022 – FL8 | SBC Originated transitional | March 2022 | Active | | 1,135.0 |
| ***Trusts (Non-firm sponsored)*** | | | | | |
| Freddie Mac Small Balance Mortgage Trust 2016-SB11 | Originated agency multi-family | January 2016 | Active | $ | 110.0 |
| Freddie Mac Small Balance Mortgage Trust 2016-SB18 | Originated agency multi-family | July 2016 | Active | | 118.0 |
| Freddie Mac Small Balance Mortgage Trust 2017-SB33 | Originated agency multi-family | June 2017 | Active | | 197.9 |
| Freddie Mac Small Balance Mortgage Trust 2018-SB45 | Originated agency multi-family | January 2018 | Active | | 362.0 |
| Freddie Mac Small Balance Mortgage Trust 2018-SB52 | Originated agency multi-family | September 2018 | Active | | 505.0 |
| Freddie Mac Small Balance Mortgage Trust 2018-SB56 | Originated agency multi-family | December 2018 | Active | | 507.3 |
| Key Commercial Mortgage Trust 2020-S3[(1)] | SBC Originated conventional | September 2020 | Active | | 263.2 |

[(1)] Contributed portion of assets into trust

We used the proceeds from the sale of the tranches issued to purchase and originate SBC and SBA loans. We are the primary beneficiary of all firm sponsored securitizations, therefore they are consolidated in our financial statements.

**Contractual Obligations and Off-Balance Sheet Arrangements**

Other than the items referenced above, there have been no material changes to our contractual obligations for the three months ended March 31, 2022. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations" in the Company's annual report on Form 10-K for further details. As of the date of this quarterly report on Form 10-Q, we had no off-balance sheet arrangements, other than as disclosed.

**Critical Accounting Estimates**

Our financial statements are prepared in accordance with GAAP, which requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe that all of the decisions and assessments upon which our financial statements are based were reasonable at the time made, based upon information available to us at that time. The following discussion describes the critical accounting estimates that apply to our operations and require complex management judgment. This summary should be read in conjunction with our accounting policies and use of estimates included in “Notes to Consolidated Financial Statements, Note 3 – Summary of Significant Accounting Policies” included in Item 8, “Financial Statements and Supplementary Data,” in the Company’s annual report on Form 10-K.

***Allowance for credit losses***

The allowance for credit losses consists of the allowance for losses on loans and lending commitments accounted for at amortized cost. Such loans and lending commitments are reviewed quarterly considering credit quality indicators, including probable and historical losses, collateral values, LTV ratio and economic conditions. The allowance for credit losses increases through provisions charged to earnings and reduced by charge-offs, net of recoveries.

On January 1, 2020, the Company adopted ASU No. 2016-13, Financial Instruments-Credit Losses, and subsequent amendments (“ASU 2016-13”), which replaces the incurred loss methodology with an expected loss model known as the Current Expected Credit Loss ("CECL") model. CECL amends the previous credit loss model to reflect a reporting entity's current estimate of all expected credit losses, not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost. The allowance for credit losses required under ASU 2016-13 is deducted from the respective loans’ amortized cost basis on our consolidated balance sheets. The guidance also requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.

In connection with the Company’s adoption of ASU 2016-13 on January 1, 2020, the Company implemented new processes including the utilization of loan loss forecasting models, updates to the Company’s reserve policy documentation, changes to internal reporting processes and related internal controls. The Company has implemented loan loss forecasting models for estimating expected life-time credit losses, at the individual loan level, for its loan portfolio. The CECL forecasting methods used by the Company include (i) a probability of default and loss given default method using underlying third-party CMBS/CRE loan database with historical loan losses and (ii) probability weighted expected cash flow method, depending on the type of loan and the availability of relevant historical market loan loss data. The Company might use other acceptable alternative approaches in the future depending on, among other factors, the type of loan, underlying collateral, and availability of relevant historical market loan loss data.

The Company estimates the CECL expected credit losses for its loan portfolio at the individual loan level. Significant inputs to the Company’s forecasting methods include (i) key loan-specific inputs such as LTV, vintage year, loan-term, underlying property type, occupancy, geographic location, and others, and (ii) a macro-economic forecast. These estimates may change in future periods based on available future macro-economic data and might result in a material change in the Company’s future estimates of expected credit losses for its loan portfolio.

In certain instances, the Company considers relevant loan-specific qualitative factors to certain loans to estimate its CECL expected credit losses. The Company considers loan investments that are both (i) expected to be substantially repaid through the operation or sale of the underlying collateral, and (ii) for which the borrower is experiencing financial difficulty, to be “collateral-dependent” loans. For such loans that the Company determines that foreclosure of the collateral is probable, the Company measures the expected losses based on the difference between the fair value of the collateral (less costs to sell the asset if repayment is expected through the sale of the collateral) and the amortized cost basis of the loan as of the measurement date. For collateral-dependent loans that the Company determines foreclosure is not probable, the Company applies a practical expedient to estimate expected losses using the difference between the collateral’s fair value (less costs to sell the asset if repayment is expected through the sale of the collateral) and the amortized cost basis of the loan.

