

**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 September 30, 2015

OR

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

For the transition period from _____ to _____
Commission file number 001-35896

Ellington Residential Mortgage REIT

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation)

46-0687599

(IRS Employer Identification No.)

53 Forest Avenue

Old Greenwich, CT 06870

(Address of principal executive offices, zip code)

(203) 698-1200

(Registrant's Telephone Number, Including Area Code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer (do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

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 issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 30, 2015
Common Shares of Beneficial Interest, \$0.01 par value per share	9,135,021

**ELLINGTON RESIDENTIAL MORTGAGE REIT
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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (unaudited)

ELLINGTON RESIDENTIAL MORTGAGE REIT
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	September 30, 2015	December 31, 2014
<i>(In thousands except for share amounts)</i>		
ASSETS		
Cash and cash equivalents	\$ 40,482	\$ 45,237
Mortgage-backed securities, at fair value	1,280,892	1,393,303
Due from brokers	41,068	18,531
Financial derivatives—assets, at fair value	1,527	3,072
Reverse repurchase agreements	76,610	13,987
Receivable for securities sold	70,087	41,834
Interest receivable	4,784	4,793
Other assets	407	317
Total Assets	\$ 1,515,857	\$ 1,521,074
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Repurchase agreements	\$ 1,225,905	\$ 1,323,080
Payable for securities purchased	45,333	4,227
Due to brokers	2,654	583
Financial derivatives—liabilities, at fair value	16,414	8,700
U.S. Treasury securities sold short, at fair value	70,671	13,959
Dividend payable	4,111	5,032
Accrued expenses	771	890
Management fee payable	557	551
Interest payable	1,416	687
Total Liabilities	1,367,832	1,357,709
SHAREHOLDERS' EQUITY		
Preferred shares, par value \$0.01 per share, 100,000,000 shares authorized; (0 shares issued and outstanding, respectively)	—	—
Common shares, par value \$0.01 per share, 500,000,000 shares authorized; (9,135,021 and 9,149,274 shares issued and outstanding, respectively)	91	91
Additional paid-in-capital	181,066	181,282
Accumulated deficit	(33,132)	(18,008)
Total Shareholders' Equity	148,025	163,365
Total Liabilities and Shareholders' Equity	\$ 1,515,857	\$ 1,521,074

See Notes to Consolidated Financial Statements

ELLINGTON RESIDENTIAL MORTGAGE REIT
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Month Period Ended September 30, 2015	Three Month Period Ended September 30, 2014	Nine Month Period Ended September 30, 2015	Nine Month Period Ended September 30, 2014
<i>(In thousands except for per share amounts)</i>				
INTEREST INCOME (EXPENSE)				
Interest income	\$ 11,315	\$ 11,484	\$ 31,436	\$ 35,018
Interest expense	(1,642)	(1,121)	(4,420)	(3,346)
Total net interest income	9,673	10,363	27,016	31,672
EXPENSES				
Management fees	557	574	1,759	1,733
Professional fees	144	123	422	399
Other operating expenses	574	597	1,774	1,873
Total expenses	1,275	1,294	3,955	4,005
OTHER INCOME (LOSS)				
Net realized gains (losses) on mortgage-backed securities	596	2,030	8,760	(613)
Net realized losses on financial derivatives	(3,252)	(4,391)	(15,838)	(18,955)
Change in net unrealized gains (losses) on mortgage-backed securities	4,862	(5,455)	(7,674)	37,550
Change in net unrealized gains (losses) on financial derivatives	(15,421)	2,280	(9,258)	(28,305)
Total other loss	(13,215)	(5,536)	(24,010)	(10,323)
NET INCOME (LOSS)	\$ (4,817)	\$ 3,533	\$ (949)	\$ 17,344
NET INCOME (LOSS) PER COMMON SHARE:				
Basic and Diluted	\$ (0.53)	\$ 0.39	\$ (0.10)	\$ 1.90
CASH DIVIDENDS PER COMMON SHARE:				
Dividends declared	\$ 0.45	\$ 0.55	\$ 1.55	\$ 1.65

See Notes to Consolidated Financial Statements

ELLINGTON RESIDENTIAL MORTGAGE REIT
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)

	Common Shares	Common Shares, par value	Preferred Shares	Preferred Shares, par value	Additional Paid- in-Capital	Accumulated (Deficit) Earnings	Total
<i>(In thousands except for share amounts)</i>							
BALANCE, December 31, 2013	9,139,842	\$ 91	—	\$ —	\$ 181,147	\$ (14,058)	\$ 167,180
Issuance of restricted shares	9,432	—	—	—	—		—
Share based compensation					105		105
Dividends declared						(15,086)	(15,086)
Net income						17,344	17,344
BALANCE, September 30, 2014	<u>9,149,274</u>	<u>\$ 91</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 181,252</u>	<u>\$ (11,800)</u>	<u>\$ 169,543</u>
BALANCE, December 31, 2014	9,149,274	\$ 91	—	\$ —	\$ 181,282	\$ (18,008)	\$ 163,365
Issuance of restricted shares	9,228	—	—	—	—		—
Repurchase of common shares	(23,481)	—	—	—	(304)		(304)
Share based compensation					88		88
Dividends declared						(14,175)	(14,175)
Net loss						(949)	(949)
BALANCE, September 30, 2015	<u>9,135,021</u>	<u>\$ 91</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 181,066</u>	<u>\$ (33,132)</u>	<u>\$ 148,025</u>

See Notes to Consolidated Financial Statements

ELLINGTON RESIDENTIAL MORTGAGE REIT
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine Month Period Ended September 30, 2015	Nine Month Period Ended September 30, 2014
<i>(In thousands)</i>		
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ (949)	\$ 17,344
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:		
Net realized (gains) losses on mortgage-backed securities	(8,760)	613
Change in net unrealized (gains) losses on mortgage-backed securities	7,674	(37,550)
Net realized losses on financial derivatives	15,838	18,955
Change in net unrealized (gains) losses on financial derivatives	9,258	28,305
Amortization of premiums and accretion of discounts (net)	6,468	5,254
Share based compensation	88	105
(Increase) decrease in assets:		
Due from brokers	(22,537)	(1,724)
Interest receivable	9	(835)
Other assets	(90)	(258)
Increase (decrease) in liabilities:		
Due to brokers	2,071	(18,899)
Accrued expenses	(119)	(69)
Interest payable	729	(173)
Management fees payable	6	(26)
Net cash provided by operating activities	9,686	11,042
Cash flows provided by (used in) investing activities:		
Purchases of mortgage-backed securities	(1,479,612)	(1,478,619)
Proceeds from sale of mortgage-backed securities	1,496,506	1,506,513
Principal repayments of mortgage-backed securities	103,189	72,761
Proceeds from investments sold short	675,693	141,527
Repurchase of investments sold short	(619,180)	(138,957)
Proceeds from disposition of financial derivatives	10,700	7,592
Purchase of financial derivatives	(26,538)	(26,547)
Payments made on reverse repurchase agreements	(10,639,503)	(712,899)
Proceeds from reverse repurchase agreements	10,576,879	710,415
Net cash provided by investing activities	98,134	81,786
Cash flows provided by (used in) financing activities:		
Offering costs paid	—	(239)
Repurchase of common shares	(304)	—
Dividends paid	(15,096)	(14,624)
Borrowings under repurchase agreements	2,010,434	4,484,173
Repayments of repurchase agreements	(2,107,609)	(4,561,187)
Cash used in financing activities	(112,575)	(91,877)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,755)	951
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	45,237	50,112
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 40,482	\$ 51,063
Supplemental disclosure of cash flow information:		
Interest paid	\$ 3,691	\$ 3,520
Dividends payable	\$ 4,111	\$ 5,032

See Notes to Consolidated Financial Statements

ELLINGTON RESIDENTIAL MORTGAGE REIT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015
(UNAUDITED)

1. Organization and Investment Objective

Ellington Residential Mortgage REIT, or "EARN," was formed as a Maryland real estate investment trust, or "REIT," on August 2, 2012, and commenced operations on September 25, 2012. EARN conducts its business through its wholly owned subsidiaries, EARN OP GP LLC, or the "General Partner," and Ellington Residential Mortgage LP, or the "Operating Partnership," which were formed as a Delaware limited liability company and a Delaware limited partnership, respectively, on July 31, 2012 and commenced operations on September 25, 2012. The Operating Partnership conducts its business of acquiring, investing in, and managing residential mortgage-related and real estate-related assets through its wholly owned subsidiaries. EARN, the General Partner, the Operating Partnership, and their consolidated subsidiaries are hereafter defined as the "Company."

Ellington Residential Mortgage Management LLC, or the "Manager," serves as the Manager of the Company pursuant to the terms of the Third Amended and Restated Management Agreement (the "Management Agreement"). The Manager is an affiliate of Ellington Management Group, L.L.C., or "EMG," an investment management firm that is registered as an investment adviser with a 20-year history of investing in a broad spectrum of mortgage-backed securities and related derivatives, with an emphasis on the residential mortgage-backed securities, or "RMBS," market. In accordance with the terms of the Management Agreement and the Services Agreement, as discussed in Note 10, the Manager is responsible for administering the Company's business activities and day-to-day operations, and performs certain services, subject to oversight by the Board of Trustees. See Notes 8 and 10 for further information on the Management Agreement.

The Company acquires and manages RMBS, for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," and RMBS that do not carry such guarantees, or "non-Agency RMBS," such as RMBS backed by prime jumbo, Alternative A-paper, manufactured housing, and subprime residential mortgage loans. Agency RMBS include both Agency pools and Agency collateralized mortgage obligations, or "CMOs," and non-Agency RMBS primarily consist of non-Agency CMOs, both investment grade and non-investment grade. The Company may also acquire and manage mortgage servicing rights, residential mortgage loans, and other mortgage- and real estate-related assets. The Company may also invest in other instruments including, but not limited to, forward-settling To-Be-Announced Agency pass-through certificates, or "TBAs," interest rate swaps and swaptions, U.S. Treasury securities, Eurodollar and U.S. Treasury futures, other financial derivatives, and cash equivalents. The Company's targeted investments may range from unrated first loss securities to AAA senior securities.

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or "the Code". As a REIT, the Company is required to distribute annually at least 90% of its taxable income. As long as the Company continues to qualify as a REIT, it will not be subject to U.S. federal or state corporate taxes on its taxable income to the extent that it distributes all of its annual taxable income to its shareholders. It is the intention of the Company to distribute at least 100% of its taxable income, after application of available tax attributes, within the limits prescribed by the Code, which may extend into the subsequent taxable year.

2. Significant Accounting Policies

(A) *Basis of Presentation:* The Company's unaudited interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP." Entities in which the Company has a controlling financial interest, through ownership of the majority of the entities' voting equity interests, or through other contractual right that give the Company control, are consolidated by the Company. All inter-company balances and transactions have been eliminated. The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material. In management's opinion, all material adjustments, considered necessary for a fair presentation of the Company's interim consolidated financial statements have been included and are only of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the entire fiscal year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

(B) *Valuation:* The Company applies ASC 820-10, *Fair Value Measurement and Disclosures* ("ASC 820-10"), to its holdings of financial instruments. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value

measurements. The valuation hierarchy is based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1—inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets. Currently, the types of financial instruments the Company generally includes in this category are, exchange-traded derivatives, and cash equivalents;
- Level 2—inputs to the valuation methodology other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly. Currently, the types of financial instruments that the Company generally includes in this category are Agency RMBS, non-Agency RMBS determined to have sufficiently observable market data, U.S. Treasury securities, actively traded derivatives such as TBAs, interest rate swaps, and swaptions; and
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. Currently, this category includes RMBS where there is less price transparency.

For certain financial instruments, the various inputs that management uses to measure fair value for such financial instrument may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for such financial instrument is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. The Company may use valuation techniques consistent with the market and income approaches to measure the fair value of its assets and liabilities. The market approach uses third-party valuations and information obtained from market transactions involving identical or similar assets or liabilities. The income approach uses projections of the future economic benefits of an instrument to determine its fair value, such as in the discounted cash flow methodology. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with investing in these financial instruments. Transfers between levels of the fair value hierarchy are assumed to occur at the end of the reporting period.

Summary Valuation Techniques

For financial instruments that are traded in an "active market," the best measure of fair value is the quoted market price. However, many of the Company's financial instruments are not traded in an active market. Therefore, management generally uses third-party valuations when available. If third-party valuations are not available, management uses other valuation techniques, such as the discounted cash flow methodology. The following are summary descriptions, for the various categories of financial instruments, of the valuation methodologies management uses in determining fair value of the Company's financial instruments in such categories. Management utilizes such methodologies to assign a good faith fair value (the estimated price that, in an orderly transaction at the valuation date, would be received to sell an asset, or paid to transfer a liability, as the case may be) to each such financial instrument.

Valuations for fixed rate RMBS pass-throughs issued by a U.S government agency or government-sponsored enterprise, or "GSE," are typically based on observable pay-up data (pay-ups are price premiums for specified categories of fixed rate pools relative to their TBA counterparts) or models that use observable market data, such as interest rates and historical prepayment speeds, and are validated against third-party valuations. With respect to the Company's other RMBS investments and TBAs, management seeks to obtain at least one third-party valuation, and often obtains multiple valuations when available. Management has been able to obtain third-party valuations on the vast majority of these instruments and expects to continue to solicit third-party valuations in the future. Management generally values each financial instrument at the average of third-party valuations received and not rejected as described below. Third-party valuations are not binding, and while management generally does not adjust the valuations it receives, management may challenge or reject a valuation when, based on its validation criteria, management determines that such valuation is unreasonable or erroneous. Furthermore, based on its validation criteria, management may determine that the average of the third-party valuations received for a given instrument does not result in what management believes to be the fair value of such instrument, and in such circumstances management may override this average with its own good faith valuation. The validation criteria may take into account output from management's own models, recent trading activity in the same or similar instruments, and valuations received from third parties. The use of proprietary models requires the use of a significant amount of judgment and the application of various assumptions including, but not limited to, assumptions concerning future prepayment rates and default rates.

Given their relatively high level of price transparency, Agency RMBS pass-throughs and TBAs are typically designated as Level 2 assets, although Agency interest only and inverse interest only RMBS are currently designated as Level 3 assets since they generally have less price transparency. Non-Agency RMBS are generally classified as either Level 2 or Level 3 based on analysis of available market data such as recent trades, executable bids, and reported "market color." Furthermore, the methodology used by the third-party valuation providers is reviewed at least annually by management, so as to ascertain whether such providers are utilizing observable market data to determine the valuations that they provide.

Interest rate swaps and swaptions are typically valued based on internal models that use observable market data, including applicable interest rates in effect as of the measurement date; the model-generated valuations are then typically compared to counterparty valuations for reasonableness. These financial derivatives are generally designated as Level 2 instruments.

The Company's repurchase and reverse repurchase agreements are carried at cost, which approximates fair value. Repurchase agreements and reverse repurchase agreements are classified as Level 2 assets and liabilities based on the adequacy of the collateral and their short term nature.

The Company's valuation process, including the application of validation criteria, is overseen by the Manager's Valuation Committee. The Valuation Committee includes senior level executives from various departments within the Manager, and each quarter the Valuation Committee reviews and approves the valuations of the Company's investments. The valuation process also includes a monthly review by the Company's third party administrator. The goal of this review is to replicate various aspects of the Company's valuation process based on the Company's documented procedures.

Because of the inherent uncertainty of valuation, the estimated fair value of the Company's financial instruments may differ significantly from the values that would have been used had a ready market for the financial instruments existed, and the differences could be material to the consolidated financial statements.

(C) Accounting for Mortgage-Backed Securities: Purchases and sales of investments are recorded on trade date and realized and unrealized gains and losses are calculated based on identified cost.

The Company has chosen to make a fair value election pursuant to ASC 825-10, *Financial Instruments*, for its mortgage-backed securities portfolio. Electing the fair value option allows the Company to record changes in fair value in the Consolidated Statement of Operations, which, in management's view, more appropriately reflects the results of operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, mortgage-backed securities are recorded at fair value on the Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on the Consolidated Statement of Operations as a component of Change in net unrealized gains (losses) on mortgage-backed securities.

(D) Interest Income: Coupon interest income on investment securities is accrued based on the outstanding principal balance or notional amount and the current coupon rate on each security. The Company amortizes premiums and accretes discounts on its fixed income securities. For RMBS that are deemed to be of high credit quality at the time of purchase, premiums and discounts are generally amortized/accreted into interest income over the life of such securities using the effective interest method. For securities whose cash flows vary depending on prepayments, an effective yield retroactive to the time of purchase is periodically recomputed based on actual prepayments and changes in projected prepayment activity, and a catch-up adjustment is made to amortization to reflect the cumulative impact of the change in effective yield. For RMBS that are deemed not to be of high credit quality at the time of purchase, interest income is recognized based on the effective interest method. For purposes of determining the effective interest rate, management estimates the future expected cash flows of its investment holdings based on assumptions including, but not limited to, assumptions for future prepayment rates, default rates, and loss severities (each of which may in turn incorporate various macro-economic assumptions, such as future housing prices). These assumptions are re-evaluated not less than quarterly. Principal write-offs are generally treated as realized losses. Changes in projected cash flows, as applied to the current amortized cost of the security, may result in a prospective change in the yield/interest income recognized on such securities.

The Company's accretion of discounts and amortization of premiums on securities for U.S. federal and other tax purposes is likely to differ from the accounting treatment under U.S. GAAP of these items as described above.

(E) Cash and Cash Equivalents: Cash and cash equivalents include cash and short term investments with original maturities of three months or less at the date of acquisition. Cash and cash equivalents typically include amounts held in an interest bearing overnight account and amounts held in money market funds, and these balances generally exceed insured limits.

(F) Due from brokers/Due to brokers: Due from brokers and Due to brokers accounts on the Consolidated Balance Sheet include collateral transferred to or received from counterparties, including clearinghouses, along with receivables and payables for open and/or closed derivative positions.

(G) Financial Derivatives: The Company may enter into various types of financial derivatives subject to its investment guidelines, which include restrictions associated with maintaining qualification as a REIT. The Company's financial derivatives are predominantly subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Company may be required to deliver or may receive cash or securities as collateral upon entering into derivative transactions. In addition, changes in the relative value of financial derivative

transactions may require the Company or the counterparty to post or receive additional collateral. In the case of cleared financial derivatives, the clearinghouse becomes the Company's counterparty and a futures commission merchant acts as intermediary between the Company and the clearinghouse with respect to all facets of the related transaction, including the posting and receipt of required collateral. Collateral received by the Company is reflected on the Consolidated Balance Sheet as "Due to Brokers." Conversely, collateral posted by the Company is reflected as "Due from Brokers" on the Consolidated Balance Sheet. The types of financial derivatives that have been utilized by the Company to date are interest rate swaps, TBAs, swaptions, and futures.

Swaps: The Company has entered into interest rate swaps, which are contractual agreements whereby one party pays a floating interest rate on a notional principal amount and receives a fixed rate payment on the same notional principal, or vice versa, for a fixed period of time.

Swaps change in value with movements in interest rates or total return of the reference securities. During the term of swap contracts, changes in value are recognized as unrealized gains or losses on the Consolidated Statement of Operations. When a contract is terminated, the Company realizes a gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Company's basis in the contract, if any. Periodic payments or receipts required by swap agreements are recorded as unrealized gains or losses when accrued and realized gains or losses when received or paid. Upfront payments paid and/or received by the Company to open swap contracts are recorded as an asset and/or liability on the Consolidated Balance Sheet and are recorded as a realized gain or loss on the termination date.

TBA Securities: The Company has transacted in the forward settling TBA market. A TBA position is a forward contract for the purchase ("long position") or sale ("short position") of Agency RMBS at a predetermined price, face amount, issuer, coupon, and maturity on an agreed-upon future delivery date. For each TBA contract and delivery month, a uniform settlement date for all market participants is determined by the Securities Industry and Financial Markets Association. The specific Agency RMBS to be delivered into the contract at the settlement date are not known at the time of the transaction. The Company typically does not take delivery of TBAs, but rather enters into offsetting transactions and settles the associated receivable and payable balances with its counterparties. The Company primarily uses TBAs to mitigate interest rate risk, but from time to time it also holds net long positions in certain TBA securities as a means of acquiring exposure to Agency RMBS.

TBAs are accounted for by the Company as financial derivatives. The difference between the contract price and the fair value of the TBA position as of the reporting date is included in Change in net unrealized gains (losses) on financial derivatives, in the Consolidated Statement of Operations. Upon settlement of the TBA contract, the realized gain (loss) on the TBA contract is equal to the net cash amount received (paid).

Options: The Company has entered into swaption contracts. It may purchase or write put, call, straddle, or other similar options contracts. The Company enters into options contracts primarily to help mitigate interest rate risk. When the Company purchases an options contract, the option asset is initially recorded at an amount equal to the premium paid, if any, and is subsequently marked-to-market. Premiums paid for purchasing options contracts that expire unexercised are recognized on the expiration date as realized losses. If an options contract is exercised, the premium paid is subtracted from the proceeds of the sale or added to the cost of the purchase to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company writes an options contract, the option liability is initially recorded at an amount equal to the premium received, if any, and is subsequently marked-to-market. Premiums received for writing options contracts that expire unexercised are recognized on the expiration date as realized gains. If an options contract is exercised, the premium received is subtracted from the cost of the purchase or added to the proceeds of the sale to determine whether the Company has realized a gain or loss on the related investment transaction. When the Company enters into a closing transaction, the Company will realize a gain or loss depending upon whether the amount from the closing transaction is greater or less than the premiums paid or received. In general, the Company's options contracts contain forward-settling premiums. In this case, no money is exchanged upfront; instead, the agreed-upon premium is paid by the buyer upon expiration of the options contract, regardless of whether or not the options contract is exercised.

Futures Contracts: A futures contract is an exchange-traded agreement to buy or sell an asset for a set price on a future date. Initial margin deposits are made upon entering into futures contracts and can be either in the form of cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by marking-to-market to reflect the current market value of the contract. Variation margin payments are made or received periodically, depending upon whether unrealized losses or gains are incurred. When the contract is closed, the Company records a realized gain or loss equal to the difference between the proceeds of the closing transaction and the Company's basis in the contract.

Financial derivative assets are included in Financial derivatives—assets, at fair value on the Consolidated Balance Sheet while financial derivative liabilities are included in Financial derivatives—liabilities, at fair value on the Consolidated Balance Sheet.

(H) Repurchase Agreements and Reverse Repurchase Agreements: The Company enters into repurchase agreements with third-party broker-dealers, whereby it sells securities under agreements to repurchase at an agreed upon price and date. The Company also enters into reverse repurchase agreement transactions with third-party broker-dealers, whereby it purchases securities under agreements to resell at an agreed upon price and date. The Company accounts for repurchase agreements as collateralized borrowings, with the initial sale price representing the amount borrowed, and with the future repurchase price consisting of the amount borrowed plus interest, at the implied interest rate of the repurchase agreement, on the amount borrowed over the term of the repurchase agreement. The interest rate on a repurchase agreement or a reverse repurchase agreement is based on competitive market rates (or competitive market spreads, in the case of agreements with floating interest rates) at the time such agreement is entered into. When the Company enters into a repurchase agreement, the lender establishes and maintains an account containing cash and/or securities having a value not less than the repurchase price, including accrued interest, of the repurchase agreement. Repurchase and reverse repurchase agreements that are conducted with the same counterparty can be reported on a net basis if they meet the requirements under the authoritative guidance. Repurchase agreements and reverse repurchase agreements are carried at their contractual amounts, which approximate fair value.

(I) U.S. Treasury Securities: The Company may purchase or sell short U.S. Treasury securities to help mitigate the potential impact of changes in interest rates on the performance of its portfolio. The Company may borrow securities under reverse repurchase agreements to enable it to deliver U.S. Treasury securities that it has sold short.

(J) Offering Costs/Deferred Offering Costs: Offering costs are charged against shareholders' equity and typically include legal, accounting, printing, and other fees associated with the cost of raising equity capital.

(K) Share Based Compensation: The Company applies the provisions of ASC 718, *Compensation—Stock Compensation* ("ASC 718"), with regard to its equity incentive plans. ASC 718 covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. ASC 718 requires that compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is measured based on the fair value of the equity or liability instruments issued.

(L) Dividends: Dividends payable are recorded on the declaration date.

(M) Expenses: Expenses are recognized as incurred on the Consolidated Statement of Operations.

(N) Earnings Per Share: In accordance with the provisions of ASC 260, *Earnings per Share*, the Company calculates basic income (loss) per share by dividing net income (loss) for the period by the weighted average of the Company's common shares outstanding for that period. Diluted income (loss) per share takes into account the effect of dilutive instruments, such as share options and warrants, and uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted average number of shares outstanding.

(O) Share Repurchases: Common shares that are repurchased by the Company subsequent to issuance decrease the total number of shares issued and outstanding.

(P) Income Taxes: The Company has elected to be taxed as a REIT under Sections 856 to 860 of the Code. As a REIT, the Company is generally not subject to corporate-level federal and state income tax on net income it distributes to its stockholders. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including the distribution of at least 90% of its annual taxable income to shareholders. Even if the Company qualifies as a REIT, it may be subject to certain federal, state, local and foreign taxes on its income and property and to federal income and excise taxes on its undistributed taxable income.

The Company follows the authoritative guidance on accounting for and disclosure of uncertainty on tax positions, which requires management to determine whether a tax position of the company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals of the litigation process, based on the technical merits of the position. For uncertain tax positions, the tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company did not have any unrecognized tax benefits at September 30, 2015. In the normal course of business, the Company may be subject to examination by federal, state, local, and foreign jurisdictions, where applicable, for the current period, 2014, 2013, and 2012 (its open tax years). The Company may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any of such positions, the Company might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also,

management's conclusions regarding the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof. There were no amounts accrued for penalties or interest as of or during the periods presented in these consolidated financial statements.

(Q) Recent Accounting Pronouncements: Under the Jumpstart Our Business Startups Act, or the "JOBS Act," the Company meets the definition of an "emerging growth company." The Company has elected to follow the extended transition period for complying with new or revised U.S. accounting standards pursuant to Section 107(b) of the JOBS Act. As a result, the Company will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-public entities.

In June 2014, the FASB issued ASU No. 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* ("ASU 2014-11"). This amends ASC 860, *Transfers and Servicing* ("ASC 860"), to require disclosure of repurchase-to-maturity transactions to be accounted for as secured borrowings rather than sales of an asset, and transfers of financial assets with a contemporaneous repurchase agreement will no longer be evaluated to determine whether they should be accounted for on a combined basis as forward contracts. The new guidance also prescribes additional disclosures particularly on the nature of collateral pledged under repurchase agreements accounted for as secured borrowings. ASU 2014-11 is effective for annual periods beginning after December 15, 2014 and interim periods beginning after December 31, 2015. The adoption of ASC 860, as amended by ASU 2014-11 is not expected to have a material impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 requires management to perform interim and annual assessments of an entity's ability to continue as a going concern and to provide disclosure if events or conditions arise that would place substantial doubt on the entity's ability to continue as a going concern. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and subsequent interim and annual periods with early adoption permitted. The adoption of ASU 2014-15 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* ("ASU 2015-02"). This amends ASC 810, *Consolidation* (ASC "810"), to improve targeted areas of consolidation guidance by simplifying the requirements of consolidation and placing more emphasis on risk of loss when determining a controlling financial interest. ASU 2015-02 is effective for annual periods beginning after December 15, 2016 and interim periods beginning after December 15, 2017 with early adoption permitted. The adoption of ASU 2015-02 is not expected to have a material impact on the Company's consolidated financial statements.

3. Mortgage-Backed Securities

The following tables present details of the Company's mortgage-backed securities portfolio at September 30, 2015 and December 31, 2014, respectively. The Company's Agency RMBS include mortgage pass-through certificates and CMOs representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by a U.S. government agency or GSE. The non-Agency RMBS portfolio is not issued or guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or any agency of the U.S. Government and is therefore subject to greater credit risk.

**By RMBS Type –
September 30, 2015:**

(\$ in thousands)

	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average			
				Gains	Losses		Coupon	Yield	Weighted Average Life(Years) ⁽¹⁾	
Agency RMBS:										
15-year fixed rate mortgages	\$ 162,453	\$ 7,874	\$ 170,327	\$ 1,585	\$ (88)	\$ 171,824	3.37%	2.28%	5.04	
20-year fixed rate mortgages	9,094	508	9,602	235	—	9,837	4.00%	2.89%	5.97	
30-year fixed rate mortgages	894,774	55,922	950,696	15,628	(1,933)	964,391	4.08%	3.15%	7.94	
Adjustable rate mortgages	36,782	2,415	39,197	96	(163)	39,130	4.12%	2.96%	5.64	
Reverse mortgages	53,986	5,697	59,683	276	(418)	59,541	4.75%	2.57%	6.11	
Interest only securities	n/a	n/a	8,229	167	(1,122)	7,274	3.84%	4.81%	2.12	
Total Agency RMBS	1,157,089	72,416	1,237,734	17,987	(3,724)	1,251,997	4.00%	3.01%	7.00	
Non-Agency RMBS	42,978	(15,187)	27,791	2,043	(939)	28,895	2.62%	8.43%	5.11	
Total RMBS	\$ 1,200,067	\$ 57,229	\$ 1,265,525	\$ 20,030	\$ (4,663)	\$ 1,280,892	3.95%	3.13%	6.93	

(1) Average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

For the nine month period ended September 30, 2015, the weighted average holdings of RMBS investments based on amortized cost was \$1.328 billion.

December 31, 2014:

(\$ in thousands)

	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average			
				Gains	Losses		Coupon	Yield	Weighted Average Life(Years) ⁽¹⁾	
Agency RMBS:										
15-year fixed rate mortgages	\$ 130,720	\$ 6,304	\$ 137,024	\$ 1,113	\$ (109)	\$ 138,028	3.40%	2.46%	5.43	
20-year fixed rate mortgages	9,764	577	10,341	227	—	10,568	4.00%	3.04%	6.92	
30-year fixed rate mortgages	1,042,550	61,089	1,103,639	20,379	(1,764)	1,122,254	4.09%	3.29%	8.48	
Adjustable rate mortgages	41,710	2,813	44,523	90	(330)	44,283	4.60%	3.08%	5.97	
Reverse mortgages	31,412	2,741	34,153	300	(28)	34,425	4.91%	2.56%	4.74	
Interest only securities	n/a	n/a	10,780	1,190	(726)	11,244	4.04%	11.82%	2.68	
Total Agency RMBS	1,256,156	73,524	1,340,460	23,299	(2,957)	1,360,802	4.05%	3.24%	7.54	
Non-Agency RMBS	50,668	(20,377)	30,291	2,896	(686)	32,501	2.29%	10.76%	4.97	
Total RMBS	\$ 1,306,824	\$ 53,147	\$ 1,370,751	\$ 26,195	\$ (3,643)	\$ 1,393,303	3.99%	3.41%	7.45	

(1) Average lives of RMBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual maturities of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

For the year ended December 31, 2014, the weighted average holdings of RMBS investments based on amortized cost was \$1.363 billion.

By Estimated Weighted Average Life

As of September 30, 2015:

(\$ in thousands)

Estimated Weighted Average Life	Agency RMBS			Agency Interest Only Securities			Non-Agency RMBS		
	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon
Less than three years	\$ 25,126	\$ 25,141	5.08%	\$ 5,401	\$ 6,331	3.67%	\$ 2,362	\$ 1,363	3.07%
Greater than three years and less than seven years	330,143	326,873	3.93%	1,873	1,898	4.96%	19,440	19,935	3.25%
Greater than seven years and less than eleven years	877,994	866,086	4.02%	—	—	—%	7,093	6,493	0.93%
Greater than eleven years	11,460	11,405	3.67%	—	—	—%	—	—	—%
Total	\$ 1,244,723	\$ 1,229,505	4.01%	\$ 7,274	\$ 8,229	3.84%	\$ 28,895	\$ 27,791	2.62%

As of December 31, 2014:

(\$ in thousands)

Estimated Weighted Average Life	Agency RMBS			Agency Interest Only Securities			Non-Agency RMBS		
	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon
Less than three years	\$ 18,428	\$ 18,418	5.13%	\$ 5,197	\$ 5,563	3.42%	\$ 2,837	\$ 1,785	3.02%
Greater than three years and less than seven years	410,759	405,739	4.12%	6,047	5,217	5.19%	17,660	17,662	2.63%
Greater than seven years and less than eleven years	920,371	905,523	4.00%	—	—	—%	12,004	10,844	1.28%
Total	\$ 1,349,558	\$ 1,329,680	4.05%	\$ 11,244	\$ 10,780	4.04%	\$ 32,501	\$ 30,291	2.29%

The following table reflects the components of interest income on the Company's RMBS for the three and nine month periods ended September 30, 2015:

(\$ in thousands)	Three Month Period Ended September 30, 2015			Nine Month Period Ended September 30, 2015		
	Coupon Interest	Net Amortization	Interest Income	Coupon Interest	Net Amortization	Interest Income
Agency RMBS	\$ 12,392	\$ (1,744)	\$ 10,648	\$ 37,071	\$ (7,795)	\$ 29,276
Non-Agency RMBS	294	373	667	873	1,256	2,129
Total	\$ 12,686	\$ (1,371)	\$ 11,315	\$ 37,944	\$ (6,539)	\$ 31,405

The following table reflects the components of interest income on the Company's RMBS for the three and nine month periods ended September 30, 2014:

(\$ in thousands)	Three Month Period Ended September 30, 2014			Nine Month Period Ended September 30, 2014		
	Coupon Interest	Net Amortization	Interest Income	Coupon Interest	Net Amortization	Interest Income
Agency RMBS	\$ 13,254	\$ (2,575)	\$ 10,679	\$ 39,323	\$ (6,618)	\$ 32,705
Non-Agency RMBS	303	502	805	947	1,359	2,306
Total	\$ 13,557	\$ (2,073)	\$ 11,484	\$ 40,270	\$ (5,259)	\$ 35,011

4. Valuation

The following tables present the Company's financial instruments measured at fair value on:

September 30, 2015:

(In thousands)

Description	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	\$ 20,000	\$ —	\$ —	\$ 20,000
Mortgage-backed securities, at fair value:				
Agency RMBS:				
15-year fixed rate mortgages	\$ —	\$ 171,824	\$ —	\$ 171,824
20-year fixed rate mortgages	—	9,837	—	9,837
30-year fixed rate mortgages	—	964,391	—	964,391
Adjustable rate mortgages	—	39,130	—	39,130
Reverse mortgages	—	59,541	—	59,541
Interest only securities	—	—	7,274	7,274
Non-Agency RMBS	—	22,775	6,120	28,895
Mortgage-backed securities, at fair value	—	1,267,498	13,394	1,280,892
Financial derivatives—assets, at fair value:				
TBAs	—	575	—	575
Interest rate swaps	—	952	—	952
Total financial derivatives—assets, at fair value	—	1,527	—	1,527
Total mortgage-backed securities and financial derivatives—assets, at fair value	\$ —	\$ 1,269,025	\$ 13,394	\$ 1,282,419
Liabilities:				
U.S. Treasury securities sold short, at fair value	\$ —	\$ (70,671)	\$ —	\$ (70,671)
Financial derivatives—liabilities, at fair value:				
TBAs	—	(1,159)	—	(1,159)
Interest rate swaps	—	(15,255)	—	(15,255)
Total financial derivatives—liabilities, at fair value	—	(16,414)	—	(16,414)
Total U.S. Treasury securities sold short and financial derivatives—liabilities, at fair value	\$ —	\$ (87,085)	\$ —	\$ (87,085)

There were no transfers of financial instruments between Levels 1 and 2 of the fair value hierarchy during the nine month period ended September 30, 2015.

December 31, 2014:

(In thousands)

Description	Level 1	Level 2	Level 3	Total
Assets⁽¹⁾:				
Cash equivalents	\$ 35,000	\$ —	\$ —	\$ 35,000
Mortgage-backed securities, at fair value:				
Agency RMBS:				
15-year fixed rate mortgages	\$ —	\$ 138,028	\$ —	\$ 138,028
20-year fixed rate mortgages	—	10,568	—	10,568
30-year fixed rate mortgages	—	1,122,254	—	1,122,254
Adjustable rate mortgages	—	44,283	—	44,283
Reverse mortgages	—	34,425	—	34,425
Interest only securities	—	—	11,244	11,244
Non-Agency RMBS	—	22,419	10,082	32,501
Mortgage-backed securities, at fair value	—	1,371,977	21,326	1,393,303
Financial derivatives—assets, at fair value:				
TBAs	—	476	—	476
Interest rate swaps	—	2,518	—	2,518
Fixed payer swaptions	—	78	—	78
Total financial derivatives—assets, at fair value	—	3,072	—	3,072
Total mortgage-backed securities and financial derivatives—assets, at fair value	\$ —	\$ 1,375,049	\$ 21,326	\$ 1,396,375
Liabilities:				
U.S. Treasury securities sold short, at fair value	\$ —	\$ (13,959)	\$ —	\$ (13,959)
Financial derivatives—liabilities, at fair value:				
TBAs	—	(1,674)	—	(1,674)
Interest rate swaps	—	(7,026)	—	(7,026)
Total financial derivatives—liabilities, at fair value	—	(8,700)	—	(8,700)
Total U.S. Treasury securities sold short and financial derivatives—liabilities, at fair value	\$ —	\$ (22,659)	\$ —	\$ (22,659)

(1) Conformed to current period presentation.

There were no transfers of financial instruments between Levels 1 or 2 of the fair value hierarchy during the year ended December 31, 2014.

The following tables present additional information about the Company's investments which are measured at fair value for which the Company has utilized Level 3 inputs to determine fair value:

Three month period ended September 30, 2015:

<i>(In thousands)</i>	Non-Agency RMBS	Agency RMBS
Beginning balance as of June 30, 2015	\$ 5,556	\$ 7,070
Purchases	—	1,696
Proceeds from sales	—	—
Principal repayments	(512)	—
(Amortization)/accretion, net	208	(737)
Net realized gains (losses)	—	—
Change in net unrealized gains (losses)	44	(755)
Transfers:		
Transfers into level 3	824	—
Transfers out of level 3	—	—
Ending balance as of September 30, 2015	\$ 6,120	\$ 7,274

All amounts of net realized and changes in net unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gains (losses) for both Level 3 financial instruments held by the Company at September 30, 2015, as well as Level 3 financial instruments disposed of by the Company during the three month period ended September 30, 2015. For Level 3 financial instruments held by the Company at September 30, 2015, change in net unrealized gains (losses) of \$26 thousand and \$(0.8) million, for the three month period ended September 30, 2015 relate to non-Agency RMBS and Agency RMBS, respectively.

For the three month period ended September 30, 2015, the Company transferred \$0.8 million of non-Agency RMBS from Level 2 to Level 3. Since the end of the prior quarter, these securities have exhibited indications of a reduced level of price transparency. Examples of such indications include wider spreads and/or higher delinquencies relative to similar securities and a reduction in observable transactions or executable quotes involving these and similar securities. Changes in these indications could impact price transparency, and thereby cause a change in the level designation in future periods.

Three month period ended September 30, 2014:

<i>(In thousands)</i>	Non-Agency RMBS	Agency RMBS
Beginning balance as of June 30, 2014	\$ 35,668	\$ 14,276
Purchases	2,543	545
Proceeds from sales	(3,688)	—
Principal repayments	(1,373)	—
(Amortization)/accretion, net	502	(906)
Net realized gains (losses)	1,145	—
Change in net unrealized gains (losses)	(1,065)	327
Transfers:		
Transfers into level 3	—	—
Transfers out of level 3	—	—
Ending balance as of September 30, 2014	\$ 33,732	\$ 14,242

All amounts of net realized and changes in net unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gains (losses) for both Level 3 financial instruments held by the Company at September 30, 2014, as well as Level 3 financial instruments disposed of by the Company during the three month period ended September 30, 2014. For Level 3 financial instruments held by the Company at September 30, 2014, change in net unrealized gains (losses) of \$0.3 million and \$(0.1) million, for the three month period ended September 30, 2014 relate to non-Agency RMBS and Agency RMBS, respectively.

Nine month period ended September 30, 2015:

(In thousands)

	Non-Agency RMBS	Agency RMBS
Beginning balance as of December 31, 2014	\$ 10,082	\$ 11,244
Purchases	—	3,397
Proceeds from sales	(2,861)	(4,538)
Principal repayments	(1,381)	—
(Amortization)/accretion, net	806	(2,012)
Net realized gains	791	602
Change in net unrealized gains (losses)	(649)	(1,419)
Transfers:		
Transfers into level 3	4,025	—
Transfers out of level 3	(4,693)	—
Ending balance as of September 30, 2015	\$ 6,120	\$ 7,274

All amounts of net realized and changes in net unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gains (losses) for both Level 3 financial instruments held by the Company at September 30, 2015, as well as Level 3 financial instruments disposed of by the Company during the nine month period ended September 30, 2015. For Level 3 financial instruments held by the Company at September 30, 2015, change in net unrealized gains (losses) of \$80 thousand and \$(0.6) million, for the nine month period ended September 30, 2015 relate to non-Agency RMBS and Agency RMBS, respectively.

For the nine month period ended September 30, 2015, the Company transferred \$4.7 million of non-Agency RMBS from Level 3 to Level 2. These assets were transferred from Level 3 to Level 2 based on an increased volume of observed trading of these and similar assets. This increase in observed trading activity has led to greater price transparency for these assets, thereby making a Level 2 designation appropriate in the Company's view. However, changes in the volume of observable inputs for these assets, such as a decrease in observed trading, could impact price transparency, and thereby cause a change in the level designation for these assets in future periods.

For the nine month period ended September 30, 2015, the Company transferred \$4.0 million of non-Agency RMBS from Level 2 to Level 3. Since year end, these securities have exhibited indications of a reduced level of price transparency. Examples of such indications include wider spreads and/or higher delinquencies relative to similar securities and a reduction in observable transactions or executable quotes involving these and similar securities. Changes in these indications could impact price transparency, and thereby cause a change in the level designation in future periods.

Nine month period ended September 30, 2014:

(In thousands)

	Non-Agency RMBS	Agency RMBS
Beginning balance as of December 31, 2013	\$ 30,681	\$ 13,527
Purchases	14,711	4,640
Proceeds from sales	(11,104)	(1,282)
Principal repayments	(3,945)	—
(Amortization)/accretion, net	1,359	(2,326)
Net realized gains	1,518	358
Change in net unrealized gains (losses)	512	(675)
Transfers:		
Transfers into level 3	—	—
Transfers out of level 3	—	—
Ending balance as of September 30, 2014	\$ 33,732	\$ 14,242

All amounts of net realized and changes in net unrealized gains (losses) in the table above are reflected in the accompanying Consolidated Statement of Operations. The table above incorporates changes in net unrealized gains (losses) for both Level 3 financial instruments held by the Company as of September 30, 2014, as well as Level 3 financial instruments disposed of by the Company during the nine month period ended September 30, 2014. For Level 3 financial instruments held

by the Company as of September 30, 2014, change in net unrealized gains (losses) of \$(0.5) million and \$0.8 million, for the nine month period ended September 30, 2014 relate to non-Agency RMBS and Agency RMBS, respectively.

The following tables identify the significant unobservable inputs that affect the valuation of the Company's Level 3 assets and liabilities as of September 30, 2015 and December 31, 2014:

September 30, 2015:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range		Weighted Average ⁽¹⁾
				Min	Max	
	<i>(In thousands)</i>					
Non-Agency RMBS	\$ 4,025	Market quotes	Non-Binding Third-Party Valuation	\$ 53.50	\$ 98.50	\$ 63.43
Non-Agency RMBS	2,095	Discounted Cash Flows	Yield	8.3%	24.5%	15.3%
			Projected Collateral Prepayments	32.9%	41.1%	37.5%
			Projected Collateral Losses	1.3%	3.4%	2.5%
			Projected Collateral Recoveries	4.2%	5.1%	4.6%
			Projected Collateral Scheduled Amortization	51.3%	60.7%	55.4%
						100.0%
Agency RMBS–Interest Only Securities	5,035	Market quotes	Non-Binding Third-Party Valuation	\$ 3.26	\$ 21.08	\$ 11.19
Agency RMBS–Interest Only Securities	2,239	Option Adjusted Spread ("OAS")	LIBOR OAS ⁽²⁾	341	1,518	820
			Projected Collateral Prepayments	55.4%	76.6%	67.4%
			Projected Collateral Scheduled Amortization	23.4%	44.6%	32.6%
						100.0%

(1) Averages are weighted based on the fair value of the related instrument.

(2) Shown in basis points.

December 31, 2014:

Description	Fair Value	Valuation Technique	Significant Unobservable Input	Range		Weighted Average ⁽¹⁾
				Min	Max	
	(In thousands)					
Non-Agency RMBS	\$ 7,819	Market quotes	Non-Binding Third-Party Valuation	\$ 21.38	\$ 84.91	\$ 54.11
Non-Agency RMBS	2,263	Discounted Cash Flows	Yield	6.3%	6.3%	6.3%
			Projected Collateral Prepayments	35.9%	35.9%	35.9%
			Projected Collateral Losses	7.5%	7.5%	7.5%
			Projected Collateral Recoveries	11.0%	11.0%	11.0%
			Projected Collateral Scheduled Amortization	45.6%	45.6%	45.6%
						100.0%
Agency RMBS–Interest Only Securities	7,006	Market quotes	Non-Binding Third-Party Valuation	\$ 4.74	\$ 20.38	\$ 13.35
Agency RMBS–Interest Only Securities	4,238	Option Adjusted Spread ("OAS")	LIBOR OAS ⁽²⁾	83	1,952	490
			Projected Collateral Prepayments	63.3%	92.3%	75.2%
			Projected Collateral Scheduled Amortization	7.7%	36.7%	24.8%
						100.0%

(1) Averages are weighted based on the fair value of the related instrument.

(2) Shown in basis points.

Third-party non-binding valuations are validated by comparing such valuations to internally generated prices based on the Company's models and to recent trading activity in the same or similar instruments. For those instruments valued using discounted cash flows, collateral prepayments, losses, recoveries, and scheduled amortization are projected over the remaining life of the collateral and expressed as a percentage of the collateral's current principal balance. For those assets valued using the LIBOR Option Adjusted Spread, or "OAS," valuation methodology, cash flows are projected using the Company's models over multiple interest rate scenarios, and these projected cash flows are then discounted using the LIBOR rates implied by each interest rate scenario. The LIBOR OAS of an asset is then computed as the unique constant yield spread that, when added to all LIBOR rates in each interest rate scenario generated by the model, will equate (a) the expected present value of the projected asset cash flows over all model scenarios to (b) the actual current market price of the asset. LIBOR OAS is therefore model-dependent. Generally speaking, LIBOR OAS measures the additional yield spread over LIBOR that an asset provides at its current market price after taking into account any interest rate options embedded in the asset.

Material changes in any of the inputs above in isolation could result in a significant change to reported fair value measurements. Fair value measurements are impacted by the interrelationships of these inputs. For example, a higher expectation of collateral prepayments will generally result in a lower expectation of collateral losses. Conversely, higher losses will generally result in lower prepayments.

The following table summarizes the estimated fair value of all other financial instruments not included in the disclosures above as of September 30, 2015 and December 31, 2014:

<i>(In thousands)</i>	September 30, 2015		December 31, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Other financial instruments				
Assets				
Cash	\$ 20,482	\$ 20,482	\$ 10,237	\$ 10,237
Due from brokers	41,068	41,068	18,531	18,531
Reverse repurchase agreements	76,610	76,610	13,987	13,987
Liabilities				
Repurchase agreements	1,225,905	1,225,905	1,323,080	1,323,080
Due to brokers	2,654	2,654	583	583

Cash includes cash held in an interest bearing overnight account for which fair value equals the carrying value and is considered a Level 1 asset. Due from brokers and Due to brokers include collateral transferred to or received from counterparties, along with receivables and payables for open and/or closed derivative positions. These balances consist primarily of cash and are short term in nature; fair value approximates carrying value and such balances are considered Level 1 assets and liabilities. The Company's repurchase and reverse repurchase agreements are carried at cost, which approximates fair value. Repurchase agreements and reverse repurchase agreements are classified as Level 2 assets and liabilities based on the adequacy of the collateral and their short term nature.

5. Financial Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. Specifically, the Company's primary source of financing is repurchase agreements and the Company enters into financial derivative and other instruments to manage exposure to variable cash flows on portions of its borrowings under those repurchase agreements. Since the interest rates on repurchase agreements typically change with market interest rates such as LIBOR, the Company is exposed to constantly changing interest rates, which accordingly affects cash flows associated with these rates on its borrowings. To mitigate the effect of changes in these interest rates and their related cash flows, the Company may enter into a variety of derivative contracts, including interest rate swaps, swaptions, and TBAs. Additionally, from time to time, the Company may use short positions in U.S. Treasury securities to mitigate its interest rate risk.

The following table details fair value of the Company's holdings of financial derivatives as of September 30, 2015 and December 31, 2014:

	September 30, 2015		December 31, 2014	
	<i>(In thousands)</i>			
Financial derivatives—assets, at fair value:				
TBA securities purchase contracts	\$	558	\$	387
TBA securities sale contracts		17		89
Fixed payer interest rate swaps		5		2,518
Fixed receiver interest rate swaps		947		—
Swaptions		—		78
Total financial derivatives—assets, at fair value:		1,527		3,072
Financial derivatives—liabilities, at fair value:				
TBA securities purchase contracts		(1)		(5)
TBA securities sale contracts		(1,158)		(1,669)
Fixed payer interest rate swaps		(15,255)		(7,026)
Total financial derivatives—liabilities, at fair value:		(16,414)		(8,700)
Total	\$	(14,887)	\$	(5,628)

Interest Rate Swaps

The following tables provide information about the Company's fixed payer interest rate swaps as of September 30, 2015 and December 31, 2014:

September 30, 2015:

Remaining Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2016	\$ 48,000	\$ (214)	0.80%	0.31%	1.02
2017	74,750	(815)	1.21	0.32	1.84
2018	71,529	(620)	1.11	0.30	2.54
2020	134,620	(2,402)	1.65	0.31	4.64
2022	27,700	(828)	2.04	0.33	6.57
2023	131,164	(4,222)	2.13	0.32	7.64
2024	12,900	(977)	2.73	0.31	8.70
2025	83,740	(2,021)	2.17	0.31	9.54
2043	26,000	(3,151)	3.04	0.32	27.65
Total	\$ 610,403	\$ (15,250)	1.74%	0.31%	6.24

December 31, 2014:

Remaining Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2016	\$ 48,000	\$ (91)	0.80%	0.23%	1.77
2017	74,750	(388)	1.21	0.24	2.59
2018	10,000	167	0.84	0.23	3.33
2020	23,500	471	1.42	0.23	5.38
2023	209,350	140	2.13	0.23	8.40
2024	12,900	(605)	2.73	0.23	9.45
2043	46,320	(4,202)	3.12	0.23	28.42
Total	\$ 424,820	\$ (4,508)	1.87%	0.23%	8.56

The following tables provide information about the Company's fixed receiver interest rate swaps as of September 30, 2015. There were no fixed receiver interest rate swaps held as of December 31, 2014:

September 30, 2015:

Remaining Maturity	Notional Amount	Fair Value	Weighted Average		Remaining Years to Maturity
			Pay Rate	Receive Rate	
<i>(In thousands)</i>					
2025	\$ 9,700	\$ 947	0.29%	3.00%	9.80
Total	\$ 9,700	\$ 947	0.29%	3.00%	9.80

Interest Rate Swaptions

The following table provides information about the Company's swaptions as of December 31, 2014. The Company had no swaptions as of September 30, 2015.

December 31, 2014:

Type	Option		Underlying Swap		
	Fair Value	Months to Expiration	Notional Amount	Term (Years)	Fixed Rate
(\$ in thousands)					
Straddle	\$ 78	6.5	\$ 9,700	10	3.00%

TBAs

The Company transacts in the forward settling TBA market. Pursuant to these TBA transactions, the Company agrees to purchase or sell, for future delivery, Agency RMBS with certain principal and interest terms and certain types of underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. TBAs are liquid and have quoted market prices and represent the most actively traded class of MBS. The Company primarily uses TBAs to mitigate interest rate risk, typically in the form of short positions. However, from time to time the Company also invests in TBAs as a means of acquiring additional exposure to Agency RMBS, or for speculative purposes, including holding long positions. Overall, the Company typically holds a net short position.

The Company does not generally take delivery of TBAs; rather, it settles the associated receivable and payable with its trading counterparties on a net basis. Transactions with the same counterparty for the same TBA that result in a reduction of the position are treated as extinguished.

As of September 30, 2015 and December 31, 2014, the Company had outstanding contracts to purchase ("long positions") and sell ("short positions") TBA securities as follows:

TBA Securities	September 30, 2015				December 31, 2014			
	Notional Amount ⁽¹⁾	Cost Basis ⁽²⁾	Market Value ⁽³⁾	Net Carrying Value ⁽⁴⁾	Notional Amount ⁽¹⁾	Cost Basis ⁽²⁾	Market Value ⁽³⁾	Net Carrying Value ⁽⁴⁾
(In thousands)								
Purchase contracts:								
Assets	\$ 78,601	\$ 80,367	\$ 80,925	\$ 558	\$ 53,319	\$ 54,757	\$ 55,144	\$ 387
Liabilities	2,908	3,046	3,045	(1)	15,000	15,603	15,598	(5)
	81,509	83,413	83,970	557	68,319	70,360	70,742	382
Sale contracts:								
Assets	(33,420)	(36,220)	(36,203)	17	(79,090)	(85,730)	(85,641)	89
Liabilities	(402,026)	(429,041)	(430,199)	(1,158)	(525,986)	(559,219)	(560,888)	(1,669)
	(435,446)	(465,261)	(466,402)	(1,141)	(605,076)	(644,949)	(646,529)	(1,580)
Total TBA securities, net	\$ (353,937)	\$ (381,848)	\$ (382,432)	\$ (584)	\$ (536,757)	\$ (574,589)	\$ (575,787)	\$ (1,198)

(1) Notional amount represents the principal balance of the underlying Agency RMBS.

(2) Cost basis represents the forward price to be paid for the underlying Agency RMBS.

(3) Market value represents the current market value of the underlying Agency RMBS (on a forward delivery basis) as of period end.

(4) Net carrying value represents the difference between the market value of the TBA contract as of period end and the cost basis and is reported in Financial derivatives-assets at fair value and Financial derivatives-liabilities at fair value on the Consolidated Balance Sheet.

The tables below detail the average notional values of the Company's financial derivatives, using absolute value of month end notional values, for the nine month period ended September 30, 2015 and the year ended December 31, 2014:

Derivative Type	Nine Month Period Ended September 30, 2015		Year Ended December 31, 2014	
	<i>(In thousands)</i>			
Interest rate swaps	\$	511,689	\$	566,379
TBAs		632,638		545,646
Interest rate swaptions		6,790		20,631

Gains and losses on the Company's financial derivatives for the three and nine month periods ended September 30, 2015 and 2014 are summarized in the tables below:

Three Month Period Ended September 30, 2015						
Derivative Type	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) Other Than on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>						
Interest rate swaps	\$ (1,044)	\$ (19)	\$ (1,063)	\$ (1,066)	\$ (13,559)	\$ (14,625)
Swaptions		(500)	(500)		17	17
TBAs		(1,689)	(1,689)		(813)	(813)
Total	\$ (1,044)	\$ (2,208)	\$ (3,252)	\$ (1,066)	\$ (14,355)	\$ (15,421)

Three Month Period Ended September 30, 2014						
Derivative Type	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) Other Than on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>						
Interest rate swaps	\$ (678)	\$ 502	\$ (176)	\$ (1,475)	\$ (10)	\$ (1,485)
Swaptions		(935)	(935)		898	898
TBAs		(3,280)	(3,280)		2,867	2,867
Total	\$ (678)	\$ (3,713)	\$ (4,391)	\$ (1,475)	\$ 3,755	\$ 2,280

Nine Month Period Ended September 30, 2015						
Derivative Type	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) Other Than on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>						
Interest rate swaps	\$ (3,900)	\$ (4,826)	\$ (8,726)	\$ (1,647)	\$ (8,147)	\$ (9,794)
Swaptions		(500)	(500)		(79)	(79)
TBAs		(6,612)	(6,612)		615	615
Total	\$ (3,900)	\$ (11,938)	\$ (15,838)	\$ (1,647)	\$ (7,611)	\$ (9,258)

Nine Month Period Ended September 30, 2014

Derivative Type	Net Realized Gains (Losses) on Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) Other Than Periodic Settlements of Interest Rate Swaps	Net Realized Gains (Losses) on Financial Derivatives	Change in Net Unrealized Gains (Losses) on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) Other Than on Accrued Periodic Settlements of Interest Rate Swaps	Change in Net Unrealized Gains (Losses) on Financial Derivatives
<i>(In thousands)</i>						
Interest rate swaps	\$ (5,574)	\$ 4,013	\$ (1,561)	\$ (1,315)	\$ (24,720)	\$ (26,035)
Swaptions		(935)	(935)		60	60
TBAs		(16,478)	(16,478)		(2,330)	(2,330)
Futures		19	19		—	—
Total	\$ (5,574)	\$ (13,381)	\$ (18,955)	\$ (1,315)	\$ (26,990)	\$ (28,305)

As of September 30, 2015, the Company also held short positions in U.S. Treasury securities, with a principal amount of \$70.0 million and a fair value of \$70.7 million. As of December 31, 2014, the Company also held short positions in U.S. Treasury securities, with a principal amount of \$13.9 million and a fair value of \$14.0 million.