While we have a formal methodology to determine the adequate and appropriate level of the allowance for credit losses, estimates of inherent loan losses involve judgment and assumptions as to various factors, including current economic conditions. Our determination of adequacy of the allowance for credit losses is based on quarterly evaluations of the above factors. Accordingly, the provision for loan losses will vary from period to period based on management's ongoing assessment of the adequacy of the allowance for credit losses.

Significant judgment is required when evaluating loans for impairment; therefore, actual results over time could be materially different. Refer to “Notes to Consolidated Financial Statements, Note 6 – Loans and Allowance for Credit Losses” included in this Form 10-Q for results of our loan impairment evaluation.

***Accretion of discounts associated with PPP loans, held for investment***

The Company's loan originations in the second round of the program are accounted for as loans, held-for-investment under ASC 310. Loan origination fees and related direct loan origination costs are capitalized into the initial recorded investment in the loan and are deferred over the loan term. The net amount between the loan origination fees and direct loan origination costs is recognized as a discount in the carrying value of the loans, and the discount is required to be recognized in income at a constant effective yield over the life of the instrument.

The effective yield is determined based on the payment terms required by the loan contract as well as with actual and expected prepayments from loan forgiveness by the federal government. Because prepayments from loan forgiveness often deviate from the estimates, the Company periodically recalculates the effective yield to reflect actual prepayments to date and anticipated future prepayments. Anticipated future prepayments are estimated based on past prepayment patterns, historical, current, and projected interest rate environments, among other factors, to predict future cash flows.

Adjustments to anticipated future prepayments are recorded on a retrospective basis, meaning that the net investment or liability is adjusted to the amount that would have existed had the new effective yield been applied since the initial recognition of the instrument. As prepayment speeds change, these accounting requirements can be a source of income volatility. Accelerations of prepayments accelerate the accretion and increase current earnings. Conversely, when prepayments decline, thus lengthening the effective maturity of the instruments and shifting some of the discount accretion to future periods.

Significant judgment is required when evaluating the effective yield on PPP loans; therefore, actual results over time could be materially different. Refer to "Notes to Consolidated Financial Statements, Note 20 – Other Income and Operating Expenses" included in Item 8, "Financial Statements and Supplementary Data," in this annual report on Form 10-K for a more complete discussion of PPP loans, held for investment.

***Valuation of financial assets and liabilities carried at fair value***

We measure our MBS, derivative assets and liabilities, residential MSRs, and any assets or liabilities where we have elected the fair value option at fair value, including certain loans we have originated that are expected to be sold to third parties or securitized in the near term.

We have established valuation processes and procedures designed so that fair value measurements are appropriate and reliable, that they are based on observable inputs where possible, that the valuation approaches are consistently applied, and the assumptions and inputs are reasonable. We also have established processes to provide that the valuation methodologies, techniques and approaches for investments that are categorized within Level 3 of the ASC 820 *Fair Value Measurement* fair value hierarchy (the "fair value hierarchy") are fair, consistent and verifiable. Our processes provide a framework that ensures the oversight of our fair value methodologies, techniques, validation procedures, and results.

When actively quoted observable prices are not available, we either use implied pricing from similar assets and liabilities or valuation models based on net present values of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. Refer to "Notes to Consolidated Financial Statements, Note 7 – Fair Value Measurements" included in Item 8, "Financial Statements and Supplementary Data," in the annual report on Form 10-K for a more complete discussion of our critical accounting estimates as they pertain to fair value measurements.

***Servicing rights impairment***

Servicing rights, at amortized cost, are initially recorded at fair value and subsequently carried at amortized cost. We have elected the fair value option on our residential MSRs, which are not subject to impairment.

For purposes of testing our servicing rights, carried at amortized cost, for impairment, we first determine whether facts and circumstances exist that would suggest the carrying value of the servicing asset is not recoverable. If so, we then compare the net present value of servicing cash flow with its carrying value. The estimated net present value of servicing cash flows of the intangibles is determined using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, taking into consideration historical and forecasted loan prepayment rates, delinquency rates and anticipated maturity defaults. If the carrying value of the servicing rights exceeds the net present value of servicing cash flows, the servicing rights are considered impaired and an impairment loss is recognized in earnings for the amount by which carrying value exceeds the net present value of servicing cash flows. We monitor the actual performance of our servicing rights by regularly comparing actual cash flow, credit, and prepayment experience to modeled estimates.

Significant judgment is required when evaluating servicing rights for impairment; therefore, actual results over time could be materially different. Refer to “Notes to Consolidated Financial Statements, Note 9 – Servicing Rights” included in this Form 10-Q for a more complete discussion of our critical accounting estimates as they pertain to servicing rights impairment.

Refer to “Notes to Consolidated Financial Statements, Note 4– Recently Issued Accounting Pronouncements” included in Item 8, “Financial Statements and Supplementary Data,” in the Company’s annual report on Form 10-K for a discussion of recent accounting developments and the expected impact to the Company.