6. Borrowings under Repurchase Agreements

The Company enters into repurchase agreements. A repurchase agreement involves the sale of an asset to a counterparty together with a simultaneous agreement to repurchase the transferred asset or similar asset from such counterparty at a future date. The Company accounts for its repurchase agreements as collateralized borrowings, with the transferred assets effectively serving as collateral for the related borrowing. The Company's repurchase agreements typically range in term from 30 to 180 days. The principal economic terms of each repurchase agreement—such as loan amount, interest rate, and maturity date—are typically negotiated on a transaction-by-transaction basis. Other terms and conditions, such as relating to events of default, are typically governed under the Company's master repurchase agreements. Absent an event of default, the Company maintains beneficial ownership of the transferred securities during the term of the repurchase agreement and receives the related principal and interest payments. Interest rates on these borrowings are generally fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the repurchase agreement at which time the Company may enter into a new repurchase agreement at prevailing market rates with the same counterparty, repay that counterparty and possibly negotiate financing terms with a different counterparty, or choose to no longer finance the related asset. In response to a decline in the fair value of the transferred securities, whether as a result of changes in market conditions, security paydowns, or other factors, repurchase agreement counterparties will typically make a margin call, whereby the Company will be required to post additional securities and/or cash as collateral with the counterparty in order to re-establish the agreed-upon collateralization requirements. In the event of increases in fair value of the transferred securities, the Company generally can require the counterparty to post collateral with it in the form of cash or securities. The Company is generally permitted to sell or re-pledge any securities posted by the counterparty as collateral; however, upon termination of the repurchase agreement, or other circumstance in which the counterparty is no longer required to post such margin, the Company must return to the counterparty the same security that had been posted. The contractual amount (loan amount) of the Company's repurchase agreements approximates fair value, based on the short-term nature of the debt and the adequacy of the collateral.

At any given time, the Company seeks to have its outstanding borrowings under repurchase agreements with several different counterparties in order to reduce the exposure to any single counterparty. As of September 30, 2015 and December 31, 2014, the Company had outstanding borrowings under repurchase agreements with thirteen and ten counterparties, respectively.

The following table details the Company's outstanding borrowings under repurchase agreements as of September 30, 2015 and December 31, 2014:

Remaining Days to Maturity	September 30, 2015			December 31, 2014		
	Borrowings Outstanding	Weighted Average		Borrowings Outstanding	Weighted Average	
		Interest Rate	Remaining Days to Maturity		Interest Rate	Remaining Days to Maturity
	<i>(In thousands)</i>					
30 days or less	\$ 472,278	0.43%	15	\$ 437,633	0.33%	15
31-60 days	371,885	0.46	44	417,009	0.34	44
61-90 days	169,786	0.47	74	333,580	0.36	72
91-120 days	211,956	0.57	107	—	—	—
151-180 days	—	—	—	85,917	0.41	165
301-330 days	—	—	—	48,941	0.47	317
Total	\$ 1,225,905	0.47%	48	\$ 1,323,080	0.35%	60

Repurchase agreements involving underlying investments that the Company sold prior to period end, for settlement following period end, are shown using their original maturity dates even though such repurchase agreements may be expected to be terminated early upon settlement of the sale of the underlying investment.

As of September 30, 2015 and December 31, 2014, the fair value of Agency RMBS transferred as collateral under outstanding borrowings under repurchase agreements was \$1.3 billion and \$1.4 billion, respectively. Collateral transferred under outstanding borrowings as of September 30, 2015 includes Agency RMBS in the amount of \$34.6 million that were sold prior to period end but for which such sale had not yet settled. Collateral transferred under outstanding borrowings as of December 31, 2014 includes Agency RMBS in the amount of \$41.8 million that were sold prior to period end but for which such sale had not yet settled. In addition the Company posted net cash collateral of \$15.2 million and additional securities with a fair value of \$9.6 million as of September 30, 2015 as a result of margin calls from various counterparties. The Company posted additional net cash collateral of \$5.7 million and additional securities with a fair value of \$2.1 million as of December 31, 2014 as a result of margin calls from various counterparties. The Company also held investments with an aggregate value of approximately \$0.4 million, as of December 31, 2014, which were received to satisfy collateral requirements for various repurchase agreements.

7. Offsetting of Assets and Liabilities

The Company records financial instruments at fair value as described in Note 2. All financial instruments are recorded on a gross basis on the Consolidated Balance Sheet. In connection with its financial derivatives, repurchase agreements, and related trading agreements, the Company and its counterparties are required to pledge collateral. Cash or other collateral is exchanged as required with each of the Company's counterparties in connection with open derivative positions and repurchase agreements.

The following tables present information about certain assets and liabilities representing financial instruments as of September 30, 2015 and December 31, 2014. The Company has not previously entered into master netting agreements with any of its counterparties. Certain of the Company's repurchase and reverse repurchase agreements and financial derivative transactions are governed by underlying agreements that generally provide a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

September 30, 2015:

Description	Amount of Assets (Liabilities) Presented in the Consolidated Balance Sheet ⁽¹⁾	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral ⁽²⁾⁽³⁾	Cash Collateral (Received) Pledged ⁽²⁾⁽³⁾	Net Amount
<i>(In thousands)</i>					
Assets:					
Financial derivatives—assets	\$ 1,527	\$ (1,379)	\$ —	\$ —	\$ 148
Reverse repurchase agreements	76,610	(76,610)	—	—	—
Liabilities:					
Financial derivatives—liabilities	(16,414)	1,379	—	14,702	(333)
Repurchase agreements	(1,225,905)	76,610	1,134,134	15,161	—

- (1) In the Company's Consolidated Balance Sheet, all balances associated with the repurchase agreements and financial derivatives are presented on a gross basis.
- (2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore, the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative assets and liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of September 30, 2015 were \$1.28 billion. As of September 30, 2015 total cash collateral on financial derivative liabilities excludes \$8.6 million of net excess cash collateral.
- (3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a specific asset or liability. As a result, in preparing the above table, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

December 31, 2014:

Description	Amount of Assets (Liabilities) Presented in the Consolidated Balance Sheet ⁽¹⁾	Financial Instruments Available for Offset	Financial Instruments Transferred or Pledged as Collateral ⁽²⁾⁽³⁾	Cash Collateral (Received) Pledged ⁽²⁾⁽³⁾	Net Amount
<i>(In thousands)</i>					
Assets:					
Financial derivatives—assets	\$ 3,072	\$ (2,722)	\$ —	\$ —	\$ 350
Reverse repurchase agreements	13,987	(13,987)	—	—	—
Liabilities:					
Financial derivatives—liabilities	(8,700)	2,722	—	5,783	(195)
Repurchase agreements	(1,323,080)	13,987	1,303,360	5,733	—

- (1) In the Company's Consolidated Balance Sheet, all balances associated with the repurchase agreements and financial derivatives are presented on a gross basis.
- (2) For the purpose of this presentation, for each row the total amount of financial instruments transferred or pledged and cash collateral (received) or pledged may not exceed the applicable gross amount of assets or (liabilities) as presented here. Therefore the Company has reduced the amount of financial instruments transferred or pledged as collateral related to the Company's repurchase agreements and cash collateral pledged on the Company's financial derivative assets and liabilities. Total financial instruments transferred or pledged as collateral on the Company's repurchase agreements as of December 31, 2014 were \$1.39 billion. As of December 31, 2014 total cash collateral on financial derivative assets and liabilities excludes \$0.5 million and \$6.3 million, respectively of net excess cash collateral.
- (3) When collateral is pledged to or pledged by a counterparty, it is often pledged or posted with respect to all positions with such counterparty, and in such cases such collateral cannot be specifically identified as relating to a specific asset or liability. As a result, in preparing the above table, the Company has made assumptions in allocating pledged or posted collateral among the various rows.

8. Management Fees

The Manager receives an annual management fee in an amount equal to 1.50% per annum of shareholders' equity (as defined in the Management Agreement) as of the end of each fiscal quarter (before deductions for any management fee with respect to such fiscal period). The management fee is payable quarterly in arrears. For both the three month periods ended September 30, 2015 and 2014, the total management fee incurred was approximately \$0.6 million. For the nine month periods ended September 30, 2015 and 2014, the total management fee incurred was approximately \$1.8 million and \$1.7 million.

Effective January 1, 2015 the Company entered into a Third Amended and Restated Management Agreement with the Manager, which replaced and superseded the Second Amended and Restated Management Agreement. The Third Amended and Restated Management Agreement was adopted and executed for the primary purpose of redefining shareholders' equity. Shareholders' equity per the Second Amended and Restated Management Agreement had the definition as described below. Effective January 1, 2015, shareholders' equity is defined in the Third Amended and Restated Management Agreement, as of the end of any fiscal quarter, as (a) the sum of (1) the net proceeds from any issuances of common shares or other equity securities of the Company or the Operating Partnership (without double counting) since inception, plus (2) the Company's and the Operating Partnership's (without double counting) retained earnings or accumulated deficit calculated in accordance with U.S. GAAP at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) any amount that the Company or the Operating Partnership has paid to repurchase common shares, limited partnership interests in the Operating Partnership or other equity securities since inception. Shareholders' equity excludes (1) non-cash equity compensation expenses that have impacted shareholders' equity as reported in the financial statements prepared in accordance with U.S. GAAP, and (2) one-time events pursuant to changes in U.S. GAAP, and certain non-cash items not otherwise described above, in each case, after discussions between the Manager and the Company's independent trustees and approval by a majority of the Company's independent trustees.

From inception through December 31, 2014, Shareholders' equity was defined in the Second Amended and Restated Management Agreement, as of the end of any fiscal quarter, as (a) the sum of (1) the net proceeds from any issuances of common shares or other equity securities of the Company or the Operating Partnership (without double counting) since inception, plus (2) the Company's and the Operating Partnership's (without double counting) retained earnings or accumulated deficit calculated in accordance with U.S. GAAP at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) any amount that the Company or the Operating Partnership has paid to repurchase common shares, limited partnership interests in the Operating Partnership or other equity securities since inception. Shareholders' equity excludes (1) any unrealized gains, losses, or non-cash equity compensation expenses that have impacted shareholders' equity as reported in the financial statements prepared in accordance with U.S. GAAP, regardless of whether such items are included in net income, and (2) one-time events pursuant to changes in U.S. GAAP, and certain non-cash items not otherwise described above, in each case, after discussions between the Manager and the Company's independent trustees and approval by a majority of the Company's independent trustees.

9. Earnings Per Share

Basic earnings per share, or "EPS," is calculated by dividing net income (loss) for the period by the weighted average of the Company's common shares outstanding for the period. Diluted EPS takes into account the effect of outstanding dilutive instruments, such as share options and warrants, if any, and uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted average number of shares outstanding. As of September 30, 2015 and 2014, the Company did not have any dilutive instruments outstanding.

The following table presents a reconciliation of the earnings/(losses) and shares used in calculating basic EPS for the three and nine month periods ended September 30, 2015 and 2014:

<i>(In thousands except for share amounts)</i>	Three Month Period Ended September 30, 2015	Three Month Period Ended September 30, 2014	Nine Month Period Ended September 30, 2015	Nine Month Period Ended September 30, 2014
Numerator:				
Net income (loss)	\$ (4,817)	\$ 3,533	\$ (949)	\$ 17,344
Denominator:				
Basic and diluted weighted average shares outstanding	9,140,452	9,141,892	9,146,301	9,140,533
Basic and Diluted Earnings Per Share	\$ (0.53)	\$ 0.39	\$ (0.10)	\$ 1.90

10. Related Party Transactions

Management Agreement

The Company is party to the Management Agreement, which provides for an initial term through September 24, 2017, and which will be renewed automatically each year thereafter for an additional one-year period, subject to certain termination rights. The Company is externally managed and advised by the Manager. Pursuant to the terms of the Management Agreement, the Manager provides the Company with its management team, including its officers and appropriate support personnel. The Company does not have any employees. The Manager is responsible for the day-to-day operations of the Company.

Services Agreement

The Manager and EMG are parties to a services agreement, pursuant to which EMG is required to provide to the Manager sufficient personnel, services, and resources to enable the Manager to carry out its obligations and responsibilities under the Management Agreement. The Company is a named third-party beneficiary to the services agreement and, as a result, has, as a non-exclusive remedy, a direct right of action against EMG in the event of any breach by the Manager of any of its duties, obligations, or agreements under the Management Agreement that arise out of or result from any breach by EMG of its obligations under the services agreement. The services agreement will terminate upon the termination of the Management Agreement. Pursuant to the services agreement, the Manager makes certain payments to EMG in connection with the services provided. The Manager and EMG have overlapping ownership and are under common control.

Expense Reimbursement

Under the terms of the Management Agreement the Company is required to reimburse the Manager for operating expenses related to the Company that are incurred by the Manager, including expenses relating to legal, accounting, due diligence, other services, and all other costs and expenses. The Company's reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash within 60 days following delivery of the expense statement by the Manager; provided, however, that such reimbursement may be offset by the Manager against amounts due to the Company from the Manager. The Company will not reimburse the Manager for the salaries and other compensation of the Manager's personnel except that the Company will be responsible for expenses incurred by the Manager in employing certain dedicated or partially dedicated personnel as further described below.

The Company reimburses the Manager for the allocable share of the compensation, including, without limitation, wages, salaries, and employee benefits paid or reimbursed, as approved by the Compensation Committee of the Board of Trustees, to certain dedicated or partially dedicated personnel who spend all or a portion of their time managing the Company's affairs, based upon the percentage of time devoted by such personnel to the Company's affairs. In their capacities as officers or personnel of the Manager or its affiliates, such personnel will devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business.

For the nine month periods ended September 30, 2015 and 2014, the Company reimbursed the Manager \$1.2 million and \$1.9 million, respectively, for previously incurred operating and compensation expenses.

Termination Fee

The Management Agreement requires the Company to pay a termination fee to the Manager in the event of (1) the Company's termination or non-renewal of the Management Agreement without cause or (2) the Manager's termination of the Management Agreement upon a default by the Company in the performance of any material term of the Management Agreement. Such termination fee will be equal to 5% of Shareholders' Equity, as defined in the Management Agreement (see Note 8 above) as of the month-end preceding termination.

Registration Rights Agreement

The Company is a party to a registration rights agreement with an affiliate of EMG and with the Blackstone Tactical Opportunities Funds (the "Blackstone Funds") pursuant to which the Company has granted its initial investors and each of their permitted transferees and other holders of the Company's "registrable common shares" (as such term is defined in the registration rights agreement) who become parties to the registration rights agreement with certain demand and/or piggy-back registration and shelf takedown rights.

11. Capital

The Company has authorized 500,000,000 common shares, \$0.01 par value per share, and 100,000,000 preferred shares, \$0.01 par value per share. The Board of Trustees may authorize the issuance of additional shares of either class. As of September 30, 2015 and December 31, 2014, there were 9,135,021 and 9,149,274 common shares outstanding, respectively. No preferred shares have been issued.

On September 15, 2015, the Company's Board of Trustees authorized the issuance of 9,228 common shares to its independent trustees pursuant to director share award agreements. These shares will vest and become non-forfeitable on September 14, 2016.

The below table details cash dividends declared by the Board of Trustees during the nine month period ended September 30, 2015:

	Dividend Per Share	Dividend Amount	Declaration Date	Record Date	Payment Date
		<i>(In thousands)</i>			
First Quarter	\$0.55	\$5,032	March 11, 2015	March 31, 2015	April 27, 2015
Second Quarter	\$0.55	\$5,032	June 16, 2015	June 30, 2015	July 27, 2015
Third Quarter	\$0.45	\$4,111	September 15, 2015	September 30, 2015	October 26, 2015

The below table details cash dividends declared by the Board of Trustees during the nine month period ended September 30, 2014:

	Dividend Per Share	Dividend Amount	Declaration Date	Record Date	Payment Date
		<i>(In thousands)</i>			
First Quarter	\$0.55	\$5,027	March 12, 2014	March 31, 2014	April 28, 2014
Second Quarter	\$0.55	\$5,027	June 17, 2014	June 30, 2014	July 25, 2014
Third Quarter	\$0.55	\$5,032	September 11, 2014	September 30, 2014	October 27, 2014

On August 13, 2013, the Company's Board of Trustees approved the adoption of a \$10 million share repurchase program. The program, which is open-ended in duration, allows the Company to make repurchases from time to time on the open market or in negotiated transactions. Repurchases are at the Company's discretion, subject to applicable law, share availability, price and the Company's financial performance, among other considerations. During the quarter ended September 30, 2015, the Company made its first repurchases under the program, purchasing 23,481 common shares at an aggregate cost of \$0.3 million, and an average price per share of \$12.93.

Distribution Policy

The timing and frequency of distributions will be determined by the Board of Trustees based upon a variety of factors deemed relevant by the Company's trustees, including restrictions under applicable law, capital requirements of the Company, and the REIT requirements of the Code. Distributions to shareholders generally will be taxable as ordinary income, although a portion of such distributions may be designated as long-term capital gain or qualified dividend income, or may constitute a return of capital. The Company will furnish annually to each shareholder a statement setting forth distributions paid or deemed paid during the preceding year and their U.S. federal income tax treatment.

It is the intention of the Company to distribute at least 100% of its taxable income, after application of available tax attributes, within the limits prescribed by the Internal Revenue Code, which may extend into the subsequent taxable year.

12. Commitments and Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. Management is not aware of any significant contingencies at September 30, 2015.

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

In this Quarterly Report on Form 10-Q, except where the context suggests otherwise, "EARN," "we," "us," and "our" refer to Ellington Residential Mortgage REIT and its subsidiaries, our "Manager" refers to Ellington Residential Mortgage Management LLC, our external manager, and "Ellington" refers to Ellington Management Group, L.L.C. and its affiliated investment advisory firms.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

When used in this quarterly report on Form 10-Q, in future filings with the Securities and Exchange Commission ("SEC") or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as "believe," "expect," "anticipate," "estimate," "project," "plan," "continue," "intend," "should," "would," "could," "goal," "objective," "will," "may," "seek" or similar expressions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and, as such, may involve known and unknown risks, uncertainties, and assumptions.

Forward-looking statements are based on our beliefs, assumptions, and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors are examples of those that could cause actual results to vary from our forward-looking statements: changes in interest rates and the market value of our securities; our use and dependence on leverage; the impact of Fannie Mae and Freddie Mac being placed into conservatorship and related events, including the lack of certainty as to the future roles and structures of these entities and changes to legislation and regulations affecting these entities; market volatility; changes in the prepayment rates on the mortgage loans underlying the securities we own and intend to acquire; changes in rates of default and/or recovery rates on our non-agency assets; our ability to borrow to finance our assets and the costs of such borrowings; changes in government regulations affecting our business; our ability to maintain our exclusion from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act"); and risks associated with investing in real estate related assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including the risk factors described under Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 as filed with the SEC, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Summary

We are a Maryland real estate investment trust, or "REIT," formed in August 2012 that specializes in acquiring, investing in, and managing residential mortgage- and real estate-related assets. Our primary objective is to generate attractive current yields and risk-adjusted total returns for our shareholders by making investments that we believe compensate us appropriately for the risks associated with them. We seek to attain this objective by constructing and actively managing a portfolio comprised primarily of residential mortgage-backed securities, or "RMBS," for which the principal and interest payments are guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or "Agency RMBS," and, to a lesser extent, RMBS that do not carry such guarantees, or "non-Agency RMBS," such as RMBS backed by prime jumbo, Alternative A-paper, manufactured housing, and subprime residential mortgage loans. We also may opportunistically acquire and manage other types of residential mortgage-related and real estate-related asset classes, such as residential mortgage loans, and mortgage servicing rights, or "MSRs." We believe that being able to combine Agency RMBS with non-Agency RMBS and other residential mortgage- and real estate-related asset classes enables us to balance a range of mortgage-related risks.

We were formed through an initial strategic venture among affiliates of Ellington, an investment management firm and registered investment adviser with a 20-year history of investing in a broad spectrum of mortgage-backed securities and related derivatives, with an emphasis on the RMBS market, and the Blackstone Tactical Opportunity Funds, or the "Blackstone Funds." As of September 30, 2015, the Blackstone Funds owned approximately 28% of our outstanding common shares.

We are externally managed and advised by our Manager, an affiliate of Ellington.

We use leverage in our Agency RMBS strategy and, while we have not done so to date, we may use leverage in our non-Agency RMBS strategy as well, although we expect such leverage to be lower. We have financed our purchases of Agency RMBS exclusively through repurchase agreements, which we account for as collateralized borrowings. As of September 30, 2015, we had outstanding borrowings under repurchase agreements in the amount of \$1.2 billion with thirteen counterparties.

We have elected to be taxed as a REIT for U.S. federal income tax purposes. Accordingly, we generally will not be subject to U.S. federal income taxes on our taxable income that we distribute currently to our shareholders as long as we maintain our qualification as a REIT. We intend to conduct our operations so that neither we nor any of our subsidiaries is required to register as an investment company under the Investment Company Act of 1940, as amended.

As of September 30, 2015, our book value per share was \$16.20 as compared to \$17.18 as of June 30, 2015 and \$17.86 as of December 31, 2014.

Trends and Recent Market Developments

Key trends and recent market developments for the mortgage-backed security, or "MBS," market include the following:

- *U.S. Federal Reserve and U.S. Monetary Policy*—The U.S. Federal Reserve, or "Federal Reserve," continues to monitor the U.S. economy to determine when it should begin increasing its target interest rate, and it is maintaining its existing policy of reinvesting principal payments from its U.S. Treasury security and Agency RMBS holdings;
- *Global Macroeconomic Events*—Various macroeconomic events in the third quarter, particularly in China, led to increased volatility in global financial markets, a drop in long-term U.S. Treasury yields, and wider yield spreads in most credit-sensitive fixed income markets;
- *Housing and Mortgage Market Statistics*—Data released by S&P Indices for its S&P/Case-Shiller Home Price Indices showed modest year-to-date home price appreciation through August; meanwhile the Freddie Mac survey 30-year mortgage rate ended the third quarter at 3.85%, decreasing from 4.08% at the end of the second quarter;
- *Prepayment Rate Trends*—Prepayment rates fell slightly during the third quarter of 2015 as compared to the second quarter, as a seasonal decline in purchase activity outweighed lower mortgage rates;
- *Government Sponsored Enterprise, or "GSE," and Government Agency Developments*—The Federal Housing Finance Agency, or "FHFA," and the GSEs continued to announce program and policy changes and clarifications intended to increase mortgage credit availability;
- *Portfolio Overview and Outlook*—With both Agency and non-Agency RMBS yield spreads widening in the face of declining interest rates and concerns of a weakening global economy, and with interest rate swap spreads narrowing significantly, our MBS assets significantly underperformed our interest rate hedges on a mark-to-market basis during the quarter. However, given their favorable prepayment characteristics and now-wider yield spreads, we believe that our specified pool portfolio is positioned to perform well in the current environment. More generally, we believe that the Agency RMBS market currently presents excellent investment opportunities for us, as wider yield spreads throughout the sector have led to larger net interest margins in many of our targeted asset classes.

Federal Reserve and U.S. Monetary Policy

Heading into the September meeting of the Federal Open Market Committee, or "FOMC," market participants and observers were nearly split on whether the FOMC would finally decide to raise short-term interest rates. Those predicting inaction ultimately prevailed, as the FOMC maintained the target range for the federal funds rate at 0% to 0.25%. In its September statement following the meeting, the FOMC also indicated that, based on its assessment of labor market conditions, inflationary pressures and expectations, and other factors, it will be appropriate to raise the target rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move to its 2% inflation objective over the medium term. The FOMC also noted that it continues to expect that, with appropriate policy accommodation, economic activity will expand at a moderate pace. Currently the FOMC anticipates that economic conditions may warrant keeping the target rate below normal long-run levels for "some time," even once employment and inflation have reached levels consistent with the Federal Reserve's mandate.

In addition to its September statement, the FOMC also released its "dot plot" in its Summary of Economic Projections, an overview of FOMC participants' assessments of monetary policy going forward. The September dot plot was overall more "dovish" (i.e., in favor of keeping interest rates low) than it had been in June, and one FOMC member (out of 17) predicted that the target federal funds rate might actually become negative in the coming several months, an unprecedented prediction. In response to the FOMC's September announcement, yield spreads widened considerably in many fixed income markets, and equity markets declined in the face of increasing concerns over economic growth. On September 18, 2015, the day following the FOMC statement, the 10-year U.S. Treasury yield fell six basis points to 2.13%, and the S&P 500 Index fell 1.6%. Markets generally continued to decline through the end of the quarter, with the 10-year U.S. Treasury yield falling an additional 10 basis points, and with the S&P 500 falling an additional 1.9%, from September 18, 2015 through September 30, 2015.

Over the course of the entire third quarter, the 10-year U.S. Treasury yield fell by 31 basis points from 2.35% as of June 30, 2015 to 2.04% as of September 30, 2015. While interest rates have dropped overall since the Federal Reserve's initial taper

announcement in December 2013, we believe that there remains substantial risk that interest rates will increase, driven by a tightening of Federal Reserve monetary policy in response to employment and economic growth in the United States and other factors. The risk of rising interest rates reinforces the importance of our ability, subject to our qualifying and maintaining our qualification as a REIT, to hedge interest rate risk in both our Agency RMBS and non-Agency MBS portfolios using a variety of tools, including TBAs, interest rate swaps, and various other instruments. Additional uncertainty surrounds the Federal Reserve's timeline to curtail its reinvestment of principal payments from its U.S. Treasury security and Agency RMBS holdings. The current pace of monthly reinvestments under this program is approximately \$24 billion, thus providing significant market support.

Global Macroeconomic Events

Global financial markets continued to experience a heightened level of volatility in the third quarter, primarily driven by concerns regarding a slowdown in the growth of the Chinese economy. The Shanghai Stock Exchange Composite Index plunged 20% in the latter half of August, and ended August down 38% from its high on June 12, 2015. On August 25th, in response to this significant stock market volatility and signs of an overall economic slowdown, the People's Bank of China lowered benchmark interest rates for the fifth time since November 2014, and announced a selective cut in the reserve requirement ratio for banks, following three earlier reductions in 2015. U.S. equity markets also experienced significant volatility throughout the quarter, with the S&P 500 Index falling by more than 2% for three days in a row in August in response to the turmoil in Chinese markets. In a flight to quality, yields on long-term U.S. Treasury securities fell over the course of the quarter. While for the first part of the quarter the credit-sensitive sectors of the U.S. fixed income markets exhibited relative resilience in the face of the heightened global equity market volatility, in September most of the credit sensitive sectors experienced significant yield spread widening.

Housing and Mortgage Market Statistics

The following table demonstrates the decline in residential mortgage delinquencies and foreclosure inventory on a national level, as reported by CoreLogic in its August and July 2015 National Foreclosure Reports:

Number of Units (In thousands)	As of	
	August 2015	August 2014
Seriously Delinquent Mortgages ⁽¹⁾	1,319	1,664
Foreclosure Inventory	470	629

(1) Seriously Delinquent Mortgages are ninety days and over in delinquency and include foreclosures and real estate owned, or "REO," property.