***Inflation.*** Virtually all of our assets and liabilities are and will be interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our consolidated financial statements are prepared in accordance with U.S. GAAP and our activities and balance sheet shall be measured with reference to historical cost and/or fair market value without considering inflation.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

In the normal course of business, we enter into transactions in various financial instruments that expose us to various types of risk, both on and off-balance sheet, which are associated with such financial instruments and markets for which we invest. These financial instruments expose us to varying degrees of market risk, credit risk, interest rate risk, liquidity risk, off-balance sheet risk and prepayment risk. Many of these risks have been augmented due to the continuing economic disruptions caused by the COVID-19 pandemic which remain uncertain and difficult to predict. We continue to monitor the impact of the pandemic and the effect of these risks in our operations.

***Market risk.*** Market risk is the potential adverse changes in the values of the financial instrument due to unfavorable changes in the level or volatility of interest rates, foreign currency exchange rates, or market values of the underlying financial instruments. We attempt to mitigate our exposure to market risk by entering into offsetting transactions, which may include purchase or sale of interest-bearing securities and equity securities.

***Credit risk.*** We are subject to credit risk in connection with our investments in SBC loans and SBC ABS and other target assets we may acquire in the future. The credit risk related to these investments pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is granted or renewed and periodically reviewed throughout the loan or security term. We believe that loan credit quality is primarily determined by the borrowers’ credit profiles and loan characteristics. We seek to mitigate this risk by seeking to acquire assets at appropriate prices given anticipated and unanticipated losses and by deploying a value-driven approach to underwriting and diligence, consistent with our historical investment strategy, with a focus on projected cash flows and potential risks to cash flow. We further mitigate our risk of potential losses while managing and servicing our loans by performing various workout and loss mitigation strategies with delinquent borrowers. Nevertheless, unanticipated credit losses could occur which could adversely impact operating results.

The COVID-19 pandemic has adversely impacted the commercial real estate markets, causing reduced occupancy, requests from tenants for rent deferral or abatement, and delays in property renovations currently planned or underway. These negative conditions may persist into the future and impair borrower’s ability to pay principal and interest due under our loan agreements. We maintain robust asset management relationships with our borrowers and have leveraged these relationships to address the potential impact of the COVID-19 pandemic on our loans secured by properties experiencing cash flow pressure, most significantly hospitality and retail assets. Some of our borrowers have indicated that due to the impact of the COVID-19 pandemic, they will be unable to timely execute their business plans, have had to temporarily close their businesses, or have experienced other negative business consequences and have requested temporary interest deferral or forbearance, or other modifications of their loans. Accordingly, we have discussed with our borrower’s potential near-term defensive loan modifications, which could include repurposing of reserves, temporary deferrals of interest, or performance test or covenant waivers on loans collateralized by assets directly impacted by the COVID-19 pandemic, and which would typically be coupled with an additional equity commitment and/or guaranty from sponsors. As of March 31, 2022, approximately 0.6% of the loans in our commercial real estate portfolio are in forbearance plans. While we believe the principal amounts of our loans are generally adequately protected by underlying collateral value, there is a risk that we will not realize the entire principal value of certain investments.

***Interest rate risk.*** Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

Our operating results will depend, in part, on differences between the income from our investments and our financing costs. Our debt financing is based on a floating rate of interest calculated on a fixed spread over the relevant index, subject to a floor, as determined by the particular financing arrangement. The general impact of changing interest rates are discussed above under "— Factors Impacting Operating Results — Changes in Market Interest Rates." In the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to us, which could materially and adversely affect our business, financial condition, liquidity, results of operations and prospects. Furthermore, such defaults could have an adverse effect on the spread between our interest-earning assets and interest-bearing liabilities.

Additionally, non-performing SBC loans are not as interest rate sensitive as performing loans, as earnings on non-performing loans are often generated from restructuring the assets through loss mitigation strategies and opportunistically disposing of them. Because non-performing SBC loans are short-term assets, the discount rates used for valuation are based on short-term market interest rates, which may not move in tandem with long-term market interest rates. A rising rate environment often means an improving economy, which might have a positive impact on commercial property values, resulting in increased gains on the disposition of these assets. While rising rates could make it more costly to refinance these assets, we expect that the impact of this would be mitigated by higher property values. Moreover, small business owners are generally less interest rate sensitive than large commercial property owners, and interest cost is a relatively small component of their operating expenses. An improving economy will likely spur increased property values and sales, thereby increasing the need for SBC financing.

The table below projects the impact on our interest income and expense for the twelve-month period following March 31, 2022, assuming an immediate increase or decrease of 25, 50, 75, and 100 basis points in interest rates.

| | ***12-month pretax net interest income sensitivity profiles*** Instantaneous change in rates | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands)* | **25 basis point increase** | **50 basis point increase** | **75 basis point increase** | **100 basis point increase** | **25 basis point decrease** | **50 basis point decrease** | **75 basis point decrease** | **100 basis point decrease** |
| **Assets:** | | | | | | | | |
| Loans | $ 15,360 | $ 29,339 | $ 46,247 | $ 61,980 | $ (6,485) | $ (8,602) | $ (10,452) | $ (12,272) |
| Interest rate swap hedges | 1,481 | 2,963 | 4,444 | 5,926 | (1,481) | (2,963) | (4,444) | (5,926) |
| Mortgage-backed securities | 498 | 675 | 851 | 1,027 | (3) | (3) | (3) | (3) |
| **Total** | **$ 17,339** | **$ 32,977** | **$ 51,542** | **$ 68,933** | **$ (7,969)** | **$ (11,568)** | **$ (14,899)** | **$ (18,201)** |
| **Liabilities:** | | | | | | | | |
| Recourse debt | $ (7,131) | $ (14,279) | $ (21,507) | $ (28,735) | $ 6,537 | $ 9,615 | $ 9,904 | $ 9,981 |
| Non-recourse debt | (7,776) | (15,553) | (23,329) | (31,106) | 2,603 | 3,468 | 3,468 | 3,468 |
| **Total** | **$ (14,907)** | **$ (29,832)** | **$ (44,836)** | **$ (59,841)** | **$ 9,140** | **$ 13,083** | **$ 13,372** | **$ 13,449** |
| **Total Net Impact to Net Interest Income (Expense)** | **$ 2,432** | **$ 3,145** | **$ 6,706** | **$ 9,092** | **$ 1,171** | **$ 1,515** | **$ (1,527)** | **$ (4,752)** |

Such hypothetical impact of interest rates on our variable rate debt does not consider the effect of any change in overall economic activity that could occur in a rising interest rate environment. Further, in the event of such a change in interest rates, we may take actions to further mitigate our exposure to such a change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, this analysis assumes no changes in our financial structure.

***Liquidity risk.*** Liquidity risk arises in our investments and the general financing of our investing activities. It includes the risk of not being able to fund acquisition and origination activities at settlement dates and/or liquidate positions in a timely manner at a reasonable price, in addition to potential increases in collateral requirements during times of heightened market volatility. If we were forced to dispose of an illiquid investment at an inopportune time, we might be forced to do so at a substantial discount to the market value, resulting in a realized loss. We attempt to mitigate our liquidity risk by regularly monitoring the liquidity of our investments in SBC loans, ABS and other financial instruments. Factors such as our expected exit strategy for, the bid to offer spread of, and the number of broker dealers making an active market in a particular strategy and the availability of long-term funding, are considered in analyzing liquidity risk. To reduce any perceived disparity between the liquidity and the terms of the debt instruments in which we invest, we attempt to minimize our reliance on short-term financing arrangements. While we may finance certain investments in security positions using traditional margin arrangements and reverse repurchase agreements, other financial instruments such as collateralized debt obligations, and other longer-term financing vehicles may be utilized to provide us with sources of long-term financing.

***Prepayment risk.*** Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, causing the return on certain investments to be less than expected. As we receive prepayments of principal on our assets, any premiums paid on such assets are amortized against interest income. In general, an increase in prepayment rates accelerates the amortization of purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates accelerates the accretion of purchase discounts, thereby increasing the interest income earned on the assets.

***SBC loan and ABS extension risk.*** Our Manager computes the projected weighted-average life of our assets based on assumptions regarding the rate at which the borrowers will prepay the mortgages or extend. If prepayment rates decrease in a rising interest rate environment or extension options are exercised, the life of the fixed-rate assets could extend beyond the term of the secured debt agreements. This could have a negative impact on our results of operations. In some situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

***Real estate risk***. The market values of residential and commercial assets are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing, retail, industrial, office or other commercial space); changes or continued weakness in specific industry segments; construction quality, construction cost, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans, which could also cause us to suffer losses.

***Fair value risk.*** The estimated fair value of our investments fluctuates primarily due to changes in interest rates. Generally, in a rising interest rate environment, the estimated fair value of the fixed-rate investments would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of the fixed-rate investments would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our assets recorded and/or disclosed may be adversely impacted. Our economic exposure is generally limited to our net investment position as we seek to fund fixed rate investments with fixed rate financing or variable rate financing hedged with interest rate swaps.

***Counterparty risk.*** We finance the acquisition of a significant portion of our commercial and residential mortgage loans, MBS and other assets with our repurchase agreements, credit facilities, and other financing agreements. In connection with these financing arrangements, we pledge our mortgage loans and securities as collateral to secure the borrowings. The amount of collateral pledged will typically exceed the amount of the borrowings (i.e. the haircut) such that the borrowings will be over-collateralized. As a result, we are exposed to the counterparty if, during the term of the financing, a lender should default on its obligation and we are not able to recover our pledged assets. The amount of this exposure is the difference between the amount loaned to us plus interest due to the counterparty and the fair value of the collateral pledged by us to the lender including accrued interest receivable on such collateral.

We are exposed to changing interest rates and market conditions, which affects cash flows associated with borrowings. We enter into derivative instruments, such as interest rate swaps and credit default swaps (“CDS”), to mitigate these risks. Interest rate swaps are used to mitigate the exposure to changes in interest rates and involve the receipt of variable-rate interest amounts from a counterparty in exchange for us making payments based on a fixed interest rate over the life of the swap contract. CDSs are executed in order to mitigate the risk of deterioration in the current credit health of the commercial mortgage market.