As the above table indicates, both the number of seriously delinquent mortgages and the number of homes in foreclosure have declined significantly over the past year. This decline supports the thesis that as many homeowners have re-established equity in their homes through recovering real estate prices, they have become less likely to become delinquent and default on their mortgages.

Monthly housing starts provide another indicator of market fundamentals. The following table shows the trailing three-month average housing starts for the periods referenced:

	September 2015	June 2015
Single-family ⁽¹⁾	746	706
Multi-family ⁽¹⁾	408	437

(1) Shown in thousands of units:

Source: U.S. Census Bureau

As of September 2015, average single-family housing starts during the trailing three months rose 5.7% as compared to June 2015, while multi-family housing starts decreased by approximately 6.6% during the same period. Overall, privately-owned housing starts in September 2015 came in at a seasonally adjusted annual rate of 1,206,000 units, 17.5% higher than the September 2014 rate of 1,026,000 units, and marking the first month since October 2007 that this rate surpassed 1.2 million units.

Data released by S&P Indices for its S&P/Case-Shiller Home Price Indices for August 2015 showed that, on average, home prices had increased from May 2015 by 1.9% for its 20-City Composite and by 1.8% for its 10-City Composite. Home price appreciation has been relatively modest in 2014 and 2015, following strong appreciation in 2013. According to the report, home prices remain below the peak levels of 2006, but, on average, are back to their February 2005 and March 2005 levels for the 10- and 20-City Composites, respectively. Finally, as indicated in the table above, as of August 2015, the national inventory of foreclosed homes fell to 470,000 units, a 25.2% decline when compared to August 2014; this represented the forty-sixth

consecutive month with a year-over-year decline and the lowest level since November 2007. As a result, there are many fewer unsold foreclosed homes overhanging the housing market than there were a year ago. We believe that near-term home price trends are more likely to be driven by fundamental factors such as economic growth, mortgage rates, and affordability, rather than by technical factors such as shadow inventory. Shadow inventory represents the number of properties that are seriously delinquent, in foreclosure, or held as REO by mortgage servicers, but not currently listed on a multiple listing service.

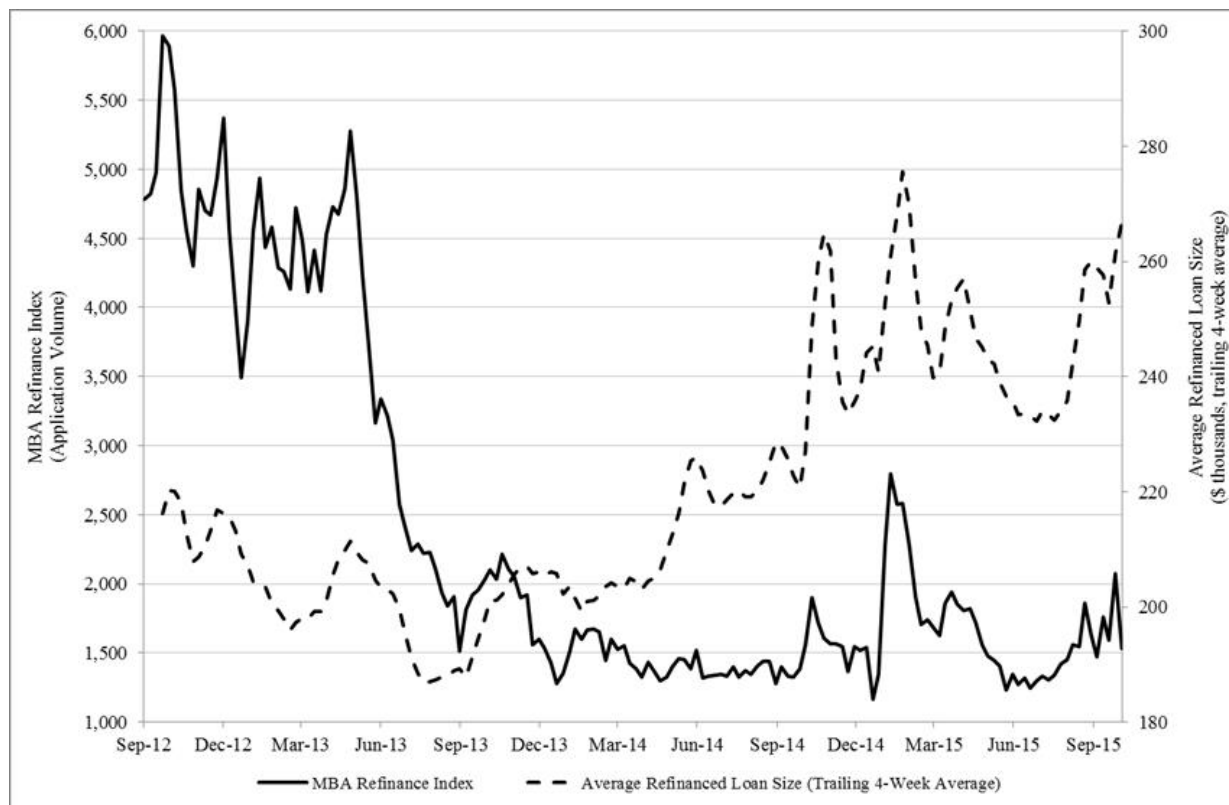
On October 2, 2015, the U.S. Bureau of Labor Statistics, or "BLS," reported that, in September 2015, the U.S. unemployment rate was 5.1%, falling from 5.3% in June 2015. Another, perhaps more relevant, measure of labor market conditions is employment growth, which slowed in August and September after relatively robust growth in the second quarter. The BLS reported that non-farm payrolls rose by 136,000 during August and by 142,000 during September. Thus far in 2015, job growth has averaged 198,000 jobs per month, while 2014 averaged 260,000 jobs per month. While it is difficult to quantify the relationship between employment data and the housing and mortgage markets, we believe that current levels of unemployment and job creation are generally supportive of the housing market. While the housing market is also currently supported by low mortgage rates, it faces a number of potential headwinds. These include high interest rate volatility, the constraining effects of still-tight credit standards on both housing starts and new loan originations, and the uneven pace of the recovery of the U.S. economy.

Prepayment Rate Trends

Prepayment rates fell slightly during the third quarter of 2015 as compared to the second quarter, primarily driven by a seasonal decline in housing turnover despite lower mortgage rates. The relatively muted level of prepayment activity as interest rates broadly declined in recent years has in large part been the result of: (i) home price declines during the financial crisis, which has left some borrowers with minimal or negative home equity; (ii) more restrictive underwriting guidelines, even for refinancings; and (iii) increased origination costs, especially related to underwriting and compliance. These factors have resulted in substantial variations in prepayment rates between Agency pools as a function of loan-to-value, or "LTV," ratio, loan balance, credit score, geography, property type, loan purpose, and other factors. In recognition of the importance of these underlying characteristics on prepayment behavior, the MBS market continues to promote the creation of "specified" Agency pools that emphasize or de-emphasize many of these characteristics, such as pools where the principal balance of every underlying mortgage loan is below \$85,000. The Making Homes Affordable, or "MHA," refinancing program, which was initiated in response to the housing market crisis, has facilitated the origination of many of these kinds of specified Agency pools. The extension of the MHA refinancing program into 2015 should sustain creation of such pools in the coming years. We expect that the ongoing origination of Agency pools with a wide variety of loan characteristics will continue to create opportunities for us to exploit the resulting differences in prepayments.

The Freddie Mac survey 30-year fixed mortgage rate ended the third quarter at 3.85%, a 23-basis point decrease since the end of the second quarter. While the Refinance Index published by the Mortgage Bankers Association, or "MBA," rose steadily throughout most of the third quarter, it spiked 24% week-over-week for the week ended October 2, 2015 on account of the impending mortgage disclosure rule change known as the "TRID rule" (see below, "*GSE/Government Agency Developments*"). The spike was only temporary, as the following week the Refinance Index reverted back close to its previous level. Similarly, the MBA's Market Composite Index, a measure of mortgage application volume, also rose steadily during most of the third quarter, and experienced a comparable temporary jump at quarter-end. Existing home sales for the third quarter were 5.5 million units on a seasonally adjusted annualized basis, a 3.8% increase from the second quarter. By the end of the third quarter, monthly home sales had risen year-over-year for twelve consecutive months, and were 8.8% higher than a year earlier.

While refinancing activity overall has been relatively slow in recent periods as compared to earlier periods when mortgage rates were at comparable levels, recent trends suggest an ongoing divergence between the refinancing behavior of lower balance loans and higher balance loans. As illustrated in the figure below, the average loan size of refinance applications has increased over the past two years, with a 38.1% increase from September 2013 through September 2015. This steady increase in average loan sizes of mortgage refinances is reflective of a number of changes related to borrower behavior and mortgage credit availability in recent years.



As shown in the figure above, higher loan balance borrowers tend to be more reactive to refinancing incentives, especially following steep declines in rates over a short period. After swift declines in mortgage rates in October 2014, January 2015, and March 2015, the average refinanced loan size spiked, reflecting a surge in higher loan balance borrowers reacting to the recent decline in mortgage rates. This greater prepayment sensitivity for higher loan size borrowers is well established, and is due in part to greater awareness among such borrowers about refinancing opportunities, as well as greater absolute dollar incentives to refinance relative to lower loan size borrowers.

Moreover, while overall mortgage credit availability continues to increase from the depressed levels that followed the financial crisis, credit availability for higher loan size borrowers has been particularly improving recently. In the past two years, a number of the largest lenders, including Bank of America, JP Morgan, Wells Fargo, and PNC Bank, have noticeably loosened lending standards for jumbo mortgage loans typically sought by more affluent borrowers, including lowering minimum FICO requirements and raising maximum LTVs. Affluent borrowers have also generally experienced greater improvements in their creditworthiness, thanks to rising asset prices and a strong rebound in high-end home prices, especially in wealthier cities such as New York and San Francisco. Jumbo mortgage loans have been a rare bright spot for the non-Agency mortgage origination sector in recent years, and for good reason given the excellent credit performance of jumbo mortgage loans originated since the financial crisis. Many banks are also competing more vigorously for affluent customers, in an effort to cross-sell other financial products such as investment and brokerage services. This competition has resulted in a narrowing of the spread between jumbo mortgage rates and conforming mortgage rates, further increasing the relative refinancing incentive for jumbo mortgage loans.

GSE/Government Agency Developments

On September 1, 2015, the changes to guarantee fees, or "g-fees," that the FHFA announced on April 17, 2015 went into effect. In April, the FHFA had announced that it would not change the general level of g-fees on new Fannie Mae and Freddie Mac originations, but that it would make certain minor and targeted fee adjustments, including removing the 25 basis point

adverse market charge established in 2008, and applying small, targeted fee increases to a subset of Fannie Mae and Freddie Mac loans. G-fees are the fees charged by the GSEs to include mortgage loans in Agency pools, and thereby insure the mortgage loans against loss. Since these fees are passed on to borrowers whose loans are originated for inclusion in Agency pools, increased g-fees have the effect of reducing housing affordability for GSE borrowers, but potentially make it more attractive for private lenders to compete with the GSEs.

The FHFA continues to work with Fannie Mae and Freddie Mac to build a Common Securitization Platform, or "CSP," to be utilized by both agencies, which the FHFA believes will improve the liquidity of GSE securities and housing finance markets more broadly. On September 15, 2015, the FHFA released an update regarding details of the organization, structure, and timing of implementation of the CSP, which will occur in two phases. These phases will likely be implemented gradually over the next few years.

On October 3, 2015, the TILA-RESPA Integrated Disclosure, or "TRID," rule, issued by the Consumer Financial Protection Bureau, or "CFPB," went into effect for most residential real estate transactions. The TRID rule was developed at the direction of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or "Dodd-Frank Act." It integrates several mortgage loan disclosures into two new forms, a Loan Estimate form and a Closing Disclosure form, in an attempt to simplify the mortgage application process and to help borrowers better understand their mortgage terms.

On October 7, 2015, at the direction of the FHFA, Fannie Mae and Freddie Mac released their selling representation and warranty framework for origination defects and remedies, or the "remedies framework," in an effort to clarify rules relating to mortgage repurchases and to enable lenders to manage risk more effectively. This framework gives more clarity to lenders on their rights and responsibilities when selling or securitizing loans to or with the GSEs, specifically in regards to identifying and correcting origination defects, as well as repurchase alternatives. The framework will apply to whole loans purchased and mortgage loans delivered into mortgage-backed securities on or after January 1, 2016.

To date, no definitive legislation has been enacted with respect to a possible unwinding of the GSEs or a material reduction in their roles in the U.S. mortgage market. There have been several proposals offered by members of Congress, including the Corker-Warner bill introduced in June 2013, the Johnson-Crapo bill introduced in March 2014, the Partnership to Strengthen Homeownership Act introduced in July 2014, and a Senate draft bill introduced in May 2015 by Senator Richard Shelby that pushes for increased credit risk transfers to private investors. To date, the GSEs have engaged predominantly in "second-loss" risk sharing transactions, where the GSEs bear losses on their mortgage pools up to a capped amount first, before private investors bear any losses. Furthermore, these risk sharing transactions to date have generally been "back-end" transactions, where the GSE seeks to offload its risk only after it has actually issued guarantees on a defined pool of mortgages. Under the Shelby bill, not only would the GSEs be required to engage in significant and increasing levels of risk sharing transactions generally, but for the first time the GSEs would be required to engage both in "first-loss" risk sharing transactions and in "front-end" risk sharing transactions. Many of these proposed bills could potentially increase private capital flows to the mortgage sector while reducing taxpayer risk. Though it appears unlikely that any of these bills will be passed in their current form, features may be incorporated into future proposals.

Portfolio Overview and Outlook

Agency

As of September 30, 2015, the value of our long Agency bond portfolio was \$1.252 billion, as compared to \$1.305 billion as of June 30, 2015.

Our Agency RMBS portfolio is principally comprised of "specified pools." Specified pools are fixed rate Agency pools with special characteristics, such as pools comprised of low loan balance mortgages, pools comprised of mortgages backed by investor properties, pools containing mortgages originated through the government-sponsored "Making Homes Affordable" refinancing programs, and pools containing mortgages with various other characteristics. During the year, our Agency RMBS purchasing activity continued to focus primarily on specified pools, especially those with higher coupons.

Market volatility and uncertainty around the direction of interest rates continued in the third quarter. Slowing growth in the Chinese economy and weakening fundamentals in many emerging market economies spread fears of slower global growth, leading to a steep decline in long-term U.S. interest rates, a broad sell-off in global equity markets, and a significant widening in global credit spreads. Over the course of the quarter, financial markets were grappling with conflicting forces: on the one hand a global economy that was slowing, and on the other hand a U.S. economy that appeared strong enough for the Federal Reserve to begin tightening monetary policy in September. Despite concerns over Federal Reserve tightening, long-term U.S. interest rates declined sharply and the yield curve flattened as investors sought the safe haven of U.S. Treasury securities, and this trend continued when the Federal Reserve chose not to raise the target federal funds rate in September. The 10-year U.S. Treasury yield ended the third quarter sharply lower at 2.04% as compared to 2.35% at the end of the second quarter, a drop of

31 basis points, while the 2-year U.S. Treasury yield dropped only 1 basis point, from 0.64% to 0.63% over the course of the quarter. Interest rate swap rates decreased even more than U.S. Treasury yields, with 2-year and 10-year swap rates falling 16 basis points and 46 basis points, respectively, over the course of the quarter. Since the majority of our interest rate hedges were in the form of interest rate swaps, this further contributed to our third quarter mark-to-market losses. The average rate for a fixed rate 30-year conventional mortgage also decreased over the course of the third quarter, falling 0.23% to 3.85% as of September 30, 2015.

Yield spreads on Agency RMBS widened in the third quarter, especially in the latter part of the quarter. While Agency RMBS are not generally considered to have credit risk, their yield spreads nevertheless widened in the third quarter in sympathy with many credit-sensitive sectors, including corporate bonds and CMBS. Typically, the principal factor that drives the underperformance of Agency RMBS relative to interest rate swaps and U.S. Treasury securities is an actual or market anticipated increase in prepayments. While prepayments did increase slightly during the third quarter, they remain low relative to the absolute level of mortgage rates. Thus the yield spread widening of Agency RMBS was considered more technical in nature, as opposed to reflecting fundamental underperformance.

Interest rate swap spreads also exhibited an unusually high level of volatility during the quarter, with the 10-year swap spread to U.S. Treasury securities actually becoming negative for the first time since 2010. These swap spread movements exacerbated the widening in yield spreads between Agency RMBS and interest rate swaps, which was the primary cause of the substantial underperformance of our Agency RMBS portfolio relative to our swap hedges during the third quarter. Specifically, for the quarter ended September 30, 2015, we had total net realized and unrealized gains of \$5.5 million, or \$0.60 per share, on our aggregate Agency RMBS portfolio, while we had total net realized and unrealized losses of \$18.7 million, or \$2.04 per share, on our interest rate hedging portfolio.

Notwithstanding the general underperformance of Agency RMBS relative to interest rate swaps during the third quarter, specified Agency pools performed well relative to their generic pool counterparts, as their inherent prepayment protection characteristics increased their attractiveness in light of falling interest rates and the heightened possibility of future prepayment increases. Over the course of the quarter, pay-ups on our specified pools increased to 0.99% as of September 30, 2015 from 0.81% as of June 30, 2015. Pay-ups are price premiums for specified pools relative to their TBA counterparts.

Over the course of the third quarter, TBA roll prices weakened. Because we generally carry a net short position in TBAs to hedge interest rate risk, this weakening augmented the performance of our Agency strategy. We actively traded our Agency RMBS portfolio during the third quarter in order to take advantage of volatility and to harvest modest gains. Our portfolio turnover for the quarter was 27% (as measured by sales and excluding paydowns), and we captured net realized gains of \$0.6 million, excluding hedges.

During the third quarter, we continued to focus our Agency RMBS purchasing activity primarily on specified pools, especially those with higher coupons. As of September 30, 2015, the weighted average coupon on our fixed rate specified pools remained at 3.97%, essentially unchanged from its level at June 30, 2015. We also continued to be active in the reverse mortgage pool sector, and we added to our holdings during the quarter, as their yield spreads increased in sympathy with those of the broader market. Our Agency RMBS portfolio also continues to include a small allocation to Agency ARMs and Agency IOs. Notwithstanding the recent declines in interest rates, we believe that there remains a heightened risk of substantial interest rate and prepayment volatility in the near term, thus reinforcing the importance of our ability to hedge our risks using a variety of tools, including TBAs.

We expect to continue to target specified pools that, taking into account their particular composition and based on our prepayment projections: (1) should generate attractive yields relative to other Agency RMBS and U.S. Treasury securities, (2) should have less prepayment sensitivity to government policy shocks, and/or (3) should create opportunities for trading gains once the market recognizes their value, which for newer pools may come only after several months, when actual prepayment experience can be observed. We believe that our research team, our proprietary prepayment models, and our extensive databases remain essential tools in our implementation of this strategy.

Our net Agency premium as a percentage of our long Agency RMBS holdings is one metric that we use to measure our overall prepayment risk. Net Agency premium represents the total premium (excess of market value over outstanding principal balance) on long Agency RMBS holdings less the total premium on related net short TBA positions. The lower our net Agency premium, the less we believe we are exposed to market-wide increases in Agency RMBS prepayments. As of September 30, 2015, our net Agency premium as a percentage of fair value on long Agency RMBS holdings was approximately 4.8% as compared to 3.8%, as of June 30, 2015. Excluding TBA positions used to hedge our long Agency RMBS portfolio, our Agency premium as a percentage of fair value was approximately 7.0% and 6.4% as of September 30, 2015 and June 30, 2015, respectively. These percentages may fluctuate from period to period based on market factors, including interest rates and mortgage rates, as well as with respect to the net percentages, the degree to which we hedge prepayment risk with short TBAs.

We believe that our focus on purchasing pools with specific prepayment characteristics provides a measure of protection against prepayments.

In the aftermath of the significant third quarter yield spread widening, and with prepayments remaining relatively muted despite continued low levels of mortgage rates, we believe that Agency RMBS currently offer very attractive net interest margins and overall relative value.

Non-Agency

As of September 30, 2015, the value of our long non-Agency portfolio was \$28.9 million, as compared to \$30.3 million as of June 30, 2015, representing a decrease of 4.6%.

Relative to certain other sectors of the fixed income market such as new issue CMBS and high-yield corporate credit, non-Agency RMBS performed well during the third quarter. Yield spread widening for non-Agency RMBS was relatively contained, as strong housing fundamentals continued to support the sector. We did not actively add to our non-Agency RMBS portfolio during the third quarter as we believe that given the heightened level of overall market volatility, more attractive entry points may emerge over the near to medium term. As of September 30, 2015, our investment in non-Agency RMBS was \$28.9 million as compared to \$30.3 million as of June 30, 2015.

Financing

During the third quarter, our cost of repo financing increased slightly. Our weighted average borrowing rate for the three months ended September 30, 2015 increased four basis points to 0.43%. Repo borrowing rates were generally slightly higher for most of the third quarter. However, following the September decision by the Federal Reserve not to raise the target federal funds rate, we saw a decline in the cost of repo borrowing, and this has persisted into the early part of the fourth quarter. As of September 30, 2015, the weighted average remaining term of our outstanding repo decreased to 48 days, down from 90 days as of June 30, 2015. At the end of each year, many lending banks trim their balance sheets in the face of capital constraints and in anticipation of issuing their year-end financial statements, and as a result financing that extends over year end tends to carry a higher interest spread premium. Towards the end of the third quarter, many of the opportunities that we were seeing to lock in financing past year end were, we believed, unattractive, even in the context of our expectations for year-end funding premiums. As a result, we intentionally shortened some of our repo maturities to avoid funding past year-end, on the belief that in the fourth quarter we would see more attractive opportunities to lock in our year-end funding. Under Dodd-Frank, bank capital treatment of repo transactions has become more onerous, thereby making it less attractive for banks to provide repo financing. While large banks still dominate the repo market, non-bank firms, not subject to the same regulations as large banks, are becoming more active in providing repo financing. The vast majority of our outstanding repo financing is still provided by larger banks and dealers; however, in limited amounts, we have also entered into repo agreements with smaller non-bank dealers. In general, we continue to see strong appetite and competitive terms from both types of lenders.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, or "U.S. GAAP." Entities in which we have a controlling financial interest, through ownership of the majority of the entities' voting equity interests, or through other contractual right that give us control, are consolidated by us. All inter-company balances and transactions have been eliminated.

Certain of our critical accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We believe that all of the decisions and assessments upon which our consolidated financial statements are based were reasonable at the time made based upon information available to us at that time. We rely on our Manager and Ellington's experience and analysis of historical and current market data in order to arrive at what we believe to be reasonable estimates. See Note 2 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for a complete discussion of our significant accounting policies. We have identified our most critical accounting policies to be the following:

Valuation: We apply ASC 820-10, *Fair Value Measurement and Disclosures* ("ASC 820-10"), to our holdings of financial instruments. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1—inputs to the valuation methodology are observable and reflect quoted prices (unadjusted) for identical assets or liabilities in active markets. Currently, the types of financial instruments we generally include in this category are, exchange-traded derivatives, and cash equivalents,
- Level 2—inputs to the valuation methodology other than quoted prices included in Level 1 are observable for the asset or liability, either directly or indirectly. Currently, the types of financial instruments that we generally include in this category are Agency RMBS, non-Agency RMBS determined to have sufficiently observable market data, U.S. Treasury securities, actively traded derivatives such as TBAs, interest rate swaps, and swaptions, and
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement. Currently, this category includes RMBS where there is less price transparency.

See the notes to our consolidated financial statements for more information on valuation.

Accounting for Mortgage-Backed Securities: Investments in mortgage-backed securities are recorded on trade date. We have chosen to make a fair value election pursuant to ASC 825-10, *Financial Instruments*, for our mortgage-backed securities portfolio. Electing the fair value option allows us to record changes in fair value in our Consolidated Statement of Operations, which, in our view, more appropriately reflects the results of our operations for a particular reporting period as all securities activities will be recorded in a similar manner. As such, the mortgage-backed securities are recorded at fair market value on our Consolidated Balance Sheet and the period change in fair value is recorded in current period earnings on our Consolidated Statement of Operations as a component of Change in net unrealized gains (losses) on mortgage-backed securities.

Realized gains or losses on sales of mortgage-backed securities are included in Net realized gains (losses) on mortgage-backed securities on the Consolidated Statement of Operations, and are recorded at the time of disposition. The cost of positions sold is calculated based on identified cost. Principal write-offs are generally treated as realized losses.

Interest Income: Coupon interest income on investment securities is accrued based on the outstanding principal balance and the current coupon rate on each security. We amortize premiums and accrete discounts on our fixed income investments.

Our accretion of discounts and amortization of premiums on securities for U.S. federal and other tax purposes is likely to differ from the accounting treatment under U.S. GAAP of these items as described above.

See the notes to our consolidated financial statements for more information on amortization of premiums and accretion of discounts.

Income Taxes: We made an election to be taxed as a REIT for U.S. federal income tax purposes. As a REIT, we generally are not subject to corporate-level federal and state income tax on net income we distribute to our stockholders. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement to distribute at least 90% of our taxable income to our stockholders. Even if we qualify as a REIT, we may be subject to certain federal, state, local and foreign taxes on our income and property and to federal income and excise taxes on our undistributed taxable income. We follow the authoritative guidance on accounting for and disclosure of uncertainty on tax positions, which requires management to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals of the litigation process, based on the technical merits of the position. For uncertain tax positions, the tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. In the normal course of business, we may be subject to examination by federal, state, local, and foreign jurisdictions, where applicable, for the current period, 2014, 2013 or 2012 (our open tax years). We may take positions with respect to certain tax issues which depend on legal interpretation of facts or applicable tax regulations. Should the relevant tax regulators successfully challenge any such positions; we might be found to have a tax liability that has not been recorded in the accompanying consolidated financial statements. Also, management's conclusions regarding the authoritative guidance may be subject to review and adjustment at a later date based on changing tax laws, regulations, and interpretations thereof. There were no amounts accrued for penalties or interest as of or during the periods presented in the consolidated financial statements included in this Quarterly Report on Form 10-Q.

"Emerging Growth Company" Status: On April 5, 2012, the Jumpstart Our Business Startups Act, or the "JOBS Act," was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. Because we qualify as an "emerging growth company," we may, under Section 7(a)(2)(B) of the Securities Act of 1933, or "the Securities Act," delay adoption of new or revised accounting standards applicable to public companies until such standards would otherwise apply to private companies. We may take advantage of this extended transition period until the first to occur of the date that we (i) are no longer an "emerging growth company" or (ii) affirmatively and irrevocably opt out of this extended transition period. We have elected to take advantage of the benefits of this extended transition period. As a result, our financial statements may not be comparable to those of other public companies that comply with such new or revised accounting standards. Until the date that we are no longer an "emerging growth company" or

affirmatively and irrevocably opt out of the exemption provided by Securities Act Section 7(a)(2)(B), upon issuance of a new or revised accounting standard that applies to our financial statements and that has a different effective date for public and private companies, we will disclose the date on which adoption is required for non-emerging growth companies and the date on which we will adopt the recently issued accounting standard.

Recent Accounting Pronouncements

Refer to the notes to our consolidated financial statements for a description of relevant recent accounting pronouncements.