Certain of our subsidiaries have entered into over-the-counter interest rate swap agreements to hedge risks associated with movements in interest rates. Because certain interest rate swaps were not cleared through a central counterparty, we remain exposed to the counterparty's ability to perform its obligations under each such swap and cannot look to the creditworthiness of a central counterparty for performance. As a result, if an over-the-counter swap counterparty cannot perform under the terms of an interest rate swap, our subsidiary would not receive payments due under that agreement, we may lose any unrealized gain associated with the interest rate swap and the hedged liability would cease to be hedged by the interest rate swap. While we would seek to terminate the relevant over-the-counter swap transaction and may have a claim against the defaulting counterparty for any losses, including unrealized gains, there is no assurance that we would be able to recover such amounts or to replace the relevant swap on economically viable terms or at all. In such case, we could be forced to cover our unhedged liabilities at the then current market price. We may also be at risk for any collateral we have pledged to secure our obligations under the over-the-counter interest rate swap if the counterparty becomes insolvent or files for bankruptcy. Therefore, upon a default by an interest rate swap agreement counterparty, the interest rate swap would no longer mitigate the impact of changes in interest rates as intended.

The table below presents information with respect to any counterparty for repurchase agreements for which our Company had greater than 5% of stockholders' equity at risk in the aggregate.

| | March 31, 2022 | | | |
|---|---|---|---|---|
| *(in thousands)* | Counterparty Rating | Amount of Risk | Weighted Average Months to Maturity for Agreement | Percentage of Stockholders' Equity |
| JPMorgan Chase Bank, N.A. | A+ / Aa2 | $ 302,247 | 8 | 15.4% |
| Credit Suisse AG | A+ / A1 | $ 343,170 | 8 | 17.5% |
| Deutsche Bank AG | A-/A2 | $ 104,979 | 19 | 5.4% |

In the table above,

- The counterparty ratings presented are the long-term issuer credit rating for JP Morgan, Credit Suisse and Deutsche Bank as rated by S&P and Moody's, respectively.
- The amount at risk reflects the difference between the amount loaned through repurchase agreements, including interest payable, and the cash and fair value of the assets pledged as collateral, including accrued interest receivable.

***Capital market risk.*** We are exposed to risks related to the equity capital markets, and our related ability to raise capital through the issuance of our common stock or other equity instruments. We are also exposed to risks related to the debt capital markets, and our related ability to finance our business through borrowings under repurchase obligations or other financing arrangements. As a REIT, we are required to distribute a significant portion of our taxable income annually, which constrains our ability to accumulate operating cash flow and therefore requires us to utilize debt or equity capital to finance our business. We seek to mitigate these risks by monitoring the debt and equity capital markets to inform our decisions on the amount, timing, and terms of capital we raise.

***Off-balance sheet risk.*** Off-balance sheet risk refers to situations where the maximum potential loss resulting from changes in the level or volatility of interest rates, foreign currency exchange rates or market values of the underlying financial instruments may result in changes in the value of a particular financial instrument in excess of the reported amounts of such assets and liabilities currently reflected in the accompanying consolidated balance sheets.

***Inflation risk.*** Most of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance significantly more than inflation does. Changes in interest rates may correlate with inflation rates and/or changes in inflation rates. Our consolidated financial statements are prepared in accordance with U.S. GAAP and our distributions are determined by our board of directors consistent with our obligation to distribute to our stockholders dividends equal to at least 90% of our REIT taxable income on an annual basis in order to maintain our REIT qualification; in each case, our activities and balance sheet are measured with reference to historical cost and/or fair value without considering inflation.

## Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Securities Exchange Act of 1934, as amended (the "Exchange Act"), reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" as promulgated under the Exchange Act and the rules and regulations thereunder. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of March 31, 2022. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There have been no changes to the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the quarter ended March 31, 2022, that has materially affected, or is 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.

On February 24, 2021, Sheila Baker and Merle W. Bundick purported shareholders of Anworth, filed lawsuits in the California Superior Court, styled Baker v. McAdams, et al., No. 21STCV07569 (the "Baker Action") and Bundick v. McAdams, et al., No. 21STCV07571 (the "Bundick Action"). On March 2, 2021, Benjamin Gigli, a purported shareholder of Anworth, also filed a lawsuit in California Superior Court, styled Gigli v. McAdams, et al., No. 21STCV08413 (the "Gigli Action," and together with the Baker Action and the Bundick Action, the "Anworth Merger Actions"). The California State Court Actions were filed against the former members of Anworth's Board of Directors (the "Anworth Board"). The complaints in the Anworth Merger Actions assert that the Anworth Board breached their fiduciary duties by failing to properly consider acquisition proposals that were purportedly superior to the Merger, agreeing to purportedly unreasonable deal protections in connection with the Merger, and authorizing the issuance of the Form 424B3 filed on February 9, 2021, which allegedly contained materially misleading information. The California State Court Actions seek, among other things, rescissory damages and an award of attorneys' and experts' fees. On May 26, 2021, the California State Court Actions were consolidated and restyled In re Anworth Mortgage Asset Corporation Stockholder Litigation, Lead Case No. 21STCV07569. A consolidated amended complaint was filed by Sheila Baker, Merle W. Bundick, and Benjamin Gigli (together, the "Plaintiffs") on June 14, 2021, and the California Superior Court denied Anworth's Demurrer seeking to dismiss the consolidated amended complaint on December 2, 2021. The Anworth Board filed their answer on January 3, 2022, and the case is currently in discovery.

The Company intends to vigorously defend against the Anworth Merger Actions.

***Litigation Related to the Mosaic Mergers.*** On February 1, 2022, Adam Gottfried, a purported shareholder of the Company, filed a lawsuit in the United States District Court for the Eastern District of New York, styled *Adam Gottfried v. Ready Capital Corporation, et al.,* No. 1:22-cv-00585 (the "Gottfried Action"). The Gottfried Action was filed against the Company and our board. The complaint in the Gottfried Action asserts that the Form S-4 Registration Statement filed on January 10, 2022 in connection with the Mosaic Mergers contained materially incomplete and misleading information, in violation of Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. The Gottfried Action seeks, among other things, an injunction enjoining the Mosaic Mergers from closing, rescission of the Mosaic Mergers or rescissory damages if the Mosaic Mergers are consummated, a ruling that Ready Capital and our board violated Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder, and an award of reasonable costs and expenses, including attorneys' and experts' fees. The plaintiff in the Gottfried Action filed a notice of voluntary dismissal on March 24, 2022, and the Gottfried Action was dismissed on March 29, 2022.

Another group of investors of Mosaic Real Estate Credit, LLC ("MREC") filed a Demand for Arbitration and Request for Emergency Relief (the "Demand for Arbitration") on February 23, 2022. The Demand for Arbitration was filed against Ethan Penner, the founder and managing partner of MREC; the Mosaic Manager, the external manager of MREC; and MREC. The investors filed the Demand for Arbitration pursuant to the MREC operating agreement and assert that the Form S-4 Registration Statement filed on February 7, 2022 insufficiently disclosed information underlying alleged conflicts of interest of Penner and the Mosaic Manager. The Demand for Arbitration seeks to enjoin the "negative consent" vote of the investors of MREC until MREC issues corrective disclosures regarding any and all fees, compensation or other consideration to be received by Penner or the Mosaic Manager, including the timing and negotiation of those fees, as well as information regarding Julius W. Erving's selection and compensation associated with his future role on our board of directors. The Demand for Arbitration further seeks to recover damages based on alleged breaches of fiduciary duties by Penner and the Mosaic Manager.

Respondents intend to vigorously defend against the claims.

On March 10, 2022, CAIS Capital, LLC ("CAIS") filed a lawsuit in the Superior Court of California, styled CAIS Capital LLC v. MREC Management, LLC, et al., No. 22STCV08807 (the "CAIS Action") against the Mosaic Manager, Mosaic Real Estate Credit Offshore, LP, the Mosaic Funds, Mosaic Special Member, LLC, the Company and the Manager. The lawsuit concerns the Mosaic Manager's relationship with CAIS, an alternative investment platform for financial advisors. CAIS asserts claims under California law and seeks, among other things, attachment of the Mosaic Manager's obligations to the Company, damages in the amount of the fee payments allegedly owed to CAIS, compensatory damages for intentional tortious interference with contract, specific performance requiring the Company to continue making fee payments, and attorney's fees. On April 13, 2022, the Mosaic Manager, Mosaic Real Estate Credit Offshore, LP, Mosaic Special Member, LLC and the Mosaic Funds (together, the "Mosaic Defendants") filed a Demurrer seeking to dismiss the complaint. The deadline for the Company, RC Mosaic Sub, LLC, and the Manager to respond to the complaint is May 6, 2022.

The Company intends to vigorously defend against the CAIS Action.

**Item 1A. Risk Factors**

See the Company's Annual Report on Form 10-K for the year ended December 31, 2021. You should be aware that these risk factors and other information may not describe every risk facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

**Share Repurchase Program**

On March 6, 2018, the Company's Board of Directors approved a share repurchase program authorizing, but not obligating, the repurchase of up to $20.0 million of its common stock, which was increased by an additional $5 million on August 4, 2020, bringing the total authorized and available under the program to $25 million. The Company expects to acquire shares through open market or privately negotiated transactions. The timing and amount of repurchase transactions will be determined by the Company's management based on its evaluation of market conditions, share price, legal requirements and other factors.

The table below presents shares of common stock owned by certain of our employees which have been surrendered by them to satisfy their tax and other compensation related withholdings associated with the vesting of restricted stock units during the quarter.

| | Total Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| January | 41,255 | 15.63 | 41,255 | 13,062,795 |
| February | 35,884 | 14.19 | 35,884 | 12,553,601 |
| March | 7,088 | 15.39 | 7,088 | 12,444,516 |
| **Total** | **84,227** | **$ 15.00** (1) | **84,227** | **$ 12,444,516** |

(1) The price paid per share is based on the price of our common stock as of the date of the withholding.