Financial Condition

Investment portfolio

The following tables summarize our mortgage-backed securities portfolio of as of September 30, 2015 and December 31, 2014:

September 30, 2015:

(\$ in thousands)

	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average			
				Gains	Losses		Coupon	Yield	Weighted Average Life(Years) ⁽¹⁾	
Agency RMBS:										
15-year fixed rate mortgages	\$ 162,453	\$ 7,874	\$ 170,327	\$ 1,585	\$ (88)	\$ 171,824	3.37%	2.28%	5.04	
20-year fixed rate mortgages	9,094	508	9,602	235	—	9,837	4.00%	2.89%	5.97	
30-year fixed rate mortgages	894,774	55,922	950,696	15,628	(1,933)	964,391	4.08%	3.15%	7.94	
Adjustable rate mortgages	36,782	2,415	39,197	96	(163)	39,130	4.12%	2.96%	5.64	
Reverse mortgages	53,986	5,697	59,683	276	(418)	59,541	4.75%	2.57%	6.11	
Interest only securities	n/a	n/a	8,229	167	(1,122)	7,274	3.84%	4.81%	2.12	
Total Agency RMBS	1,157,089	72,416	1,237,734	17,987	(3,724)	1,251,997	4.00%	3.01%	7.00	
Non-Agency RMBS	42,978	(15,187)	27,791	2,043	(939)	28,895	2.62%	8.43%	5.11	
Total RMBS	\$ 1,200,067	\$ 57,229	\$ 1,265,525	\$ 20,030	\$ (4,663)	\$ 1,280,892	3.95%	3.13%	6.93	

December 31, 2014:

(\$ in thousands)

	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average			
				Gains	Losses		Coupon	Yield	Weighted Average Life(Years) ⁽¹⁾	
Agency RMBS:										
15-year fixed rate mortgages	\$ 130,720	\$ 6,304	\$ 137,024	\$ 1,113	\$ (109)	\$ 138,028	3.40%	2.46%	5.43	
20-year fixed rate mortgages	9,764	577	10,341	227	—	10,568	4.00%	3.04%	6.92	
30-year fixed rate mortgages	1,042,550	61,089	1,103,639	20,379	(1,764)	1,122,254	4.09%	3.29%	8.48	
Adjustable rate mortgages	41,710	2,813	44,523	90	(330)	44,283	4.60%	3.08%	5.97	
Reverse mortgages	31,412	2,741	34,153	300	(28)	34,425	4.91%	2.56%	4.74	
Interest only securities	n/a	n/a	10,780	1,190	(726)	11,244	4.04%	11.82%	2.68	
Total Agency RMBS	1,256,156	73,524	1,340,460	23,299	(2,957)	1,360,802	4.05%	3.24%	7.54	
Non-Agency RMBS	50,668	(20,377)	30,291	2,896	(686)	32,501	2.29%	10.76%	4.97	
Total RMBS	\$ 1,306,824	\$ 53,147	\$ 1,370,751	\$ 26,195	\$ (3,643)	\$ 1,393,303	3.99%	3.41%	7.45	

(1) Average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the contractual lives of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

The vast majority of our capital is allocated to our Agency RMBS strategy, which includes investments in Agency pools and Agency CMOs. Within this strategy, we generally target Agency RMBS pools that, taking into account their particular composition and based on our prepayment projections: (1) should generate attractive yields relative to other Agency RMBS and U.S. Treasury securities, (2) should have less prepayment sensitivity to government policy shocks and/or (3) should create opportunities for trading gains once the market recognizes their value, which for newer pools may come only after several months when actual prepayment experience can be observed. As of both September 30, 2015 and December 31, 2014, investments in non-Agency RMBS constituted a relatively small portion of our total investments.

Our most prevalent method of financing RMBS is through short-term repurchase agreements, which generally have maturities of 180 days or less. The weighted average life of the RMBS we own is generally much longer. Consequently, the weighted average term of our repurchase agreement financings will almost always be substantially shorter than the expected average maturity of our RMBS. This mismatch in maturities, together with the uncertainty of RMBS prepayments, and other potential changes in timing and/or amount of cash flows on our RMBS assets, creates the risk that changes in interest rates will cause our financing costs with respect to our RMBS to increase relative to the income on our RMBS over the term of our investments.

Financial Derivatives

The following table summarizes our portfolio of financial derivative holdings as of September 30, 2015 and December 31, 2014:

<i>(In thousands)</i>	September 30, 2015	December 31, 2014
Financial derivatives—assets, at fair value:		
TBA securities purchase contracts	\$ 558	\$ 387
TBA securities sale contracts	17	89
Fixed payer interest rate swaps	5	2,518
Fixed receiver interest rate swaps	947	—
Swaptions	—	78
Total financial derivatives—assets, at fair value:	\$ 1,527	\$ 3,072
Financial derivatives—liabilities, at fair value:		
TBA securities purchase contracts	\$ (1)	\$ (5)
TBA securities sale contracts	(1,158)	(1,669)
Fixed payer interest rate swaps	(15,255)	(7,026)
Total financial derivatives—liabilities, at fair value:	\$ (16,414)	\$ (8,700)
Total	\$ (14,887)	\$ (5,628)

Pursuant to our hedging program, we engage in a variety of interest rate hedging activities that are designed to reduce the interest rate risk with respect to the liabilities incurred to acquire or hold RMBS. These interest rate hedges generally seek to reduce the interest rate sensitivity of our liabilities or, in other words, reduce the volatility of our financing cost over time attributable to interest rate changes. Our interest rate hedging transactions may include:

- Interest rate swaps (a contract exchanging a variable rate for a fixed rate, or vice versa);
- Interest rate swaptions (options to enter into interest rate swaps at a future date);
- TBA forward contracts on Agency pass-through certificates;
- Short sales of U.S. Treasury securities;
- Eurodollar and U.S. Treasury futures; and
- Other derivatives.

We generally enter into these transactions to offset the potential adverse effects of rising interest rates on short-term repurchase agreements. Our repurchase agreements generally have maturities of up to 180 days and carry interest rates that are determined by reference to LIBOR or correlated benchmark rates for those same periods. As each then-existing fixed rate repo borrowing matures, it will generally be replaced with a new fixed rate repo borrowing based on market interest rates established at that future date.

In the case of interest rate swaps, most of our agreements are structured such that we receive payments based on a variable interest rate and make payments based on a fixed interest rate. The variable interest rate on which payments are received is generally calculated based on various reset mechanisms for LIBOR. To the extent that our future repo borrowing costs continue to be highly correlated with LIBOR, our swap agreements help to reduce the variability of our overall repo borrowing costs, thus reducing risk to the extent we hold fixed rate assets that are financed with repo borrowings.

In the case of TBAs, most of our positions are short TBA positions with a negative duration, meaning that as interest rates rise, the value of the short position increases, so these positions serve as a hedge against increases in interest rates. In the event that interest rates rise, the increase in value of the short TBA position serves to offset corollary increases in our current and/or future borrowing costs under our repurchase agreements. While we primarily use TBAs to hedge interest rate risk, from time to time we also hold net long positions in certain TBA securities as a means of acquiring exposure to Agency RMBS. Our ability to engage in TBA transactions may be limited by our intention to remain qualified as a REIT.

As of September 30, 2015, as part of our interest rate hedging program, we also held short positions in U.S. Treasury securities, with a total principal amount of \$70.0 million and a fair value of \$70.7 million. As of December 31, 2014, we also held short positions in U.S. Treasury securities, with a total principal amount of \$13.9 million and a fair value of \$14.0 million.

The composition and relative mix of instruments we use to hedge various risks may vary from period to period given the amount of our liabilities outstanding or anticipated to be entered into, the overall market environment and our view as to which instruments best enable us to execute our hedging goals.

Leverage

The following table summarizes our outstanding liabilities under repurchase agreements as of September 30, 2015 and December 31, 2014. We had no other borrowings outstanding.

Remaining Days to Maturity	September 30, 2015			December 31, 2014		
	Borrowings Outstanding	Weighted Average Interest Rate	Remaining Days to Maturity	Borrowings Outstanding	Weighted Average Interest Rate	Remaining Days to Maturity
	<i>(In thousands)</i>					
30 days or less	\$ 472,278	0.43%	15	\$ 437,633	0.33%	15
31-60 days	371,885	0.46	44	417,009	0.34	44
61-90 days	169,786	0.47	74	333,580	0.36	72
91-120 days	211,956	0.57	107	—	—	—
151-180 days	—	—	—	85,917	0.41	165
301-330 days	—	—	—	48,941	0.47	317
Total	\$ 1,225,905	0.47%	48	\$ 1,323,080	0.35%	60

We finance our assets with what we believe to be a prudent amount of leverage, which will vary from time to time based upon the particular characteristics of our portfolio, availability of financing, and market conditions. As of both September 30, 2015 and December 31, 2014, our borrowings consisted entirely of repurchase agreements collateralized by our Agency RMBS. Because our strategy is flexible, dynamic, and opportunistic, our overall leverage will vary over time. As of September 30, 2015 and December 31, 2014, our total debt-to-equity ratio was 8.28 to 1 and 8.10 to 1, respectively. Collateral transferred with respect to our outstanding repo borrowings as of September 30, 2015 and December 31, 2014 had an aggregate fair value of \$1.3 billion and \$1.4 billion, respectively, and was entirely comprised of Agency RMBS.

Shareholders' Equity

As of September 30, 2015, our shareholders' equity decreased to \$148.0 million from \$163.4 million as of December 31, 2014. This decrease principally consisted of dividends declared of \$14.2 million, net loss of \$0.9 million, and the repurchase of common shares of \$0.3 million. As of September 30, 2015, our book value per share was \$16.20 as compared to \$17.86 as of December 31, 2014.

Results of Operations for the Three Month Periods Ended September 30, 2015 and 2014:

The following table summarizes our results of operations for the three month periods ended September 30, 2015 and 2014:

<i>(In thousands except for per share amounts)</i>	Three Month Period Ended September 30, 2015	Three Month Period Ended September 30, 2014
Net Interest income		
Net interest income	\$ 9,673	\$ 10,363
Expenses		
Management fees	557	574
Other operating expenses	718	720
Total expenses	1,275	1,294
Other Income (Loss)		
Net realized and change in net unrealized gains (losses) on mortgage-backed securities	5,458	(3,425)
Net realized and change in net unrealized gains (losses) on financial derivatives	(18,673)	(2,111)
Total Other Loss	(13,215)	(5,536)
Net Income (Loss)	\$ (4,817)	\$ 3,533
Net Income (Loss) Per Common Share	\$ (0.53)	\$ 0.39

Core Earnings

Core Earnings consists of net income (loss), excluding realized and unrealized gains and losses on mortgage-backed securities and financial derivatives, and, if applicable, items of income or loss that are of a non-recurring nature. Core Earnings includes net realized and unrealized gains and losses associated with payments and accruals of periodic payments on interest rate swaps. Core Earnings is a supplemental non-GAAP financial measure that we present as an additional measure of our operating performance. We believe Core Earnings provides information useful to investors because it is a metric utilized by management to assess our performance and to evaluate the effective net yield provided by our portfolio. Moreover, one of our objectives is to generate income from the net interest margin on our portfolio, and we use Core Earnings to help measure the extent to which we are achieving this objective. However, because Core Earnings is an incomplete measure of our financial results and differs from net income (loss) computed in accordance with GAAP, it should be considered as supplementary to, and not as a substitute for, our net income (loss) computed in accordance with GAAP.

The table below reconciles Core Earnings for the three month periods ended September 30, 2015 and 2014 to the line, Net Income (Loss), on our Consolidated Statement of Operations, which we believe is the most directly comparable U.S. GAAP measure:

<i>(In thousands except for share amounts)</i>	Three Month Period Ended September 30, 2015	Three Month Period Ended September 30, 2014
Net Income (Loss)	\$ (4,817)	\$ 3,533
Less:		
Net realized gains on mortgage-backed securities	596	2,030
Net realized losses on financial derivatives, excluding periodic payments ⁽¹⁾	(2,208)	(3,713)
Change in net unrealized gains (losses) on mortgage-backed securities	4,862	(5,455)
Change in net unrealized gains (losses) on financial derivatives, excluding accrued periodic payments ⁽²⁾	(14,355)	3,755
Subtotal	(11,105)	(3,383)
Core Earnings	\$ 6,288	\$ 6,916
Weighted Average Shares Outstanding	9,140,452	9,141,892
Core Earnings Per Share	\$ 0.69	\$ 0.76

(1) For the three month period ended September 30, 2015, represents Net realized gains (losses) on financial derivatives of \$(3,252) less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(1,044). For the three month period ended September 30, 2014, represents Net realized gains (losses) on financial derivatives of \$(4,391) less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(678). See Note 5 in the notes to the consolidated financial statements.

(2) For the three month period ended September 30, 2015, represents Change in net unrealized gains (losses) on financial derivatives of \$(15,421) less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$(1,066). For the three month period ended September 30, 2014, represents Change in net unrealized gains (losses) on financial derivatives of \$2,280 less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$(1,475). See Note 5 in the notes to the consolidated financial statements.

Net Income (Loss)

We had net loss for the three month period ended September 30, 2015 of \$(4.8) million, or \$(0.53) per share, and we had Core Earnings of \$6.3 million, or \$0.69 per share. For the three month period ended September 30, 2014, we had net income of \$3.5 million, or \$0.39 per share, and we had Core Earnings of \$6.9 million, or \$0.76 per share. The decrease in net income period over period was principally due to an increase in net realized and unrealized losses on financial derivatives as well as a decline in net interest income. Reduced net interest income resulted in a commensurate decline in our Core Earnings.

Interest Income

Our portfolio as of each of September 30, 2015 and 2014 consisted primarily of Agency RMBS, and to a lesser extent, non-Agency RMBS. Before interest expense, we earned approximately \$11.3 million and \$11.5 million in interest income on these securities for the three month periods ended September 30, 2015 and 2014, respectively. The period-over-period decrease in interest income resulted primarily from lower average holdings of both Agency and non-Agency RMBS, partially offset by a positive "Catch-up Premium Amortization Adjustment." This positive Catch-up Premium Amortization Adjustment to interest income reflected the effects of a \$0.9 million downward adjustment to premium amortization. This adjustment was caused by a reduction in actual and/or projected prepayments coming into the third quarter, and has the impact of increasing our interest income. However, the positive Catch-up Premium Amortization Adjustment to interest income was offset in overall net income by a corresponding \$0.9 million downward adjustment to net realized and unrealized gains.

Interest Expense

For the three month periods ended September 30, 2015 and 2014, the majority of interest expense that we incurred was related to our repo borrowings, which we use to finance our assets. We also incur interest expense in connection with our short positions in U.S. Treasury securities. Our total interest expense for the three month period ended September 30, 2015 was \$1.6 million, of which \$1.4 million represented interest expense on our repo borrowings and \$0.2 million represented interest expense related primarily to our short positions in U.S. Treasury securities. Our total interest expense for the three month period ended September 30, 2014 was \$1.1 million, substantially all of which represented interest expense related to our repo borrowings. The period-over-period increase in our total interest expense was due to an increase in the average rate on our repo borrowings caused by slightly higher short-term interest rates, as well as an increase in interest expense paid on short positions in U.S. Treasury securities associated with our increase in the use of these instruments for hedging purposes. Our average outstanding repo borrowings for the three month period ended September 30, 2015 was \$1.24 billion, resulting in an annualized cost of funds of 0.43%. Our average outstanding repo borrowings for the three month period ended September 30, 2014 was \$1.25 billion, resulting in an annualized cost of funds of 0.34%.

The following table shows information related to our annualized average cost of funds for the three month periods ended September 30, 2015 and 2014.

(\$ in thousands)	Average Borrowed	Interest	Annualized	Average One-	Average Six-
	Funds	Expense	Average Cost of Funds	Month LIBOR	Month LIBOR
Three Month Period Ended September 30, 2015	\$ 1,242,650	\$ 1,357	0.43%	0.20%	0.51%
Three Month Period Ended September 30, 2014	\$ 1,251,296	\$ 1,072	0.34%	0.15%	0.33%

As an alternative measure of our cost of funds, we add to our repo interest cost the net periodic amounts paid or payable by us on our interest rate swaps and interest expense we incur on our short positions in U.S. Treasury securities, and express the total as an annualized percentage of our average outstanding borrowings. The total of our net periodic expense paid or payable under our interest rate swaps and the interest expense on our short positions in U.S. Treasury securities was \$2.4 million for the three month period ended September 30, 2015, or 0.77% of our average outstanding borrowings on an annualized basis, thereby resulting in an annualized average cost of funds including interest rate swaps and short positions in U.S. Treasury securities of 1.21%. The total of our net periodic expense paid or payable under our interest rate swaps was \$2.2 million for the three month period ended September 30, 2014, or 0.68% of our average outstanding borrowings on an annualized basis, thereby resulting in an annualized average cost of funds including interest rate swaps of 1.02%. This metric does not take into account other instruments that we use to hedge interest rate risk, such as TBAs, swaptions, and futures.

Management Fees

For each of the three month periods ended September 30, 2015 and 2014, our management fee expense was approximately \$0.6 million.

Other Operating Expenses

Other operating expenses include professional fees and various other expenses incurred in connection with the operation of our business. Other operating expenses for each of the three month periods ended September 30, 2015 and 2014 was approximately \$0.7 million. Our expense ratio, which represents our management fees and other operating expenses as a percentage of our average shareholders' equity, was 3.3% and 3.0% on an annualized basis for each of the three month periods ended September 30, 2015 and 2014, respectively.

Other Loss

Other loss consisted of net realized and net change in unrealized gain (losses) on mortgage-backed securities and financial derivatives. For the three month period ended September 30, 2015, other loss was \$13.2 million, and consisted of net realized and change in net unrealized gains (losses) of approximately \$(18.7) million on our financial derivatives, partially offset by net realized and change in net unrealized gains (losses) of \$5.5 million on our mortgage-backed securities, primarily our Agency RMBS. The performance of the hedging side of our portfolio was weakened by both declining interest rates and high levels of interest rate volatility during the quarter, and exceeded net realized and unrealized gains on our Agency RMBS. Yield spreads on both Agency and non-Agency RMBS widened in sympathy with most fixed income sectors in response to increased volatility in the global financial markets. Other loss for the three month period ended September 30, 2014 was \$5.5 million and consisted of net realized and change in net unrealized gains (losses) of \$(3.4) million on our mortgage-backed securities, principally our Agency RMBS, and net realized and change in net unrealized gains (losses) of approximately \$(2.1) million on our financial derivatives.

Results of Operations for the Nine Month Periods Ended September 30, 2015 and 2014:

The following table summarizes our results of operations for the nine month periods ended September 30, 2015 and 2014:

<i>(In thousands except for per share amounts)</i>	Nine Month Period Ended September 30, 2015	Nine Month Period Ended September 30, 2014
Net Interest income		
Net interest income	\$ 27,016	\$ 31,672
Expenses		
Management fees	1,759	1,733
Other operating expenses	2,196	2,272
Total expenses	3,955	4,005
Other Income (Loss)		
Net realized and change in net unrealized gains (losses) on mortgage-backed securities	1,086	36,937
Net realized and change in net unrealized gains (losses) on financial derivatives	(25,096)	(47,260)
Total Other Loss	(24,010)	(10,323)
Net Income (Loss)	\$ (949)	\$ 17,344
Net Income (Loss) Per Common Share	\$ (0.10)	\$ 1.90

Core Earnings

Core Earnings consists of net income (loss), excluding realized and unrealized gains and losses on mortgage-backed securities and financial derivatives, and, if applicable, items of income or loss that are of a non-recurring nature. Core Earnings includes net realized and unrealized gains and losses associated with payments and accruals of periodic payments on interest rate swaps. Core Earnings is a supplemental non-GAAP financial measure that we present as an additional measure of our operating performance. We believe Core Earnings provides information useful to investors because it is a metric utilized by management to assess our performance and to evaluate the effective net yield provided by our portfolio. Moreover, one of our objectives is to generate income from the net interest margin on our portfolio, and we use Core Earnings to help measure the extent to which we are achieving this objective. However, because Core Earnings is an incomplete measure of our financial

results and differs from net income (loss) computed in accordance with GAAP, it should be considered as supplementary to, and not as a substitute for, our net income (loss) computed in accordance with GAAP.

The table below reconciles Core Earnings for the nine month periods ended September 30, 2015 and 2014 to the line, Net Income (Loss), on our Consolidated Statement of Operations, which we believe is the most directly comparable U.S. GAAP measure:

<i>(In thousands except for share amounts)</i>	Nine Month Period Ended September 30, 2015	Nine Month Period Ended September 30, 2014
Net Income (Loss)	\$ (949)	\$ 17,344
Less:		
Net realized gains (losses) on mortgage-backed securities	8,760	(613)
Net realized losses on financial derivatives, excluding periodic payments ⁽¹⁾	(11,938)	(13,381)
Change in net unrealized gains (losses) on mortgage-backed securities	(7,674)	37,550
Change in net unrealized gains (losses) on financial derivatives, excluding accrued periodic payments ⁽²⁾	(7,611)	(26,990)
Subtotal	(18,463)	(3,434)
Core Earnings	\$ 17,514	\$ 20,778
Weighted Average Shares Outstanding	9,146,301	9,140,533
Core Earnings Per Share	\$ 1.91	\$ 2.27

(1) For the nine month period ended September 30, 2015, represents Net realized gains (losses) on financial derivatives of \$(15,838) less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(3,900). For the nine month period ended September 30, 2014, represents Net realized gains (losses) on financial derivatives of \$(18,955) less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(5,574). See Note 5 in the notes to the consolidated financial statements.

(2) For the nine month period ended September 30, 2015, represents Change in net unrealized gains (losses) on financial derivatives of \$(9,258) less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$(1,647). For the nine month period ended September 30, 2014, represents Change in net unrealized gains (losses) on financial derivatives of \$(28,305) less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$(1,315). See Note 5 in the notes to the consolidated financial statements.

Net Income (Loss)

We had net loss for the nine month period ended September 30, 2015 of \$(0.9) million, or \$(0.10) per share, and we had Core Earnings of \$17.5 million, or \$1.91 per share. For the nine month period ended September 30, 2014, we had net income of \$17.3 million, or \$1.90 per share, and we had Core Earnings of \$20.8 million, or \$2.27 per share. The decrease in net income period over period was principally due to a decrease in net interest income and net realized and unrealized gains on mortgage-backed securities. Reduced net interest income resulted in a commensurate decline in our Core Earnings.

Interest Income

Our portfolio as of both September 30, 2015 and 2014 consisted primarily of Agency RMBS, and to a lesser extent, non-Agency RMBS. Before interest expense, we earned approximately \$31.4 million and \$35.0 million in interest income on these securities for the nine month periods ended September 30, 2015 and 2014, respectively. The period-over-period decrease in interest income resulted from lower yields and lower average holdings on both our Agency and non-Agency RMBS.

Interest Expense

For the nine month periods ended September 30, 2015 and 2014, the majority of interest expense that we incurred was related to our repo borrowings, which we use to finance our assets. We also incur interest expense in connection with our short positions in U.S. Treasury securities. Our total interest expense for the nine month period ended September 30, 2015 was \$4.4 million, of which \$3.7 million represented interest expense on our repo borrowings and approximately \$0.7 million represented interest expense related primarily to our short positions in U.S. Treasury securities. Our total interest expense for the nine month period ended September 30, 2014 was \$3.3 million, substantially all of which represented interest expense on our repo borrowings. The period-over-period increase in our total interest expense was mainly due to an increase in interest expense paid on short U.S. Treasury securities associated with an increase in the use of these instruments for hedging purposes. Our average outstanding repo borrowings for the nine month period ended September 30, 2015 was \$1.24 billion, resulting in an annualized average cost of funds of 0.39%. Our average outstanding repo borrowings for the nine month period ended September 30, 2014 was \$1.25 billion, resulting in an annualized average cost of funds of 0.35%.

The following table shows information related to our annualized average cost of funds for the nine month periods ended September 30, 2015 and 2014.

<i>(\$ in thousands)</i>	Average Borrowed Funds	Interest Expense	Annualized Average Cost of Funds	Average One- Month LIBOR	Average Six- Month LIBOR
Nine Month Period Ended September 30, 2015	\$ 1,243,157	\$ 3,666	0.39%	0.18%	0.44%
Nine Month Period Ended September 30, 2014	\$ 1,250,334	\$ 3,277	0.35%	0.15%	0.33%

As an alternative measure of our cost of funds, we add to our repo interest cost the net periodic amounts paid or payable by us on our interest rate swaps and interest expense we incur on our short positions in U.S. Treasury securities and express the total as an annualized percentage of our average outstanding borrowings. The total of our net periodic expense paid or payable under our interest rate swaps and our interest expense on our short positions in U.S. Treasury securities was \$6.4 million for the nine month period ended September 30, 2015, or 0.68% of our average outstanding borrowings on an annualized basis, thereby resulting in an annualized average cost of funds including interest rate swaps and short positions in U.S. Treasury securities of 1.08%. The total of our net periodic expense paid or payable under our interest rate swaps was \$6.9 million for the nine month period ended September 30, 2014, or 0.74% of our average outstanding borrowings on an annualized basis, thereby resulting in an annualized average cost of funds including interest rate swaps of 1.09%. This metric does not take into account other instruments that we use to hedge interest rate risk, such as TBAs, swaptions, and futures.

Management Fees

For the nine month periods ended September 30, 2015 and 2014, our management fee expense was approximately \$1.8 million and \$1.7 million, respectively.

Other Operating Expenses

Other operating expenses include professional fees and various other expenses incurred in connection with the operation of our business. Other operating expenses for the nine month periods ended September 30, 2015 and 2014 were approximately \$2.2 million and \$2.3 million, respectively. Our expense ratio, which represents our management fees and other operating expenses as a percentage of our average shareholders' equity, was 3.3% on an annualized basis for the nine month period ended September 30, 2015, as compared to 3.2% for the nine month period ended September 30, 2014. The increase in our annualized expense ratio is due to a lower current capital base.

Other Loss

Other loss consisted of net realized and net change in unrealized gain (losses) on mortgage-backed securities and financial derivatives. For the nine month period ended September 30, 2015, other loss was \$24.0 million, and consisted of net realized and change in net unrealized gains (losses) of \$(25.1) million on our financial derivatives and by net realized and change in net unrealized gains (losses) of approximately \$1.1 million on our mortgage-backed securities, primarily our Agency RMBS. The first nine months of 2015 have been marked by significant interest rate volatility. Over the course of 2015, interest rates have moved both sharply higher and sharply lower, and overall, have resulted in net losses on our financial derivatives, most notably our interest rate swaps. Since, over the course of the nine month period ended September 30, 2015, we have been using a greater amount of interest rate swaps relative to short TBAs to hedge interest rate risk, we have had to much more actively adjust our interest rate hedges as interest rates have moved sharply higher and lower. This increased interest rate swap adjustment activity, coupled with the significant overall decline in swap spreads, led to losses on our interest rate swaps over the period. Even though yield spreads widened on both Agency and non-Agency RMBS over the period, the decline in interest rates slightly more than offset that widening, enabling us to generate a small amount of net realized and unrealized gains on our mortgage-backed securities, as stated above. Other loss for the nine month period ended September 30, 2014 was \$10.3 million and consisted of net realized and change in net unrealized gains (losses) of \$(47.3) million on our financial derivatives, partially offset by net realized and change in net unrealized gains (losses) of approximately \$36.9 million on our mortgage-backed securities, principally our Agency RMBS.

Liquidity and Capital Resources

Liquidity refers to our ability to meet our cash needs, including repaying our borrowings, funding and maintaining RMBS and other assets, paying dividends, and other general business needs. Our short-term (one year or less) and long-term liquidity requirements include acquisition costs for assets we acquire, payment of our management fee, compliance with margin requirements under our repurchase agreements, TBA and other financial derivative contracts, repayment of repurchase agreement borrowings to the extent we are unable or unwilling to extend our repurchase agreements, the payment of dividends,

and payment of our general operating expenses. Our capital resources primarily include cash on hand, cash flow from our investments (including monthly principal and interest payments received on our RMBS and proceeds from the sale of MBS), borrowings under repurchase agreements, and proceeds from equity offerings. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

We borrow funds in the form of repurchase agreements. The terms of these borrowings under our Master Repurchase Agreements, or "MRAs," generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association as to repayment and margin requirements. In addition, each lender may require that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions include the addition of or changes to provisions relating to margin calls, net asset value requirements, cross default provisions, certain key person events, changes in corporate structure, and requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction. These provisions may differ for each of our lenders.

As of September 30, 2015 and December 31, 2014, we had \$1.2 billion and \$1.3 billion, respectively, outstanding under our repurchase agreements. As of September 30, 2015, we had MRAs in place with fifteen counterparties and our outstanding repurchase agreements were with thirteen counterparties.

Amount at risk represents the aggregate excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repurchase agreements. The following table reflects counterparties for which the amounts at risk relating to our repurchase agreements was greater than 5% of shareholders' equity as of September 30, 2015 and December 31, 2014.