**Item 3. Default Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

| Exhibit number | Exhibit description |
|---|---|
| 2.1* | Agreement and Plan of Merger, by and among Ready Capital Corporation, ReadyCap Merger Sub LLC and Owens Realty Mortgage, Inc., dated as of November 7, 2018 (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed November 9, 2018) |
| 2.2* | Agreement and Plan of Merger, dated as of December 6, 2020, by and among Ready Capital Corporation, RC Merger Subsidiary, LLC and Anworth Mortgage Asset Corporation (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed December 8, 2020) |
| 2.3* | Merger Agreement, by and among Ready Capital Corporation, Ready Capital, RC Mosaic Sub, LLC, a Delaware limited liability company, Sutherland Partners, L.P., a Delaware limited partnership, Mosaic Real Estate Credit, LLC, a Delaware limited liability company, Mosaic Real Estate Credit TE, LLC, a Delaware limited liability company, MREC International Incentive Split, LP, a Delaware limited partnership, Mosaic Real Estate Credit Offshore, LP, a Cayman Islands exempted limited partnership, MREC Corp Sub 1 (VO), LLC, a Delaware limited liability company, MREC Corp Sub 2 (LA Office), LLC, a Delaware limited liability company, MREC Corp Sub 3 (Superblock), LLC, a Delaware limited liability company, Mosaic Special Member, LLC, a Delaware limited liability company, Mosaic Secured Holdings, LLC, a Delaware limited liability company, and MREC Management, LLC, dated as of November 3, 2021 (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed November 9, 2021) |
| 2.4* | First Amendment to Merger Agreement, dated February 7, 2022, by and among Ready Capital Corporation, Sutherland Partners, L.P., RC Mosaic Sub, LLC, Mosaic Real Estate Credit, LLC, Mosaic Real Estate Credit TE, LLC, MREC International Incentive Split, LP, Mosaic Real Estate Credit Offshore, LP, MREC Corp Sub 1 (VO), LLC, MREC Corp Sub 2 (LA Office), LLC, MREC Corp Sub 3 (Superblock), LLC, Mosaic Special Member, LLC, Mosaic Secured Holdings, LLC and MREC Management, LLC (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed February 7, 2022) |
| 3.1* | Articles of Amendment and Restatement of ZAIS Financial Corp. (incorporated by reference to Exhibit 3.1 of the Registrant’s Form S-11, as amended (Registration No. 333-185938) |
| 3.2* | Articles Supplementary of ZAIS Financial Corp. (incorporated by reference to Exhibit 3.2 of the Registrant’s Form S-11, as amended (Registration No. 333-185938) |
| 3.3* | Articles of Amendment and Restatement of Sutherland Asset Management Corporation (incorporated by reference to Exhibit 3.1 of the Registrant’s Current Report on Form 8-K filed November 4, 2016) |
| 3.4* | Articles of Amendment of Ready Capital Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on September 26, 2018) |
| 3.5* | Articles Supplementary to the Articles of Amendment of Ready Capital Corporation designating the shares of 6.25% Series C Cumulative Convertible Preferred Stock, $0.0001 par value per share (incorporated by reference to Exhibit 3.7 to the Registrant's Registration Statement on Form 8-A filed on March 19, 2021). |
| 3.6* | Articles Supplementary to the Articles of Amendment of Ready Capital Corporation designating the shares of 6.50% Series E Cumulative Redeemable Preferred Stock, $0.0001 par value per share (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on June 10, 2021). |