September 30, 2015:

Counterparty	Amount at Risk ⁽¹⁾	Weighted Average Remaining Days to Maturity	Percentage of Shareholders' Equity
	<i>(In thousands)</i>		
J.P. Morgan Securities Inc.	\$ 19,930	77	13.5%
Deutsche Bank Securities	\$ 12,329	25	8.3%
RBC Capital Markets LLC	\$ 12,013	42	8.1%

(1) Amounts at risk exclude, in aggregate, \$1.7 million of net accrued interest, defined as accrued interest on securities held as collateral less interest payable on cash borrowed.

December 31, 2014:

Counterparty	Amount at Risk ⁽¹⁾	Weighted Average Remaining Days to Maturity	Percentage of Shareholders' Equity
	<i>(In thousands)</i>		
Bank of America Securities	\$ 15,754	69	9.6%
J.P. Morgan Securities Inc.	\$ 12,012	27	7.4%
Deutsche Bank Securities	\$ 11,919	55	7.3%
RBC Capital Markets LLC	\$ 10,374	113	6.3%

(1) Amounts at risk exclude, in aggregate, \$2.7 million of net accrued interest, defined as accrued interest on securities held as collateral less interest payable on cash borrowed.

The amounts borrowed under our repurchase agreements are generally subject to the application of "haircuts." A haircut is the percentage discount that a repo lender applies to the market value of an asset serving as collateral for a repo borrowing, for the purpose of determining whether such repo borrowing is adequately collateralized. As of September 30, 2015 and December 31, 2014, the weighted average contractual haircut applicable to the assets that serve as collateral for our outstanding repo borrowings was 4.7% and 4.5%, respectively. As of both September 30, 2015 and December 31, 2014, all of our repo borrowings were related to our Agency RMBS.

The following table details total outstanding borrowings, average outstanding borrowings, and the maximum outstanding borrowings at any month end for each quarter under repurchase agreements for 2015, 2014, and 2013. There were no borrowings under repurchase agreements prior to May 2013.

Quarter Ended	Borrowings Outstanding at Quarter End	Average Borrowings Outstanding	Maximum Borrowings Outstanding at Any Month End
<i>(In thousands)</i>			
September 30, 2015	\$ 1,225,905	\$ 1,242,650	\$ 1,248,604
June 30, 2015	1,264,479	1,247,617	1,269,551
March 31, 2015	1,211,110	1,239,167	1,255,568
December 31, 2014	1,323,080	1,275,874	1,323,080
September 30, 2014	1,233,333	1,251,296	1,275,122
June 30, 2014	1,285,593	1,239,899	1,285,593
March 31, 2014	1,281,470	1,259,901	1,281,470
December 31, 2013	1,310,347	1,304,452	1,310,347
September 30, 2013	1,292,946	1,296,042	1,371,881
June 30, 2013 ⁽¹⁾	1,215,696	550,721	1,215,696

(1) For the quarter ended June 30, 2013 the significant increase between average borrowings outstanding and total borrowings at June 30, 2013 was due to the deployment of proceeds from our initial public offering of common shares in May 2013 into investment in RMBS which we financed through repurchase agreements.

We held cash and cash equivalents of approximately \$40.5 million and \$45.2 million as of September 30, 2015 and December 31, 2014, respectively.

We may declare dividends based on, among other things, our earnings, our financial condition, the REIT qualification requirements of the Internal Revenue Code, our working capital needs and new opportunities. The declaration of dividends to our shareholders and the amount of such dividends are at the discretion of our Board of Trustees. The following table sets forth the dividend distributions authorized by the Board of Trustees for the periods indicated below:

Nine Month Period Ended September 30, 2015

	Dividend Per Share	Dividend Amount	Declaration Date	Record Date	Payment Date
<i>(In thousands)</i>					
First Quarter	\$0.55	\$5,032	March 11, 2015	March 31, 2015	April 27, 2015
Second Quarter	\$0.55	\$5,032	June 16, 2015	June 30, 2015	July 27, 2015
Third Quarter	\$0.45	\$4,111	September 15, 2015	September 30, 2015	October 26, 2015

Nine Month Period Ended September 30, 2014

	Dividend Per Share	Dividend Amount	Declaration Date	Record Date	Payment Date
<i>(In thousands)</i>					
First Quarter	\$0.55	\$5,027	March 12, 2014	March 31, 2014	April 28, 2014
Second Quarter	\$0.55	\$5,027	June 17, 2014	June 30, 2014	July 25, 2014
Third Quarter	\$0.55	\$5,032	September 11, 2014	September 30, 2014	October 27, 2014

For the nine month period ended September 30, 2015, our operating activities provided net cash of \$9.7 million and our investing activities provided net cash of \$98.1 million. Our repo activity used to finance our Agency RMBS (including repayments, in conjunction with the sales of Agency RMBS, of amounts borrowed under our repurchase agreements) used net cash of \$97.2 million. Thus our operating and investing activities, when combined with our net repo financing activities, provided net cash of \$10.6 million. We used \$15.1 million to pay dividends and \$0.3 million for the repurchase of common shares. As a result of these activities, there was a decrease in our cash holdings of \$4.8 million from \$45.2 million as of December 31, 2014 to \$40.5 million as of September 30, 2015.

For the nine month period ended September 30, 2014, our operating activities provided net cash of \$11.0 million and our investing activities provided net cash of \$81.8 million. Our repo activity used to finance our Agency RMBS (including repayments, in conjunction with the sales of Agency RMBS, of amounts borrowed under our repurchase agreements) used net cash of \$77.0 million. Thus our operating and investing activities, when combined with our net repo financing activities, provided net cash of \$15.8 million for the nine month period ended September 30, 2014. We used \$14.6 million to pay dividends and \$0.2 million to pay offering costs. As a result of these activities, there was an increase in our cash holdings of \$1.0 million from \$50.1 million as of December 31, 2013 to \$51.1 million as of September 30, 2014.

On August 13, 2013, our Board of Trustees approved the adoption of a \$10 million share repurchase program. The program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations. During the quarter ended September 30, 2015, we made our first repurchases under the program, purchasing 23,481 common shares at an average price per share of \$12.93 for an aggregate cost of approximately \$0.3 million.

Based on our current portfolio, amount of free cash on hand, debt-to-equity ratio and current and anticipated availability of credit, we believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements.

We are not required by our investment guidelines to maintain any specific debt-to-equity ratio, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

Contractual Obligations and Commitments

We are a party to a management agreement with our Manager. Pursuant to that agreement, our Manager is entitled to receive a management fee based on shareholders' equity, reimbursement of certain expenses and, in certain circumstances, a termination fee. Such fees and expenses do not have fixed and determinable payments. For a description of the management agreement provisions, see Note 10 to our consolidated financial statements.

We enter into repurchase agreements with third-party broker-dealers whereby we sell securities to such broker-dealers at agreed-upon purchase prices at the initiation of the repurchase agreements and agree to repurchase such securities at predetermined repurchase prices and termination dates, thus providing the broker-dealers with an implied interest rate on the funds initially transferred to us by the broker-dealers. We may enter into reverse repurchase agreements with third-party broker-dealers whereby we purchase securities under agreements to resell at an agreed-upon price and date. In general, we most often will enter into reverse repurchase agreement transactions in order to effectively borrow securities that we can then deliver to counterparties to whom we have made short sales of the same securities. The implied interest rates on the repurchase agreements and reverse repurchase agreements we enter into are based upon competitive market rates at the time of initiation. Repurchase agreements and reverse repurchase agreements that are conducted with the same counterparty may be reported on a net basis if they meet the requirements of ASC 210-20, *Balance Sheet, Offsetting*. As of each of September 30, 2015 and December 31, 2014, there were no repurchase agreements and reverse repurchase agreements reported on a net basis on the Consolidated Balance Sheet.

As of September 30, 2015 we had \$1.2 billion of outstanding borrowings with thirteen counterparties and as of December 31, 2014 we had \$1.3 billion of outstanding borrowings with ten counterparties. As of September 30, 2015, we had MRAs with fifteen counterparties. We expect to continue to have discussions with various other financial institutions in order to expand our repurchase agreement capacity.

Off-Balance Sheet Arrangements

As of September 30, 2015 and December 31, 2014, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity, or financing risk that could arise if we had engaged in such relationships.

Inflation

Virtually all of our assets and liabilities are interest rate-sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and balance sheet are measured with reference to historical cost and/or fair

market value without considering inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary components of our market risk are related to interest rate risk, prepayment risk, and credit risk. We seek to actively manage these and other risks and to acquire and hold assets that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. We are subject to interest rate risk in connection with most of our assets and liabilities. For some securities in our portfolio, the coupon interest rates on, and therefore also the values of, such securities are highly sensitive to interest rate movements, such as inverse floating rate RMBS, which benefit from falling interest rates. Our repurchase agreements generally have maturities of up to 180 days and carry interest rates that are determined by reference to LIBOR or similar short-term benchmark rates for those same periods. Whenever one of our fixed rate repo borrowings matures, it will generally be replaced with a new fixed rate repo borrowing based on market interest rates prevailing at such time. Subject to qualifying and maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we opportunistically hedge our interest rate risk by entering into interest rate swaps, TBAs, U.S. Treasury securities, Eurodollar and U.S. Treasury futures, and other instruments. In general, such hedging instruments are used to offset the large majority of the interest rate risk we estimate to arise from our repurchase agreement indebtedness associated with our Agency RMBS positions. Hedging instruments may also be used to offset a portion of the interest rate risk arising from our repurchase agreement liabilities associated with non-Agency RMBS positions, if any.

In addition to measuring and mitigating the risk related to changes in interest rates with respect to the generally shorter-term liabilities we incur to acquire and hold generally longer-lived RMBS, we also monitor the effect of changes in interest rates on the discounted present value of our portfolio of assets and liabilities. The following sensitivity analysis table shows the estimated impact on the fair value of our portfolio segregated by certain identified categories as of September 30, 2015, assuming a static portfolio and immediate and parallel shifts in interest rates from current levels as indicated below.

(In thousands)

Category of Instruments	Estimated Change in Value for a Decrease in Interest Rates by		Estimated Change in Value for an Increase in Interest Rates by	
	50 Basis Points	100 Basis	50 Basis Points	100 Basis
		Points		Points
Agency RMBS, excluding TBAs	\$ 20,419	\$ 34,274	\$ (26,983)	\$ (60,531)
TBAs	(2,832)	(3,080)	5,417	13,418
Non-Agency RMBS	350	713	(336)	(658)
U.S. Treasury Securities, Interest Rate Swaps, and Swaptions	(19,242)	(39,367)	18,359	35,836
Repurchase and Reverse Repurchase Agreements	(751)	(800)	794	1,588
Total	\$ (2,056)	\$ (8,260)	\$ (2,749)	\$ (10,347)

Our analysis of interest rate risk is derived from Ellington's proprietary models as well as third-party information and analytics. Many assumptions have been made in connection with the calculations set forth in the table above and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. For example, for each hypothetical immediate shift in interest rates, assumptions have been made as to the response of mortgage prepayment rates, the shape of the yield curve, and market volatilities of interest rates; each of the foregoing factors can significantly and adversely affect the fair value of our interest rate sensitive instruments.

The above analysis utilizes assumptions and estimates based on management's judgment and experience, and relies on financial models, which are inherently imperfect; in fact, different models can produce different results for the same securities. While the table above reflects the estimated impacts of immediate parallel interest rate increases and decreases on specific categories of instruments in our portfolio, we intend to actively trade many of the instruments in our portfolio and intend to diversify our portfolio to reflect a portfolio comprised primarily of Agency RMBS, and, to a lesser extent, non-Agency RMBS and mortgage-related assets. Therefore, our current or future portfolios may have risks that differ significantly from those of our September 30, 2015 portfolio estimated above. Moreover, the impact of changing interest rates on fair value can change significantly when interest rates change by a greater amount than the hypothetical shifts assumed above. Furthermore, our portfolio is subject to many risks other than interest rate risks, and these additional risks may or may not be correlated with

changes in interest rates. For all of the foregoing reasons and others, the table above is for illustrative purposes only and actual changes in interest rates would likely cause changes in the actual fair value of our portfolio that would differ from those presented above, and such differences might be significant and adverse. See "*Special Note Regarding Forward-Looking Statements.*"

Prepayment Risk

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect to mortgage loans underlying RMBS, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Changes in prepayment rates will have varying effects on the different types of securities in our portfolio, and we attempt to take these effects into account in making asset management decisions. Additionally, increases in prepayment rates may cause us to experience losses on our investment in interest-only securities, or "IOs" and inverse interest only securities, or "IIOs," as these securities are extremely sensitive to prepayment rates. Finally, prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation.

Credit Risk

We are subject to credit risk in connection with our assets, especially our non-Agency RMBS. Credit losses on real estate loans underlying our non-Agency RMBS can occur for many reasons, including, but not limited to, poor origination practices, fraud, faulty appraisals, documentation errors, poor underwriting, legal errors, poor servicing practices, weak economic conditions, decline in the value of homes, special hazards, earthquakes and other natural events, over-leveraging of the borrower on the property, reduction in market rents and occupancies and poor property management services in the case of rented homes, changes in legal protections for lenders, reduction in personal income, job loss, and personal events such as divorce or health problems. Property values 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), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors, and retroactive changes to building or similar codes. For mortgage-related instruments, the two primary components of credit risk are default risk and severity risk.

Default Risk

Default risk is the risk that borrowers will fail to make principal and interest payments on their mortgage loans. Subject to qualifying and maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act, we may selectively attempt to mitigate our default risk by, among other things, opportunistically entering into credit default swaps and total return swaps. These instruments can reference various RMBS indices, corporate bond indices, or corporate entities, such as publicly traded REITs. We also rely on third-party mortgage servicers to mitigate our default risk, but such third-party mortgage servicers may have little or no economic incentive to mitigate loan default rates.

Severity Risk

Severity risk is the risk of loss upon a borrower default on a mortgage loan underlying our RMBS. Severity risk includes the risk of loss of value of the property underlying the mortgage loan as well as the risk of loss associated with taking over the property, including foreclosure costs. We rely on third-party mortgage servicers to mitigate our severity risk, but such third-party mortgage servicers may have little or no economic incentive to mitigate loan loss severities. Such mitigation efforts may include loan modification programs and prompt foreclosure and property liquidation following a default.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2015. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2015.

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Neither we nor our Manager is currently subject to any legal proceedings that we or our Manager considers to be material. Nevertheless, at any time, industry-wide or company-specific regulatory inquiries or proceedings can be initiated and we cannot predict when or if any such regulatory inquiries or proceedings will be initiated that involve us, Ellington, or its affiliates, including our Manager. See "Risk Factors—We, Ellington, or its affiliates may be subject to regulatory inquiries or proceedings" included in Part 1 Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014. Ellington and its affiliates have, over the years, received, and we expect in the future that they may receive, inquiries and requests for documents and information from various regulators.

We can give no assurances that regulatory inquiries will not result in investigations of Ellington or its affiliates or enforcement actions, fines or penalties or the assertion of private litigation claims against Ellington or its affiliates. In the event regulatory inquiries were to result in investigations, enforcement actions, fines, penalties, or the assertion of private litigation claims against Ellington or its affiliates, our Manager's ability to perform its obligations to us under the Management Agreement between us and our Manager, or Ellington's ability to perform its obligations to our Manager under the services agreement between Ellington and our Manager, could be adversely impacted, which could in turn have a material adverse effect on our business, financial condition and results of operations, and our ability to make distributions to our shareholders.

Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition, and liquidity, see the risk factors discussed under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes from these previously disclosed risk factors. See also "Special Note Regarding Forward-Looking Statements," included in Part I, Item 2 of this Quarterly Report on Form 10-Q.

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

Unregistered Sales of Equity Securities

On September 15, 2015, we issued 2,307 restricted common shares to each of Robert B. Allardice, III, David Miller, Thomas Robards, and Ronald I. Simon, Ph.D., as compensation for serving as trustees. These restricted share grants were made pursuant to our 2013 Equity Incentive Plan and such grants were exempt from the registration requirements of the Securities Act based on the exemption provided by Section 4(2) of the Securities Act.

Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
				<i>(In thousands)</i>
July 1, 2015 - July 31, 2015	—	\$ —	—	\$ 10,000
August 1, 2015 - August 31, 2015	22,881	12.93	22,881	9,704
September 1, 2015 - September 30, 2015	600	12.78	600	9,696
Total	23,481	\$ 12.93	23,481	\$ 9,696

On August 13, 2013, our Board of Trustees approved the adoption of a \$10 million share repurchase program. The program, which is open-ended in duration, allows us to make repurchases from time to time on the open market or in negotiated transactions. Repurchases are at our discretion, subject to applicable law, share availability, price and our financial performance, among other considerations.

Item 5. Other Information

ITRA Disclosure

Pursuant to Section 13(r) of the Exchange Act, if during the fiscal quarter ended September 30, 2015, we or any of our affiliates had engaged in certain transactions with Iran or with persons or entities designated under certain executive orders, we would be required to disclose information regarding such transactions in our Quarterly Report on Form 10-Q as required under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 ("ITRA"). During the fiscal quarter ended September 30, 2015, we did not engage in any transactions with Iran or with persons or entities related to Iran.

Blackstone Tactical Opportunities EARN Holdings L.L.C., an affiliate of The Blackstone Group L.P. ("Blackstone"), is a holder of approximately 28% of the outstanding equity interests of our Common Shares and has a representative on our Board of Trustees. Accordingly, Blackstone may be deemed an "affiliate" of us, as that term is defined in Exchange Act Rule 12b-2. We have received notice from Blackstone that it may include in its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2015 disclosures pursuant to ITRA regarding two of its portfolio companies that may be deemed to be affiliates of Blackstone. Because of the broad definition of "affiliate" in Exchange Act Rule 12b-2, these portfolio companies of Blackstone, through Blackstone's ownership of us, may also be deemed to be affiliates of ours.

We have reproduced below the disclosure of Travelport Limited, as provided to us by Blackstone. Travelport Limited may be considered an affiliate of Blackstone. We have no involvement in or control over the activities of Travelport Limited, any of its predecessor companies or any of its subsidiaries, and we have not independently verified or participated in the preparation of this disclosure.

"As part of our global business in the travel industry, we provide certain passenger travel-related Travel Commerce Platform and Technology Services to Iran Air. We also provide certain Technology Services to Iran Air Tours. All of these services are either exempt from applicable sanctions prohibitions pursuant to a statutory exemption permitting transactions ordinarily incident to travel or, to the extent not otherwise exempt, specifically licensed by the U.S. Office of Foreign Assets Control. Subject to any changes in the exempt/licensed status of such activities, we intend to continue these business activities, which are directly related to and promote the arrangement of travel for individuals.

The gross revenue and net profit attributable to these activities in the quarter ended September 30, 2015 were approximately \$133,000 and \$94,000, respectively."

We have also reproduced below the disclosure of Hilton Worldwide Holdings Inc., or Hilton, as provided to us by Blackstone. Hilton may be considered an affiliate of Blackstone. We have no involvement in or control over the activities of Hilton, any of its predecessor companies or any of its subsidiaries, and we have not independently verified or participated in the preparation of this disclosure.

"During the fiscal quarter ended September 30, 2015, an Iranian governmental delegation stayed at the Transcorp Hilton Abuja for one night. The stays were booked and paid for by the government of Nigeria. The hotel received revenues of approximately \$5,320 from these dealings. Net profit to Hilton Worldwide Holdings Inc. ("Hilton") from these dealings was approximately \$495. Hilton believes that the hotel stays were exempt from the Iranian Transactions and Sanctions Regulations, 31 C.F.R. Part 560, pursuant to the International Emergency Economic Powers Act ("IEEPA") and under 31 C.F.R. Section 560.210 (d). The Transcorp Hilton Abuja intends to continue engaging in future similar transactions to the extent they remain permissible under applicable laws and regulations."

Management Agreement Amendment

On November 3, 2015, Ellington Residential Mortgage REIT (the "Company"), for itself and on behalf of each of the Company's current and future subsidiaries, and Ellington Residential Mortgage Management LLC (the "Manager") entered into the Fourth Amended and Restated Management Agreement (the "Amended Management Agreement"). The Amended Management Agreement was amended to refine the definition of "Shareholders' Equity" set forth therein and to revise the date as of which the termination fee would be calculated in the event of a termination or non-renewal of the Amended Management Agreement. The Amended Management Agreement, which amends, restates and supersedes in all respects that certain Third Amended and Restated Management Agreement between the Company and the Manager, dated as of December 17, 2014.

A copy of the Amended Management Agreement is filed as Exhibit 10.1 hereto and incorporated herein by reference.

Item 6. Exhibits

Exhibit	Description
10.1	Fourth Amended and Restated Management Agreement by and among Ellington Residential Mortgage REIT and Ellington Residential Mortgage Management LLC, dated as of November 3, 2015
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 Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
101	The following financial information from Ellington Residential Mortgage REIT's Quarterly Report on Form 10-Q for the nine month period ended September 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet, (ii) Consolidated Statement of Operations, (iii) Consolidated Statement of Shareholders' Equity, (iv) Consolidated Statement of Cash Flows and (v) Notes to Consolidated Financial Statements.

* Furnished herewith. These certifications are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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.

Date: November 4, 2015

ELLINGTON RESIDENTIAL MORTGAGE REIT

By: /s/ LAURENCE PENN
Laurence Penn
Chief Executive Officer
(Principal Executive Officer)

Date: November 4, 2015

ELLINGTON RESIDENTIAL MORTGAGE REIT

By: /s/ LISA MUMFORD
Lisa Mumford
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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*	Furnished herewith. These certifications are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

FOURTH AMENDED AND RESTATED MANAGEMENT AGREEMENT

This FOURTH AMENDED AND RESTATED MANAGEMENT AGREEMENT is entered into as of November 3, 2015 (this "Agreement") by and among Ellington Residential Mortgage REIT, a Maryland real estate investment trust (the "Company"), for itself and on behalf of each of the Company's current and future Subsidiaries (as defined below), and Ellington Residential Mortgage Management LLC, a Delaware limited liability company (the "Manager"). This Agreement amends, restates and supersedes in all respects that certain Third Amended and Restated Management Agreement between the Company and the Manager dated as of December 17, 2014.

W I T N E S S E T H:

WHEREAS, the Company is a Maryland real estate investment trust that specializes in acquiring and managing residential mortgage-backed securities and other mortgage-related assets; and

WHEREAS, the Company holds its assets and conducts its operations through the Subsidiaries; and

WHEREAS, the Company has previously engaged the Manager to manage the Company's assets, operations and affairs pursuant to a Third Amended and Restated Management Agreement dated as of December 17, 2014 (the "Previous Management Agreement"); and

WHEREAS, the Company and the Manager now wish to amend and restate the Previous Management Agreement by entering into this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, the parties hereto agree as follows:

1. Definitions.

- (a) "Affiliate" shall mean, with respect to any Person, any Person controlling, controlled by, or under common Control with, such Person.
- (b) "Agreement" has the meaning assigned in the first paragraph.
- (c) "Board of Trustees" means the Board of Trustees of the Company.
- (d) "Business Day" means any day except a Saturday, Sunday or day on which banking institutions in New York, New York are not required to be open.
- (e) "Business Opportunity" has the meaning assigned in Section 3(c).
- (f) "CDO" means a collateralized debt obligation.
- (g) "Change of Control" means the occurrence of any of the following:
- (i) the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of the assets of the Manager, taken as a whole, to any Person other than EMG Holdings or any of its Affiliates; or
 - (ii) the direct or indirect acquisition by any Person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d-5(b)(1) under the Exchange Act), other than Ellington and its Affiliates, in a single transaction or in a series of related transactions, by way of merger, consolidation or other business combination or purchase of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act, or any successor provision) of 50% or more of the total voting power of the voting capital interests of or pecuniary interests in the Manager.
- (h) "Code" means the Internal Revenue Code of 1986, as amended.
- (i) "Code of Conduct" has the meaning assigned in Section 7(g).
- (j) "Common Shares" means the common shares of beneficial interest, par value \$0.01 per share, of the Company.
- (k) "Company" has the meaning assigned in the first paragraph; provided that all references herein to the Company shall, except as otherwise expressly provided herein, be deemed to include the Subsidiaries.

(l) “Company Account” has the meaning assigned in Section 5.

(m) “Company Indemnified Party” has the meaning assigned in Section 11(c).

(n) “Confidential Information” means all non-public information, written or oral, obtained by the Manager in connection with the services rendered hereunder.

(o) “Compliance Policies” means the compliance policies and procedures of Ellington, as in effect from time to time.

(p) “Control” shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of another Person, whether by contract, voting equity, legal right or otherwise.

(q) “Cross Transaction” has the meaning assigned in Section 3(d).

(r) “Dedicated Officers” has the meaning assigned in Section 3(b).

(s) “EARN Investment and Risk Management Committee” has the meaning set forth in Section 7(d).

(t) “Ellington” means Ellington Management Group, L.L.C., a Delaware limited liability company.

(u) “EMG Holdings” means EMG Holdings, L.P., a Delaware limited partnership.

(v) “Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(w) “Expenses” has the meaning assigned in Section 9.

(x) “GAAP” means generally accepted accounting principles in effect in the U.S. on the date such principles are applied consistently.

(y) “Governing Instruments” means, with respect to any Person, the charter and bylaws in the case of a corporation, the declaration of trust and bylaws in the case of Maryland real estate investment trust or other business trust, the certificate of limited partnership (if applicable) and partnership agreement in the case of a general or limited partnership or the articles of organization or certificate of formation, as the case may be, and operating agreement in the case of a limited liability company, in each case, as amended, restated or supplemented from time to time.

(z) “Identified Person” has the meaning assigned in Section 3(c).

(aa) “Identified Persons” has the meaning assigned in Section 3(c).

(bb) “Indemnification Obligations” has the meaning assigned in Section 11(b).

(cc) “Indemnitee” has the meaning assigned in Section 11(d).

(dd) “Indemnitor” has the meaning assigned in Section 11(d).

(ee) “Independent Trustees” means the members of the Board of Trustees who are not officers or employees of the Company, the Manager or Ellington or Ellington’s Affiliates.

(ff) “Initial Public Offering” means the listing of the Common Shares on the New York Stock Exchange or another national United States securities exchange or national quotation system.

(gg) “Investments” means the investments of the Company.

(hh) “Investment Company Act” means the Investment Company Act of 1940, as amended.

(ii) “Investment Guidelines” means the general criteria, parameters and policies relating to Investments as established by the Board of Trustees, as the same may be modified from time-to-time by the Board of Trustees. The Company’s initial Investment Guidelines are attached hereto as Exhibit A.

(jj) “Judicially Determined” has the meaning assigned in Section 11(a).

(kk) “Level One Asset” means any asset deemed to be a “level one” asset for purposes of valuation in accordance with GAAP.

(ll) “Management Fee Annual Rate” means 1.50%.

(mm) “Manager” has the meaning assigned in the first paragraph.

(nn) “Manager Indemnified Party” has the meaning assigned in Section 11(a).

(oo) “Names” has the meaning assigned in Section 27.

(pp) “National Securities Exchange” means a national securities exchange upon which the Company’s Common Shares are listed.

(qq) “Operating Partnership” shall mean Ellington Residential Mortgage LP.

(rr) “Person” means any individual, corporation, partnership, joint venture, limited liability company, estate, trust, unincorporated association, any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.

(ss) “Post-Termination Transition Assistance” has the meaning assigned in Section 14(b).

(tt) “Previous Management Agreement” has the meaning assigned in the Recitals.

(uu) “Principal Transaction” has the meaning assigned in Section 3(e).

(vv) “Portfolio and Risk Committee” has the meaning assigned in Section 7(d).

(ww) “Quarterly Management Fee Amount” means, with respect to any fiscal quarter, the product of: (i) the Shareholders’ Equity as of the end of such fiscal quarter, and (ii) one-fourth of the Management Fee Annual Rate. The Quarterly Management Fee Amount shall be pro rated for partial quarterly periods based on the number of days in such partial period compared to a 90 day quarter.

(xx) “Records” has the meaning assigned in Section 6(a).

(yy) “REIT” means a “real estate investment trust” as defined under the Code.

(zz) “Representatives” means collectively the Manager’s Affiliates, officers, directors, employees, agents and representatives.

(aaa) “Sarbanes Oxley Act of 2002” means the federal statute known as the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated thereunder.

(bbb) “SEC” means the United States Securities and Exchange Commission.

(ccc) “Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(ddd) “Services Agreement” has the meaning assigned in Section 2(c).

(eee) “Shareholders’ Equity” means, as of the end of any fiscal quarter, (a) the sum of (1) the net proceeds from any issuances of the Company’s Common Shares or other equity securities and the Operating Partnership’s Units or other equity securities (without double counting) since inception, plus (2) the Company’s and the Operating Partnership’s (without double counting) retained earnings (expressed as a positive number) or accumulated deficit (expressed as a negative number), as the case may be, calculated in accordance with GAAP at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) any amount that the Company or the Operating Partnership has paid to repurchase Common Shares, Units or other equity securities since inception. Shareholders’ Equity excludes (1) any non-cash equity compensation expenses that have impacted shareholders’ equity as reported in the Company’s financial statements prepared in accordance with GAAP, and (2) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above in each case, after discussions between the Manager and the Independent Trustees and approval by a majority of the Independent Trustees.

(fff) “Split Price Executions” has the meaning assigned in Section 3(f).

(ggg) “Subsidiary” means (i) Ellington Residential Mortgage LP, a Delaware limited partnership, (ii) EARN OP GP LLC, a Delaware limited liability company, (iii) EARN Securities LLC, a Delaware limited liability company, (iv) EARN Mortgage LLC, a Delaware limited liability company, (v) EARN CMO LLC, a Delaware limited liability company, (vi) EARN TRS LLC, a Delaware limited liability company, (vii) any partnership, the general partner of which is the Company or any Subsidiary of the Company, (viii) any limited liability company, the managing member of which is the Company or any subsidiary of the Company, and (ix) any other entity, including any direct or indirect subsidiary of the Company, on the date hereof or in the future, of which the Company or any Subsidiary has the power to elect, directly or indirectly, a majority of the board of directors or trustees or equivalent managing body.

(hhh) “Successor Manager” has the meaning assigned in Section 14(b).

(iii) “Tax Preparer” has the meaning assigned in Section 7(f).

(jjj) “Termination Fee” means, with respect to any termination or non-renewal of this Agreement with respect to which payment of the Termination Fee is required under Section 13 of this Agreement, a termination fee equal to five percent (5%) of the Shareholders’ Equity as of the month-end preceding the date of the notice of termination or non-renewal.

(kkk) “Treasury Regulations” means the Procedures and Administration Regulations promulgated by the U.S. Department of Treasury under the Code, as amended.

(lll) “Units” shall mean units of limited partnership interest in the Operating Partnership.

2. Appointment and Duties of the Manager.

(a) Appointment. The Company hereby appoints the Manager to manage, operate and administer the assets, operations and affairs of the Company and the Subsidiaries, subject to the further terms and conditions set forth in this Agreement and to the supervision of, and such further limitations or parameters as may be imposed from time to time by, the Board of Trustees, and the Manager hereby agrees to use its commercially reasonable efforts to perform each of the duties set forth herein in accordance with the provisions of this Agreement.

(b) Duties. The Manager shall manage, operate and administer day-to-day operations, business and affairs of the Company and the Subsidiaries, subject at all times to the supervision and direction of the Board of Trustees, and shall have only such functions and authority as the Board of Trustees may delegate to it, including, without limitation, the authority identified and delegated to the Manager herein. Without limiting the foregoing, the Manager shall oversee and use commercially reasonable efforts to conduct the Company's investment activities in accordance with the Investment Guidelines, any risk parameters adopted by the Board of Trustees and other policies adopted and implemented by the Board of Trustees. Subject to the foregoing, the Manager will perform (or cause to be performed) such services and activities relating to the management, operation and administration of the assets, liabilities and business of the Company and the Subsidiaries as is appropriate, including without limitation:

(i) serving as the Company's consultant with respect to the periodic review of the Investment Guidelines and other policies and criteria for the other borrowings and the operations of the Company for the approval by the Board of Trustees;

(ii) investigating, analyzing and selecting possible Investment opportunities and originating, acquiring, structuring, financing, retaining, selling, negotiating for prepayment, restructuring or disposing of Investments consistent with the Investment Guidelines;

(iii) with respect to any prospective Investment by the Company and any sale, exchange or other disposition of any Investment by the Company, including the accumulation of assets for securitization, conducting negotiations on the Company's behalf with sellers and purchasers and their respective agents, representatives and investment bankers, and owners of privately and publicly held real estate companies;

(iv) engaging and supervising, on the Company's behalf and at the Company's sole cost and expense, third party service providers who provide legal, accounting, due diligence, transfer agent, registrar, leasing services, master servicing, special servicing, banking, investment banking, mortgage brokerage, real estate brokerage, securities brokerage and other financial services and such other services as may be required relating to the Investments or potential Investments and to the Company's other business and operations;

(v) coordinating and supervising, on behalf of the Company and at the Company's sole cost and expense, other third party service providers to the Company;

(vi) serving as the Company's consultant with respect to arranging for any issuance of mortgage-backed securities from pools of mortgage loans or mortgage backed securities owned by the Company;

(vii) coordinating and managing operations of any joint venture or co-investment interests held by the Company and conducting all matters with any joint venture or co-investment partners;

(viii) providing executive and administrative personnel, office space and office services required in rendering services to the Company;

(ix) administering the Company's day-to-day operations and performing and supervising the performance of such other administrative functions necessary to the Company's management as may be agreed upon by the Manager and the Board of Trustees, including, without limitation, the collection of revenues and the payment of the Company's debts and obligations and maintenance of appropriate computer services to perform such administrative functions;

(x) in connection with an Initial Public Offering and the Company's subsequent, on-going obligations under the Sarbanes Oxley Act of 2002, the Exchange Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act and other applicable law, engaging and supervising, on the Company's behalf and at the Company's sole cost and expense, third party consultants and other service providers to assist the Company in complying with the requirements of the Sarbanes Oxley Act of 2002, the Exchange Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act and other applicable law;

(xi) communicating on the Company's behalf with the holders of any of the Company's equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;

(xii) counseling the Company in connection with policy decisions to be made by the Board of Trustees;

- (xiii) counseling the Company, and when appropriate, evaluating and making recommendations to the Board of Trustees regarding hedging, financing and securitization strategies and engaging in hedging, financing, borrowing and securitization activities on the Company's behalf, consistent with the Investment Guidelines;
- (xiv) counseling the Company regarding the qualification and maintenance of its status as a REIT at such time as the Board of Trustees determines to cause the Company to elect to be treated as a REIT for U.S. federal income tax purposes and thereafter monitoring compliance with the various REIT qualification tests and other rules set out in the Code and the Treasury Regulations;
- (xv) counseling the Company regarding the maintenance of the Company's exclusion from status as an investment company under the Investment Company Act and monitoring compliance with the requirements for maintaining such exclusion and using commercially reasonable efforts to cause the Company to maintain such exclusion from status as an investment company under the Investment Company Act;
- (xvi) assisting the Company in developing criteria for asset purchase commitments that are specifically tailored to the Company's investment objectives and making available to the Company its knowledge and experience with respect to mortgage loans, real estate, real estate related securities, other real estate related assets, asset-backed securities, non-real estate related assets and real estate operating companies;
- (xvii) furnishing reports to the Company or the Board of Trustees regarding the Company's activities and services performed for the Company or any of its Subsidiaries by the Manager as reasonably requested by the Board of Trustees from time to time to carry out its duty of oversight;
- (xviii) monitoring the operating performance of the Investments and providing such periodic reports with respect thereto to the Board of Trustees as the Board of Trustees shall reasonably determine from time to time to be necessary or appropriate for the Board of Trustees to carry out its duty of oversight, including comparative information with respect to such operating performance and budgeted or projected operating results;
- (xix) investing or reinvesting any money or securities of the Company (including investing in short-term investments pending investment in other Investments, payment of fees, costs and expenses, or distributions to the Company's shareholders), and advising the Company as to the Company's capital structure and capital raising;
- (xx) causing the Company to retain, at the sole cost and expense of the Company, qualified independent accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations and, from and after such time as the Board of Trustees determines to cause the Company to elect to be treated as a REIT for U.S. federal income tax purposes, compliance with the provisions of the Code and the Treasury Regulations applicable to REITs, and to conduct quarterly compliance reviews with respect thereto;
- (xxi) causing the Company and each Subsidiary to qualify to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;
- (xxii) assisting the Company in complying with all regulatory requirements applicable to the Company in respect of the Company's business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act, the Securities Act or by a National Securities Exchange;
- (xxiii) taking all necessary actions to enable the Company to make required tax filings and reports and compliance with the provisions of the Code, and Treasury Regulations applicable to the Company, including, without limitation, from and after such time as the Board of Trustees determines to cause the Company to elect to be treated as a REIT for U.S. federal income tax purposes, the provisions applicable to the Company's qualification as a REIT for U.S. federal income tax purposes;
- (xxiv) handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which the Company may be involved or to which the Company may be subject arising out of the Company's day-to-day operations (other than with the Manager or its Affiliates), subject to such limitations, parameters or directions as may be imposed from time to time by the Board of Trustees;
- (xxv) using commercially reasonable efforts to cause expenses incurred by or on behalf of the Company to be commercially reasonable or commercially customary and within any budgeted parameters or expense guidelines set by the Board of Trustees from time to time;
- (xxvi) advising on, and obtaining on behalf of the Company, appropriate credit facilities or other financings for the Investments consistent with the Investment Guidelines;
- (xxvii) advising the Company with respect to and structuring long-term financing vehicles for the Company's portfolio of assets, and offering and selling securities publicly or privately in connection with any such structured financing;

(xxviii) performing such other services as may be required from time to time for management and other activities relating to the Company's assets as the Board of Trustees shall reasonably request;

(xxix) using commercially reasonable efforts to cause the Company to comply with all applicable laws;

(xxx) negotiating and entering into and executing, on the Company's behalf, repurchase agreements, interest rate agreements, swap agreements, brokerage agreements, resecuritizations, securitization warehouse facilities and other agreements and instruments required for the Company to conduct the Company's business;

(xxxi) serving as the Company's consultant with respect to decisions regarding any of the Company's financings, hedging activities or borrowings undertaken by the Company, including (1) assisting the Company in developing criteria for debt and equity financing that is specifically tailored to the Company's investment objectives, and (2) advising the Company with respect to obtaining appropriate financing for the Company's and any Subsidiaries' investments;

(xxxii) providing the Company with portfolio management;

(xxxiii) arranging marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote the Company's business; and

(xxxiv) maintaining the Company's web site.

(c) Services Agreement. The Manager will maintain the services agreement, dated of even date herewith by and between the Manager and Ellington (the "Services Agreement") pursuant to which Ellington and its Affiliates will continue to provide the Manager the personnel, services and resources as needed by the Manager to enable the Manager to carry out its obligations and responsibilities under this Agreement, including due diligence, asset management and risk management. The Company shall be a named third party beneficiary of the Services Agreement.

(d) Service Providers. The Manager may engage Persons who are non-Affiliates, for and on behalf, and at the sole cost and expense, of the Company to provide to the Company acquisition, disposition, asset management, property management, leasing, financing, development, disposition of real estate and/or similar services customarily provided in connection with the management, operation and administration of a business similar to the business of the Company, pursuant to agreement(s) that provide for market rates and contain standard market terms; provided, that the terms of any such agreement that requires the payment by the Company of fees or expenses that would cause the Company to materially exceed the Company's most recent annual budget approved by the Board of Trustees shall require the prior approval of a majority of the Independent Trustees and, provided further, that without the prior approval of the Board of Trustees, the Manager shall not be permitted to outsource to a non-Affiliate its responsibility for the ultimate investment acquisition and disposition decisions of the Company and compliance with the Investment Guidelines, any risk parameters and the other policies applicable to the provision of services to the Company by the Manager adopted by the Board of Trustees from time to time. For the avoidance of doubt, nothing contained in this Section 2(d) shall prohibit or restrict the Manager's ability to enter into, amend or terminate trading arrangements (including, without limitation, financing arrangements), and agreements and documents ancillary thereto, on behalf of the Company on such terms and conditions as the Manager shall determine in its sole discretion.

(e) Reporting Requirements.

(i) As frequently as the Manager may deem necessary or advisable, or at the reasonable request of the Board of Trustees, the Manager shall prepare, or cause to be prepared, with respect to any Investment (A) reports and other information on the Company's operations, asset performance and proposed or consummated investments and (B) other information reasonably requested by the Company or the Board of Trustees.

(ii) The Manager shall prepare, or cause to be prepared, at the sole cost and expense of the Company, all reports, financial or otherwise, with respect to the Company reasonably required by the Board of Trustees in order for the Company to comply with its Governing Instruments or any other materials required to be filed with any governmental entity or agency, and shall prepare, or cause to be prepared, at the sole cost and expense of the Company, all materials and data necessary to complete such reports and other materials including, without limitation, an annual audit of the Company's books of account by a nationally recognized independent accounting firm.

(iii) The Manager shall prepare regular reports for the Board of Trustees to enable the Board of Trustees to review the Company's acquisitions, portfolio composition and characteristics, credit quality, performance and compliance with the Investment Guidelines and policies approved by the Board of Trustees.

(f) Reliance by Manager. In performing its duties under this Section 2, the Manager shall be entitled to rely on qualified experts and professionals (including, without limitation, accountants, legal counsel and other professional service providers) selected, engaged or retained by the Manager with commercially reasonable care, at the Company's sole cost and expense.

(g) Use of the Manager's Funds. The Manager shall not be required to expend money in connection with any expenses that are required to be paid for or reimbursed by the Company pursuant to Section 9 of this Agreement in excess of that contained in any applicable Company Account or otherwise made available by the Company to be expended by the Manager hereunder.

(h) Payment and Reimbursement of Expenses. The Company shall pay all expenses, and reimburse the Manager for the Manager's expenses incurred on its behalf, in connection with any such services to the extent such expenses are payable or reimbursable by the Company to the Manager pursuant to Section 9.

3. Dedication; Other Activities.

(a) Devotion of Time. The Manager, through Ellington and its Affiliates, will provide a management team (which, at the time of an Initial Public Offering shall include, without limitation, a chief executive officer and president, a chief financial officer (or comparable professional), a chief investment officer or co-chief investment officers, a controller (or comparable professional) and a secretary) along with appropriate support personnel, to deliver the management services to the Company hereunder. The members of such management team may serve more than one role for the Company (i.e. the chief financial officer may also serve as the secretary) and may have other duties and responsibilities for the Manager and its Affiliates, including, but not limited to, with respect to other clients, but such management team members shall devote such of their working time and efforts to the management of the Company as shall be necessary and appropriate for the proper performance of all of the Manager's duties hereunder, commensurate with the level of activity of the Company from time to time. The Company shall have the benefit of the Manager's reasonable judgment and effort in rendering services and, in furtherance of the foregoing, the Manager shall not undertake activities which, in its reasonable judgment, will materially adversely affect the performance of its obligations under this Agreement.

(b) The Manager shall have the obligation to provide to the Company a dedicated or partially dedicated chief financial officer (or comparable professional), and shall have the right, but not the obligation, to provide the Company with a dedicated or partially dedicated controller (or comparable professional), assistant controller, internal legal counsel, investor relations professional, internal audit staff and other dedicated personnel if approved by the independent directors of the Company (such personnel are referred to herein as "Dedicated Officers"). Each Dedicated Officer shall be an employee of the Manager or one of its Affiliates.

(c) Other Activities. To the fullest extent permitted by law and subject to any other agreements entered into by the Manager, none of the Manager, Ellington or their respective employees, officers, directors, trustees and Affiliates (the "Identified Persons" and, individually, as an "Identified Person") shall have any duty to refrain from directly or indirectly (w) engaging in or possessing any interest in other investments or business opportunities, including but not limited to business opportunities in dissimilar or the same or similar investments, business activities or lines of business of the Company and its Affiliates or in which the Company or any of its Affiliates may, from time to time, be engaged or propose to engage, including by means of providing advice or other assistance to any such investment, business activity or Person (a "Business Opportunity"), (x) competing with the Company or its Affiliates, (y) pursuing any such Business Opportunity, even if competitive with the investments or business activities of the Company or (z) buying, selling or trading any securities or commodities for their own accounts (including, without limitation taking positions contrary to those of the Company), and, to the fullest extent permitted by law, no Identified Person shall be liable to the Company or its securityholders for a conflict of interest or a breach of any fiduciary or other duty in respect of the Company, its Subsidiaries or its securityholders by reason of the fact that such Identified Person engages in any such activities. To the fullest extent permitted by law, the Company hereby renounces any interest or expectancy in, or in being offered an opportunity to participate in, any Business Opportunity presented to an Identified Person. Subject to any other agreements entered into by the Manager, in the event that any Identified Person acquires knowledge of a Business Opportunity, such Identified Person shall have no duty to communicate or offer such Business Opportunity to the Company and, to the fullest extent permitted by law, shall not be liable to the Company or its stockholders for breach of any duty as an investment adviser, stockholder, director or officer of the Company by reason of the fact that such Identified Person pursues or acquires such Business Opportunity. A Business Opportunity shall not be deemed to be a potential Business Opportunity for the Company if it is a Business Opportunity that the Company is not financially able or contractually permitted or legally able to undertake, or that is, from its nature, not in the line of the Company's business or is of no practical advantage to it or that is one in which the Company has no reasonable expectancy. Notwithstanding the foregoing, the Company (i) does not renounce its interest in any Business Opportunity offered to the Manager, Ellington or their respective Affiliates if such opportunity is expressly offered to such person solely in his or her capacity as the Manager of the Company and (ii) the Company shall have the benefit of the Manager's obligations to it as a client of the Manager pursuant to the Investment Advisers Act of 1940.

(d) Cross Transactions. Cross transactions are transactions between the Company or one of its subsidiaries, on the one hand, and an account (other than the Company or one of its subsidiaries) that is managed or advised by the Manager, Ellington or one of Ellington's other investment advisory affiliates, on the other hand (each a "Cross Transaction"). The Manager is authorized to execute Cross Transactions for the Company in accordance with applicable law and the Ellington Compliance Policies; provided however that the Manager shall not cause the Company to enter into any Cross Transaction involving any asset

other than a Level One Asset which is being crossed at market price as determined by the Manager without the prior written approval of a majority of the Independent Trustees. The Company acknowledges that the Manager has a potentially conflicting division of loyalties and responsibilities regarding each party to a Cross Transaction. The Company may at any time, upon written notice to the Manager, revoke its consent to the Manager to execute Cross Transactions. In addition, unless approved in advance by a majority of the Company's Independent Trustees or pursuant to and in accordance with a policy that has been approved by a majority of the Company's Independent Trustees, all Cross Transactions must be effected at then-prevailing market prices.

(e) Principal Transactions. Principal transactions are transactions between the Company or one of its subsidiaries, on the one hand, and the Manager, Ellington, or any of their investment advisory affiliates (or any of the related parties of the foregoing, which includes employees of Ellington and the Manager and their families), on the other hand (each a "Principal Transaction"). The Manager is only authorized to execute Principal Transactions with the prior approval of a majority of the Company's Independent Trustees and in accordance with applicable law. Such prior approval shall include approval of the pricing methodology to be used, including with respect to assets for which there are no readily available market prices. Certain Cross Transactions may also be considered Principal Transactions whenever the Manager, Ellington or any of their investment advisory affiliates (or any of the related parties of the foregoing, which includes employees of Ellington and the Manager and their families) have a substantial ownership interest in of one of the transacting parties.

(f) Split Price Executions. The Manager is authorized to combine purchase or sale orders on the Company's behalf together with orders for other accounts managed by the Manager, Ellington or any of their Affiliates and allocate the securities or other assets so purchased or sold, on an average price basis or other fair and consistent basis, among such accounts (collectively, "Split Price Executions"). The Company acknowledges that the Manager has a potentially conflicting division of loyalties and responsibilities regarding each party to a Split Price Execution.

(g) Officers, Employees, Etc. The Manager's or its Affiliates' members, partners, officers, employees and agents may serve as directors, trustees, officers, employees, agents, nominees or signatories for the Company or any Subsidiary, to the extent permitted by their Governing Instruments, as may be amended from time to time, or by any resolutions duly adopted by the Board of Trustees pursuant to the Company's Governing Instruments. When executing documents or otherwise acting in such capacities for the Company or such other Subsidiary, such Persons shall use their respective titles with respect to the Company or such Subsidiary.

(h) The Manager agrees to offer the Company the right to participate in all investment opportunities that the Manager determines, in its reasonable and good faith judgment based on the Company's investment objectives, policies and strategies, and other relevant factors, are appropriate for the Company, subject to the Company's Investment Guidelines and the exception that, in accordance with Ellington's Compliance Policies, the Company might not participate in each such opportunity but will on an overall basis equitably participate with the Manager's or any of its Affiliate's other clients in all such opportunities. While information and recommendations supplied to the Company shall, in the Manager's reasonable and good faith judgment, be appropriate under the circumstances and in light of the investment objectives and policies of the Company, they may be different from the information and recommendations supplied by the Manager or any Affiliate of the Manager to other investment companies, funds and advisory accounts. The Manager shall provide to the Company such information, recommendations and any other services, but the Company recognizes that it is not entitled to receive preferential treatment as compared with the treatment given by the Manager or any Affiliate of the Manager to any investment company, fund or advisory account other than any fund or advisory account which contains only funds invested by the Manager (and not any funds of any of its clients or customers).

(i) The Manager is authorized, for and on behalf, and at the sole cost and expense of the Company, to employ such securities dealers for the purchase and sale of investment assets of the Company as may, in the good faith judgment of the Manager, be reasonably necessary for the best execution of such transactions taking into account all relevant factors, including but not limited to such factors as the policies of the Company, price, dealer spread, the size, type and difficulty of the transaction involved, the firm's general execution and operational facilities and the firm's risk in positioning the securities involved. Consistent with this policy, the Manager is authorized to direct the execution of the Company's portfolio transactions to dealers and brokers furnishing statistical information, research and other services deemed by the Manager to be useful or valuable to the performance of its investment advisory functions. Such services may be used by the Manager in connection with its advisory services for clients other than the Company, and such arrangements may be outside the parameters of the "safe harbor" provided by Section 28(e) of the Exchange Act.

(j) The Company agrees to take all actions reasonably required to permit and enable the Manager to carry out its duties and obligations under this Agreement, including, without limitation, all steps reasonably necessary to allow the Manager to file in a timely manner any registration statement required to be filed by the Company or to deliver any financial statements or other reports required to be delivered by the Company. The Company further agrees to use commercially reasonable efforts to make available to the Manager all resources, information and materials reasonably requested by the Manager to enable the Manager to satisfy its obligations hereunder, including its obligations to deliver financial statements and any other information or reports with respect to the Company. If the Manager is not able to provide a service, or in the reasonable judgment of the Manager it is not prudent to provide a service, without the approval of the Board of Trustees or the Independent Trustees, as

applicable, then the Manager shall be excused from providing such service (and shall not be in breach of this Agreement) until the applicable approval has been obtained; *provided* that the Manager shall use commercially reasonable efforts to promptly advise the Board of Trustees in writing a reasonable period of time before any requisite approval of the Board of Trustees is required that the Manager is awaiting such approval.

4. Agency; Authority.

(a) Directors, officers, employees and agents of the Manager and its Affiliates may serve as directors, officers, agents, nominees or signatories for the Company or any of its Subsidiaries, to the extent permitted by their Governing Instruments and by this Agreement or any resolutions duly adopted by the Board of Trustees.

(b) In performing the services set forth in this Agreement, and subject to any limitations set forth herein and the supervision and direction of the Board of Trustees generally, the Manager may act as the agent of the Company in originating, acquiring, structuring, financing and disposing of Investments, disbursing and collecting the Company's funds, paying the debts and fulfilling the obligations of the Company, supervising the performance of professionals engaged by or on behalf of the Company and handling, prosecuting and settling any claims of or against the Company, the Board of Trustees, holders of the Company's securities or the Company's representatives or assets.

(c) In performing the services set forth in this Agreement, as an agent of the Company, the Manager shall have the right to exercise all powers and authority which are reasonably necessary and customary to perform its obligations under this Agreement, including the following powers, subject in each case to any limitations set forth herein including, without limitation, the Investment Guidelines, and the supervision of the Board of Trustees generally: to purchase, exchange or otherwise acquire and to sell, exchange or otherwise dispose of, any Investment in a public or private sale; to cause the Company and the Subsidiaries to open trading, clearing and brokerage accounts and other accounts and enter into agreements as shall be necessary or advisable in connection with the Company's business, operations and investment and trading activities; to execute Cross Transactions; to execute Principal Transactions; to execute Split Price Executions; to borrow and, for the purpose of securing the repayment thereof, to pledge, mortgage or otherwise encumber Investments; to purchase, take and hold Investments subject to mortgages, liens or other encumbrances; to extend the time of payment of any liens or encumbrances which may at any time be encumbrances upon any Investment, irrespective of by whom the same were made; to foreclose, to reduce the rate of interest on, and to consent to the modification and extension of the maturity of any Investments, or to accept a deed in lieu of foreclosure; to join in a voluntary partition of any Investment; to cause to be demolished any structures on any real estate Investment; to cause renovations and capital improvements to be made to any real estate Investment; to abandon any Investment deemed to be worthless; to enter into joint ventures or otherwise participate in investment vehicles investing in Investments; to cause any real estate Investment to be leased, operated, developed, constructed or exploited; to cause the Company to indemnify third parties in connection with contractual arrangements between the Company and such third parties; to obtain and maintain insurance in such amounts and against such risks as are prudent in accordance with customary and sound business practices in the appropriate geographic area; to cause any property to be maintained in good state of repair and upkeep; and to pay the taxes, upkeep, repairs, carrying charges, maintenance and premiums for insurance; to use the personnel and resources of its Affiliates in performing the services specified in this Agreement; to hire third party service providers subject to and in accordance with Section 2(d); to designate and engage all third party professionals and consultants to perform services (directly or indirectly) on behalf of the Company or its Subsidiaries, including, without limitation, accountants, legal counsel and engineers; and to take any and all other actions as are necessary or appropriate in connection with the Company's Investments.

(d) The Manager shall be authorized to represent to third parties that it has the power to perform the actions which it is authorized to perform under this Agreement.

5. Bank Accounts.

At the direction of the Board of Trustees, the Manager may establish and maintain as an agent on behalf of the Company one or more bank accounts in the name of the Company or any Subsidiary (any such account, a "Company Account"), collect and deposit funds into any such Company Account and disburse funds from any such Company Account, under such terms and conditions as the Board of Trustees may approve. The Manager shall from time-to-time render appropriate accountings of such collections and payments to the Board of Trustees and, upon request, to the auditors of Company or any Subsidiary.

6. Books and Records; Confidentiality.

(a) Books and Records. The Manager shall maintain appropriate books of account, records data and files (including without limitation, computerized material) (collectively, "Records") relating to the Company and the Investments generated or obtained by the Manager in performing its obligations under this Agreement, and such Records shall be accessible for inspection by representatives of the Company or any Subsidiary at any time during normal business hours upon one Business Day's advance written notice. The Manager shall have full responsibility for the maintenance, care and safekeeping of all Records. The Manager agrees that the Records are the property of the Company and the Manager agrees to deliver the Records to the Company upon the written request of the Company.

(b) Confidentiality. The Manager shall keep confidential any and all non-public information, written or oral, obtained by it in connection with the services rendered hereunder and shall not disclose Confidential Information, in whole or in part, to any Person other than to its Affiliates, officers, directors, trustees, employees, agents or representatives who need to know such Confidential Information for the purpose of rendering services hereunder or with the consent of the Company, except: (i) to Ellington and its Affiliates; (ii) in accordance with the Services Agreement or any advisory agreement contemplated by Section 2 hereunder; (iii) with the prior written consent of the Board of Trustees; (iv) to legal counsel, accountants and other professional advisors; (v) to appraisers, creditors, financing sources, trading counterparties, other counterparties, third party service providers to the Company, and others (in each case, both those actually doing business with the Company and those with whom the Company seeks to do business) in the ordinary course of the Company's business; (vi) to governmental officials having jurisdiction over the Company; (vii) in connection with any governmental or regulatory filings of the Company or disclosure or presentations to Company investors; or (viii) as required by law or legal process to which the Manager or any Person to whom disclosure is permitted hereunder is a party. If, failing the entry of a protective order or the receipt of a waiver hereunder, the Manager is, in the opinion of counsel, required to disclose Confidential Information, the Manager may disclose only that portion of such information that its counsel advises is legally required without liability hereunder; provided, that the Manager agrees to exercise its best efforts to obtain reliable assurance that confidential treatment will be accorded such information. Notwithstanding anything herein to the contrary, each of the following shall be deemed to be excluded from provisions hereof: any Confidential Information that (A) is available to the public from a source other than the Manager not resulting from the Manager's violation of this Section 6(b), (B) is released in writing by the Company to the public or to persons who are not under similar obligation of confidentiality to the Company, or (C) is obtained by the Manager from a third-party without breach by such third-party of an obligation of confidence with respect to the Confidential Information disclosed. The Manager agrees to inform each of its Representatives of the non-public nature of the Confidential Information and to direct such Persons to treat such Confidential Information in accordance with the terms hereof. The provisions of this Section 6(b) shall survive the expiration or earlier termination of this Agreement for a period of one year.