| | |
|---|---|
| 3.7* | Articles Supplementary to the Articles of Amendment of Ready Capital Corporation designating the shares of Class B-1 Common Stock, $0.0001 par value per share, Class B-2 Common Stock, $0.0001 par value per share, Class B-3 Common Stock, $0.0001 par value per share, and Class B-4 Common Stock, $0.0001 par value per share (incorporated by reference to Exhibit 4.8 to the Registration Statement on Form S-3 filed with the SEC on March 21, 2022) |
| 3.8* | Amended and Restated Bylaws of Ready Capital Corporation (incorporated by reference to Exhibit 3.2 to the Registratnt's Form 8-K filed on September 26, 2018) |
| 4.1* | Indenture, dated February 13, 2017, by and among ReadyCap Holdings, LLC, as issuer, Sutherland Asset Management Corporation, Sutherland Partners, L.P., Sutherland Asset I, LLC and ReadyCap Commercial, LLC, each as guarantors, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on February 13, 2017) |
| 4.2* | First Supplemental Indenture, dated February 13, 2017, by and among ReadyCap Holdings, LLC, as issuer, Sutherland Asset Management Corporation, Sutherland Partners, L.P., Sutherland Asset I, LLC, ReadyCap Commercial, LLC, each as guarantors and U.S. Bank National Association, as trustee and as collateral agent, including the form of 7.5% Senior Secured Notes due 2022 and the related guarantees (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed on February 13, 2017) |
| 4.3* | Indenture, dated as of August 9, 2017, by and between Sutherland Asset Management Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed on August 9, 2017) |
| 4.4* | First Supplemental Indenture, dated as of August 9, 2017, by and between Sutherland Asset Management Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed on August 9, 2017) |
| 4.5* | Second Supplemental Indenture, dated as of April 27, 2018, by and between Sutherland Asset Management Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed April 27, 2018) |
| 4.6* | Third Supplemental Indenture, dated as of February 26, 2019, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.7 of the Registrant's Current Report on Form 10-K filed on March 13, 2019) |
| 4.7* | Amendment No. 1, dated as of February 26, 2019, to the First Supplemental Indenture, dated as of August 9, 2017, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.8 of the Registrant's Current Report on Form 10-K filed March on 13, 2019) |
| 4.8* | Amendment No. 1, dated as of February 26, 2019, to the Second Supplemental Indenture, dated as of April 27, 2018, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.9 of the Registrant's Annual Report on Form 10-K filed March 13, 2019) |
| 4.9* | Fourth Supplemental Indenture, dated as of July 22, 2019, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed on July 22, 2019) |
| 4.10* | Fifth Supplemental Indenture, dated as of February 10, 2021, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed February on 10, 2021) |
| 4.11* | Sixth Supplemental Indenture, dated as of December 21, 2021, by and between Ready Capital Corporation and U.S. Bank National Association, a Sixth Supplemental Indenture, dated as of December 21, 2021, by and between Ready Capital Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed December 21, 2021) as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed December 21, 2021) |

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| 4.12* | Seventh Supplemental Indenture, dated as of April 18, 2022, by and between Ready Capital Corporation and U.S. Bank Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed April 18, 2022) |
| 4.13* | Specimen Common Stock Certificate of Ready Capital Corporation (incorporated by reference to Exhibit 4.1 to the Registrant's Form S-4 filed on December 13, 2018) |
| 4.14* | Specimen Preferred Stock Certificate representing the shares of 6.25% Series C Cumulative Convertible Preferred Stock, $0.0001 par value per share (incorporated by reference to Exhibit 4.13 of the Registrant's Registration Statement on Form 8-A filed on March 19, 2021). |
| 4.15* | Specimen Preferred Stock Certificate representing the shares of 6.50% Series E Cumulative Redeemable Preferred Stock, $0.0001 par value per share (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on June 10, 2021). |
| 10.1* | First Amendment to the Equity Distribution Agreement, dated March 8, 2022, by and among Ready Capital Corporation, Sutherland Partners, L.P., Waterfall Asset Management LLC, and JMP Securities LLC (incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed on March 8, 2022) |
| 10.2* | Contingent Equity Rights Agreement, dated March 16, 2022, by and among Ready Capital Corporation, Sutherland Partners, L.P. and American Stock Transfer & Trust Company, LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 22, 2022) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of the Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification of the Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH | Inline XBRL Taxonomy Extension Scheme Document |
| 101.CAL | Inline XBRL Taxonomy Calculation Linkbase Document |
| 101.DEF | Inline XBRL Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (embedded with the Inline XBRL document) |

* Previously filed.

** This exhibit is being furnished rather than filed, and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

**SIGNATURES**

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

**READY CAPITAL CORPORATION**

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|---|---|
| Date: May 6, 2022 | By: /s/ Thomas E. Capasse<br>Thomas E. Capasse<br>Chairman of the Board and Chief Executive<br>(Principal Executive Officer) |
| Date: May 6, 2022 | By: /s/ Andrew Ahlborn<br>Andrew Ahlborn<br>Chief Financial Officer<br>(Principal Accounting and Financial Officer) |

**EXHIBIT 31.1**

# CERTIFICATIONS

I, Thomas E. Capasse, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ready Capital Corporation (the “registrant”) for the period ended March 31, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant’s other certifying officer 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 6, 2022

By: /s/ Thomas E. Capasse
Name: Thomas E. Capasse
Title: Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATIONS**

I, Andrew Ahlborn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ready Capital Corporation (the "registrant") for the period ended March 31, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

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

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

    d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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 6, 2022

By: /s/ Andrew Ahlborn
Name: Andrew Ahlborn
Title: Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO SECTION 906**
**OF THE SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350**

In connection with the quarterly report on Form 10-Q of Ready Capital Corporation (the “Company”) for the period ended March 31, 2022 to be filed with the Securities and Exchange Commission on or about the date hereof (the “report”), I, Thomas E. Capasse, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

Date: May 6, 2022

By: /s/ Thomas E. Capasse
Name: Thomas E. Capasse
Title: Chief Executive Officer

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO SECTION 906**
**OF THE SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350**

In connection with the quarterly report on Form 10-Q of Ready Capital Corporation (the "Company") for the period ended March 31, 2022 to be filed with the Securities and Exchange Commission on or about the date hereof (the "report"), I, Andrew Ahlborn, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

Date: May 6, 2022

By: /s/ Andrew Ahlborn
Name: Andrew Ahlborn
Title: Chief Financial Officer