7. Obligations of Manager; Restrictions.

(a) Internal Control. The Manager shall (i) establish and maintain a system of internal accounting and financial controls designed to provide reasonable assurance of the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws, (ii) maintain records for each Company Investment on a GAAP basis, (iii) develop accounting entries and reports required by the Company to meet its reporting requirements under applicable laws, (iv) consult with the Company with respect to proposed or new accounting/reporting rules identified by the Manager or the Company and (v) upon the Company becoming subject to annual and quarterly financial reporting obligations under the Exchange Act or in order to comply with the information requirements under Rule 144A under the Securities Act, as applicable, prepare quarterly and annual financial statements as soon as practicable after the end of each such period as may be reasonably requested and general ledger journal entries and other information necessary for the Company's compliance with applicable laws and in accordance with GAAP and cooperate with the Company's independent accounting firm in connection with the auditing or review of such financial statements, the cost of any such audit or review to be paid by the Company.

(b) Restrictions.

(i) The Manager acknowledges that the Company intends to conduct its operations so as not to become regulated as an investment company under the Investment Company Act, and agrees to use commercially reasonable efforts to cooperate with the Company's efforts to conduct its operations so as not to become regulated as an investment company under the Investment Company Act. The Manager shall refrain from any action that, in its reasonable judgment made in good faith, (a) is not in compliance with the Investment Guidelines, (b) would cause the Company to fail to maintain its exclusion from status as an investment company under the Investment Company Act, or (c) would violate any law, rule or regulation of any governmental body or agency having jurisdiction over the Company or that would otherwise not be permitted by the Company's Governing Instruments. If the Manager is ordered to take any such action by the Board of Trustees, the Manager shall promptly notify the Board of Trustees of the Manager's judgment that such action would adversely affect such status or violate any such law, rule or regulation or the Governing Instruments.

(ii) The Manager shall require each seller or transferor of investment assets to the Company to make such representations and warranties regarding such assets as may, in the reasonable judgment of the Manager, be necessary and appropriate or as may be advised by the Board of Trustees and consistent with standard industry practice. In addition, the Manager shall take such other action as it deems necessary or appropriate or as may be advised by the Board of Trustees and consistent with standard industry practice with regard to the protection of the Investments.

(iii) The Company shall not invest in joint ventures with the Manager or any Affiliate thereof, unless (a) such investment is made in accordance with the Investment Guidelines and (b) such investment is approved in advance by a majority of the Independent Trustees. For the avoidance of doubt, allocating or splitting of Investments among the Company and other funds, accounts or entities managed by Affiliates of the Manager will not be deemed to be joint ventures.

(c) Board of Trustees Review and Approval. The Board of Trustees will periodically review the Investment Guidelines and the Company's portfolio of Investments but will not be required to review each proposed Investment; provided that the Company may not, and the Manager may not cause the Company to, acquire any Investment, sell any Investment, or engage in any co-investment that, pursuant to the terms of this Agreement, the Compliance Policies or the Company's conflicts of interest policy, requires the approval of a majority of the Board of Trustees or Independent Trustees unless such transaction has been so approved. If a majority of the Board of Trustees determine that a particular transaction does not comply with the Investment Guidelines, then a majority of the Board of Trustees will consider what corrective action, if any, is appropriate. The Manager shall have the authority to take, or cause the Company to take, any such corrective action specified by a majority of the Board of Trustees. The Manager shall be permitted to rely upon the direction of the Secretary of the Company to evidence approval of the Board of Trustees with respect to a proposed Investment.

(d) EARN Investment and Risk Management Committee; Portfolio and Risk Committee. The Manager shall maintain an investment and risk management committee (the "EARN Investment and Risk Management Committee"). The EARN Investment and Risk Management Committee shall advise and consult with the Manager with respect to the Company's investment policies, investment portfolio holdings, financing and leveraging strategies and the Investment Guidelines. Members of the EARN Investment and Risk Management Committee may meet from time to time with the Board of Trustees or, if established by the Board of Trustees, a Portfolio and Risk Committee of the Board of Trustees (the "Portfolio and Risk Committee"), to review and discuss the Company's investment policies, investment portfolio holdings, hedging positions and strategies, financing and leveraging strategies and any risk parameters.

(e) Insurance. The Manager, or Ellington on behalf of the Manager, shall obtain, as soon as reasonably practicable, and shall thereafter maintain "errors and omissions" insurance coverage and such other insurance coverage which is customarily carried by managers performing functions similar to those of the Manager under this Agreement with respect to assets similar to the assets of the Company, in an amount which is comparable to that customarily maintained by other managers or servicers of similar assets.

(f) Tax Filings. The Manager shall (i) assemble, maintain and provide to the firm designated by the Company to prepare tax returns on behalf of the Company and its subsidiaries (the "Tax Preparer") information and data required for the preparation of federal, state, local and foreign tax returns, any audits, examinations or administrative or legal proceedings related thereto or obligations of the Company and its subsidiaries and supervise the preparation and filing of such tax returns, the conduct of such audits, examinations or proceedings and the prosecution or defense of such rights, (ii) provide factual data reasonably requested by the Tax Preparer or the Company with respect to tax matters, (iii) assemble, record, organize and report to the Company data and information with respect to the Investments relative to taxes and tax returns in such form as may be reasonably requested by the Company, (iv) supervise the Tax Preparer in connection with the preparation, filing or delivery to appropriate persons, of applicable tax information reporting forms with respect to the Investments and the Common Shares (including, without limitation, information reporting forms, whether on Form 1099 or otherwise with respect to sales, interest received, interest paid, dividends paid and other relevant transactions); it being understood that, in the context of the foregoing, the Company shall rely on its own tax advisers in the preparation of its tax returns and the conduct of any audits, examinations or administrative or legal proceedings related thereto and that, without limiting the Manager's obligation to provide the information, data, reports and other supervision and assistance provided herein, the Manager will not be responsible for the preparation of such returns or the conduct of such audits, examinations or other proceedings.

(g) The Manager agrees to be bound by the Company's code of conduct policies, insider trading policies and other compliance and governance policies and procedures applicable to the Manager and its officers, directors, members and employees that are adopted from time-to-time by the Board of Trustees (if any), including those required under the Exchange Act, the Securities Act, or by National Securities Exchange (collectively, the "Code of Conduct"), to require the employees of Ellington who provide services to the Company, and to use commercially reasonable efforts to cause any Persons who provide services to the Company or are involved in the business and affairs of the Company, to comply with the provisions of such Code of Conduct that the Manager reasonably deems to be applicable to such person's activities in connection with the performance of such services hereunder in accordance with the terms of such provisions or such comparable policies as shall in substance hold such Persons to at least the standards of conduct set forth in any such Code of Conduct in accordance with its terms.

8. Compensation.

(a) Management Fee. With respect to each fiscal quarter commencing with the quarter in which this Agreement is executed, the Manager shall receive a management fee equal to the Quarterly Management Fee Amount. Within 45 days following the last day of each fiscal quarter, the Manager shall make available the quarterly calculation of the management fee to the Company with respect to such quarter, and the Company shall pay the Manager the management fee for such quarter in cash within 15 Business Days thereafter; provided, however, that such management fee may be offset by the Company against amounts due to the Company by the Manager.

(b) Notwithstanding the provisions of Section 8(a), in the event that the Company acquires or invests in (i) any equity of a CDO at issuance that is managed, structured or originated by Ellington, the Manager or any of their Affiliates,

(ii) any investment fund, account or other investment that is managed, structured or originated by Ellington, the Manager or any of their Affiliates or (iii) a participating interest in the debt securities of an issuer of debt for which Ellington, the Manager or any of their Affiliates has received a management fee, an origination fee or a structuring fee, then in each such case the Quarterly Management Fee Amount payable by the Company to the Manager will in the aggregate be reduced by (or the Manager will otherwise rebate to the Company) an amount equal to the portion of any management fees, origination fees or structuring fees payable to the Manager, Ellington or their Affiliates that is allocable to the Company's equity investment or participating interest, as the case may be, in such CDO, investment fund, other investment or debt securities for the same periods.

(c) For the avoidance of doubt, the fee paid by the Manager under the Services Agreement or any other subadvisory agreement (if any) shall not constitute an expense reimbursable by the Company under this Agreement or otherwise.

9. Expenses.

The Company shall bear all of its operating expenses and shall reimburse the Manager for expenses of the Manager incurred on behalf of the Company, except those specifically required to be borne by the Manager under this Agreement; provided, however, that any such costs and expenses borne by the Manager in respect of compensation payable to Affiliates of the Manager to be reimbursed by the Company are no greater than those that would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arms-length basis. The Manager may only be reimbursed by the Company for expenses incurred by Ellington pursuant to the Services Agreement to the extent that such expenses would be reimbursable expenses in accordance with this Section 9 if incurred by the Manager. The expenses required to be borne by the Company include, but are not limited to:

(a) issuance and transaction costs incident to the acquisition, ownership, disposition and financing of Investments including but not limited to brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees, interest expense, withholding and transfer fees, taxes, research related expenses, third party valuation and pricing services, professional and consulting fees (including, without limitation, expenses of consultants and experts) relating to Investments and other expenses related to the purchase or sale of the Investments);

(b) legal, regulatory, compliance, tax, accounting, consulting, auditing, administrative fees and expenses and fees and expenses for other similar services rendered to the Company by third-party service providers retained by the Manager;

(c) the compensation and expenses of the Company's directors and/or trustees and the cost of liability insurance to indemnify the Company's directors and/or trustees and officers;

(d) the costs associated with the establishment and maintenance of any credit facilities and other indebtedness of the Company (including commitment fees, accounting fees, legal fees, closing costs, etc.);

(e) expenses associated with securities offerings of the Company, including an Initial Public Offering;

(f) expenses relating to the payment of distributions;

(g) expenses connected with communications to holders of the Company's securities in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of the Exchange Act, the SEC and other governmental bodies;

(h) transfer agent, registrar and exchange listing fees;

(i) the costs of printing and mailing proxies, reports and other materials to the Company's stockholders;

(j) costs associated with any research, data, data services, computer software or hardware, electronic equipment, or purchased information technology services from third party vendors;

(k) reasonable costs and out of pocket expenses incurred on the Company's behalf by directors, trustees, officers, employees or other agents of the Manager for travel in connection with the services provided hereunder;

(l) the Company's allocable share of any costs and expenses incurred by the Manager or its Affiliates with respect to market information systems and publications, research publications and materials;

(m) settlement, clearing, trade confirmation and reconciliation, and custodial fees and expenses;

(n) all taxes and license fees;

(o) all insurance costs incurred with respect to insurance policies obtained in connection with the operation of the Company's business, including but not limited to insurance covering activities of the Manager and its employees relating to the performance of the Manager's duties and obligations under this Agreement;

(p) costs and expenses incurred in contracting with third parties for the servicing and special servicing of assets of the Company;

(q) all other actual out of pocket costs and expenses relating to the Company's business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing and disposing of Investments, including appraisal, reporting, audit and legal fees;

(r) any judgment or settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against the Company or any Subsidiary, or against any trustee, director or officer of the Company or of any Subsidiary in his capacity as such for which the Company or any Subsidiary is required to indemnify such trustee, director or officer by any court or governmental agency, or settlement of pending or threatened proceedings;

(s) the costs of maintaining compliance with all federal, state and local rules and regulations, including securities regulations, or any other regulatory agency, all taxes and license fees and all insurance costs incurred on the Company's behalf relating to the Company's activities;

(t) expenses relating to any office or office facilities, including disaster backup recovery sites and facilities, maintained expressly for the Company and separate from offices of the Manager and reasonably required for the Company's operation;

(u) following an Initial Public Offering, the costs of the wages, salaries and benefits incurred by the Manager with respect to any Dedicated Officers that the Manager elects to provide to the Company pursuant to Section 3(b) above; provided that (A) if the Manager elects to provide a partially dedicated Dedicated Officer rather than a fully dedicated Dedicated Officer, the Company shall be required to bear only a *pro rata* portion of the costs of the wages, salaries and benefits incurred by the Manager with respect to such personnel based on the percentage of their working time and efforts spent on matters related to the Company and (B) the amount of such wages, salaries and benefits paid or reimbursed with respect to the Dedicated Officers shall be subject to the approval of the Compensation Committee of the Board of Trustees;

(v) costs associated with the Company's marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote the Company's business;

(w) costs of maintaining the Company's web site; and

(x) all other costs and expenses approved by the Board of Trustees (collectively, "Expenses").

Other than as expressly provided above, the Company will not be required to pay any portion of the rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Manager and its Affiliates. In particular, the Manager is not entitled to be reimbursed for wages, salaries and benefits of its officers and employees, other than as described in Section 9(u) above.

To the extent the Manager (or Ellington pursuant to the Services Agreement) incurs any expense in connection with the performance of its duties and obligations hereunder (or under the Services Agreement) which (x) benefits the Company and any other funds, entities or accounts that are managed by an Affiliate of the Manager or Ellington and (y) is reimbursable by the Company under this Agreement, such expense shall be allocated among the Company and such other funds, entities or accounts in a manner determined in good faith by the Manager to reflect the relative benefits to the Company and such funds, entities or accounts resulting from such expense, including, for example, in the case of an expense related to a particular asset, in proportion to the amount of each entity's investment in such asset and, in the case of most other expenses, in proportion to the relative net asset values of the entities that are benefited.

Subject to any required Board of Trustees approval, the Manager may retain, for and on behalf, and at the sole cost and expense, of the Company, such services of non-Affiliate third party accountants, legal counsel, appraisers, insurers, brokers, transfer agents, registrars, developers, investment banks, financial advisors, banks and other lenders and others as the Manager deems necessary or advisable in connection with the management and operations of the Company in accordance with the authorities granted to the Manager pursuant to this Agreement. The provisions of this Section 9 shall survive the expiration or earlier termination of this Agreement to the extent such expenses have previously been incurred or are incurred in connection with such expiration or termination.

10. Expense Reports and Reimbursements.

(a) The Manager shall prepare a written statement in reasonable detail documenting the costs and expenses of the Company incurred during each fiscal quarter, including the costs and expenses to be reimbursed by the Company, and deliver the same to the Company within 60 days following the end of the applicable fiscal quarter. Such expenses incurred by the Manager on behalf of the Company shall be reimbursed by the Company within 60 days following delivery of the expense statement by the Manager; provided, however, that such reimbursements may be offset by the Manager against amounts due to the Company from the Manager.

(b) Any costs and expense reimbursements by the Company in accordance with Section 10(a) shall be subject to adjustment at the end of each calendar year in connection with the annual audit of the Company. In connection therewith,

the Manager shall prepare and deliver to the Company within 30 days after the conclusion of each such annual audit, a list of adjustments made as a result of, or in preparation for, the audit. The Board of Trustees shall determine, within 30 days after receipt of such list, whether funds should be refunded by the Manager to the Company or paid by the Company to the Manager, or if any accruals for the next fiscal year should be adjusted, *provided*, however, that if the Manager owes a refund to the Company, such amount may be offset by the Company against the next installment of the Quarterly Management Fee Amount due hereunder.

(c) The provisions of this Section 10 shall survive the expiration or earlier termination of this Agreement to the extent such expenses have previously been incurred or are incurred in connection with such expiration or termination.

11. Limits of Manager Responsibility; Indemnification.

(a) Pursuant to this Agreement, the Manager will not assume any responsibility other than to render the services called for hereunder in good faith and will not be responsible for any action of the Board of Trustees in following or declining to follow its advice or recommendations. The Manager, Ellington, EMG Holdings, each of their respective Affiliates and the officers, directors, trustees, members, shareholders, partners, managers, EARN Investment and Risk Management Committee members, employees, agents, successors and assigns of any of them (each, a “Manager Indemnified Party”) shall not be liable to the Company for any acts or omissions by the Manager Indemnified Party arising out of or in connection with the Company or pursuant to the performance of the Manager’s duties and obligations under this Agreement, except by reason of acts or omissions found by a court of competent jurisdiction (“Judicially Determined”) to be due to the bad faith, gross negligence, willful misconduct, fraud or reckless disregard of duties by the Manager Indemnified Party. Notwithstanding any of the foregoing to the contrary, the provisions of this Section 11 shall not be construed so as to provide for the exculpation of any Manager Indemnified Party for any liability (including liability under Federal securities laws which, under certain circumstances, impose liability even on Persons that act in good faith), to the extent (but only to the extent) that such liability may not be waived, modified or limited under applicable law, but shall be construed so as to effectuate the provisions of this Section 11 to the fullest extent permitted by law.

(b) To the fullest extent permitted by law, the Company shall indemnify, defend and hold harmless each Manager Indemnified Party from and against any and all costs, losses, claims, damages, liabilities, expenses (including reasonable legal and other professional fees and disbursements), judgments, fines and settlements (collectively, “Indemnification Obligations”) suffered or sustained by such Manager Indemnified Party by reason of (i) any acts or omissions or alleged acts or omissions arising out of or in connection with the Company or performed by a Manager Indemnified Party in good faith and in accordance with or pursuant to the Manager’s duties and obligations under this Agreement (including, for the avoidance of doubt, the Post-Termination Transition Assistance) and (ii) any and all claims, demands, actions, suits or proceedings (civil, criminal, administrative or investigative), actual or threatened, in which such Manager Indemnified Party may be involved, as a party or otherwise, arising out of or in connection with such Manager Indemnified Party’s acts or omissions performed in good faith and in accordance with or pursuant to this Agreement (including, for the avoidance of doubt, the Post-Termination Transition Assistance), except to the extent such Indemnification Obligations constitute such Manager Indemnified Party’s bad faith, gross negligence, willful misconduct or fraud or material breach or violation or reckless disregard of the Manager’s duties and obligations under this Agreement. The termination of a proceeding by settlement or upon a plea of *nolo contendere*, or its equivalent, shall not, of itself, create a presumption that such Manager Indemnified Party’s conduct constituted bad faith, gross negligence, willful misconduct or fraud. For the avoidance of doubt, none of the Manager Indemnified Parties will be liable for (i) trade errors that may result from ordinary negligence that are otherwise taken in good faith and in accordance with or pursuant to this Agreement, such as errors in the investment-decision process (e.g. a transaction was effected in violation of the Company’s Investment Guidelines) or in the trade process (e.g. a buy order was entered instead of a sell order or the wrong security was purchased or sold or the security was purchased or sold at the wrong price), or (ii) acts or omissions of any Manager Indemnified Party made or taken in accordance with written advice provided to the Manager Indemnified Parties by specialized, reputable, professional consultants selected, engaged or retained by the Manager, Ellington, EMG Holdings and their Affiliates with commercially reasonable care, including without limitation counsel, accountants, investment bankers, financial advisers, and appraisers, that are otherwise take in good faith and in accordance with or pursuant to this Agreement; provided that such advice relates to matters which are not customarily the expertise of an investment manager providing services substantially similar to those to be provided pursuant to this Agreement, or that such advice relates to matters about which such an investment manager would customarily seek such advice in the ordinary course of business other than, in the case of clauses (i) and (ii), if such Indemnification Obligations are constitute such Manager Indemnified Party’s bad faith, gross negligence, willful misconduct or fraud or material breach or violation or reckless disregard of the Manager’s duties and obligations under this Agreement. Notwithstanding the foregoing, no provision of this Agreement will constitute a waiver or limitation of the Company’s rights under federal or state securities laws.

(c) To the fullest extent permitted by law, the Manager hereby agrees to indemnify the Company and its Subsidiaries and each of their respective directors, trustees, officers, employees and managers (each a “Company Indemnified Party”) with respect to all Indemnification Obligations suffered or sustained by such Company Indemnified Party by reason of (i) acts or omissions or alleged acts or omissions of the Manager constituting bad faith, willful misconduct or gross negligence of the Manager, Ellington or their respective officers or employees or the reckless disregard of the Manager’s duties under this

Agreement or (ii) claims by Ellington's or the Manager's employees relating to the terms and conditions of their employment with Ellington or the Manager.

(d) The party seeking indemnity ("Indemnitee") will promptly notify the party against whom indemnity is claimed ("Indemnitor") in writing of any claim for which it seeks indemnification, which notice shall include all documents and information in the possession of or under the control of such Indemnitee reasonably necessary for the evaluation and/or defense of such claim and shall specifically state that indemnification for such claim is being sought under this section; provided, however, that the failure to so notify the Indemnitor will not relieve Indemnitor from any liability which it may have hereunder, except to the extent such failure actually prejudices the Indemnitor. The Indemnitor shall have the right to assume the defense and settlement of such claim; provided that, Indemnitor notifies Indemnitee of its election to assume such defense and settlement within (30) days after the Indemnitee gives the Indemnitor notice (together with such documents and information from such Indemnitee) of the claim. In such case the Indemnitee will not settle or compromise such claim, and the Indemnitor will not be liable for any such settlement made without its prior written consent. If Indemnitor is entitled to, and does, assume such defense by delivering the aforementioned notice to Indemnitee, Indemnitee will (i) have the right to approve Indemnitor's counsel (which approval will not be unreasonably withheld or delayed), (ii) be obligated to cooperate in furnishing evidence and testimony and in any other manner in which Indemnitor may reasonably request and (iii) be entitled to participate in (but not control) the defense of any such action, with its own counsel and at its own expense. If the Indemnitee is entitled pursuant to this section to elect to defend and control such action or claim, by counsel of its own choosing and so elects, then the Indemnitor shall be responsible for any good faith settlement of such claim or action entered into by such Indemnitee.

(e) Reasonable expenses (including attorney's fees) incurred by an Indemnitee in defense or settlement of a claim that may be subject to a right of indemnification hereunder may be advanced by the Company to such Indemnitee as such expenses are incurred prior to the final disposition of such claim; provided that, Indemnitee undertakes to repay such amounts if it shall be determined by a court of competent jurisdiction that Indemnitee was not entitled to be indemnified hereunder.

(f) The Indemnitee shall use commercially reasonable efforts to seek recovery under any insurance policies by which such Indemnitee is covered and if such Indemnitee recovers any amounts under any insurance policies, it shall be offset against the amount owed by the Indemnitor; provided such efforts to seek such recovery shall not be deemed a condition precedent to payment of indemnification hereunder. If the Indemnitee fails to seek such recovery, the Indemnitor shall be subrogated to the rights of the Indemnitee under any applicable insurance policy of the Indemnitee, and shall be entitled to recover under such policy up to the amount owed or paid by the Indemnitor to the Indemnitee.

(g) The provisions of this Section 11 shall survive the expiration or earlier termination of this Agreement.

12. No Joint Venture.

The Company and the Manager are not partners or joint venturers with each other and nothing in this Agreement shall be construed to make the Company and the Manager partners or joint venturers or impose any liability as such on either of them.

13. Term; Termination.

(a) Term. This Agreement shall remain in full force until September 24, 2017, unless terminated by the Company or Manager as set forth below, and shall be renewed automatically for successive one year periods thereafter (except as provided in the second sentence of Section 13(b) below), until this Agreement is terminated in accordance with the terms hereof.

(b) Non-Renewal. Either party may elect not to renew this Agreement at the expiration of the initial term or any renewal term for any or no reason by notice to the other party at least 180 days, but not more than 270 days, prior to the end of the term. Notwithstanding the preceding sentence, if the Board of Trustees adopts a plan of liquidation and dissolution for the Company, the adoption of such plan by the Board of Trustees shall be considered to constitute notice of non-renewal of this Agreement by the Company (with the non-renewal and termination of the Agreement to be effective upon the completion of the liquidation and dissolution of the Company). Upon a non-renewal of this Agreement by the Company pursuant to this section, the Company will pay the Manager the Termination Fee.

(c) Termination by the Company for Cause. At the option of the Company and at any time during the term of this Agreement, this Agreement shall be and become terminated upon 30 days' written notice of termination from the Company to the Manager, without payment of the Termination Fee, if any of the following events shall occur:

(i) the Manager, its assignees or Ellington shall commit a material breach of any provision of this Agreement (including the failure of the Manager to use commercially reasonable efforts to comply with the Company's Investment Guidelines), which such material breach continues uncured for a period of 30 days after written notice of such breach;

(ii) the Manager engages in any act of fraud, misappropriation of funds, or embezzlement against the Company or any Subsidiary or acts, or fails to act, in a manner constituting willful misconduct, gross negligence or reckless disregard in the performance of its duties under this Agreement; provided, however, that if any such act or omission is committed

by one or more employees of the Manager taken without the complicity of the Manager, Ellington, any of their Affiliates or their respective directors or principals, the Company shall not have the right to terminate this Agreement if (A) such employees have been terminated within 30 days after the Manager's actual knowledge of such act or omission, and (B) such employees or Ellington has, within 30 days after the Manager's actual knowledge of such act or omission, made the Company whole for any loss arising from such act or omission and has otherwise cured the damage caused by such act or omission;

(iii) the Manager, Ellington or any Affiliate of Ellington involved in providing services to the Company is convicted of, or pleads *nolo contendere* to, a felony violation of any U.S. securities laws;

(iv) (A) the Manager or Ellington shall commence any case, proceeding or other action (1) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (2) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Manager or Ellington shall make a general assignment for the benefit of its creditors; or (B) there shall be commenced against the Manager or Ellington any case, proceeding or other action of a nature referred to in clause (A) above which (1) results in the entry of an order for relief or any such adjudication or appointment or (2) remains undismissed, undischarged or unbonded for a period of 90 days; or (C) the Manager or Ellington shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (A) or (B) above; or (D) the Manager or Ellington shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due;

(v) upon a Change of Control of the Manager; or

(vi) the Manager shall fail to provide adequate or appropriate personnel necessary for the Manager to originate investment opportunities for the Company and to manage and develop the Company's portfolio; provided, that such default has continued uncured for a period of sixty (60) days after written notice thereof, which notice shall contain a request that the same be remedied; and provided further, that if Ellington and its Affiliates (A) manage or sub-advise at least \$2 billion in net assets under management or (B) employ at least 50 employees, then the Manager will be deemed to have adequate and appropriate personnel.

(d) Termination by the Company Based on Performance. The Board of Trustees will review the Manager's performance annually at the Board's regularly scheduled meeting during the Company's first fiscal quarter, and, within 30 days after such Board meeting, this Agreement may be terminated, pursuant to the delivery of notice as specified in this Section 13(d), below, upon either the affirmative vote of at least two-thirds of the members of the Board of Trustees or the affirmative vote of the holders of at least a majority of the outstanding Common Shares, based upon unsatisfactory performance by the Manager that is materially detrimental to the Company or a determination by the Independent Trustees that the management fees payable to the Manager hereunder are not fair, subject to the Manager's right to prevent such a termination by accepting a mutually acceptable reduction of such management fees. The Company must provide at least 60 days', but not more than 120 days', prior notice to the Manager of any termination under this Section 13(d). Upon a termination of this Agreement pursuant to this Section 13(d), the Company will pay the Manager the Termination Fee.

(e) Termination by Manager.

(i) The Manager may terminate this Agreement effective upon 60 days prior written notice of termination to the Company in the event that the Company shall default in the performance or observance of any material term, condition or covenant in this Agreement and such default shall continue for a period of 30 days after written notice thereof specifying such default and requesting that the same be remedied in such 30 day period. The Company is required to pay to the Manager the Termination Fee if the termination of this Agreement is made pursuant to this Section 13(e)(i).

(ii) The Manager may terminate this Agreement in the event that the Company becomes regulated as an investment company under the Investment Company Act, with such termination deemed to occur immediately prior to such event. The Company is not required to pay to the Manager the Termination Fee if the termination of this Agreement is made pursuant to this Section 13(e)(ii).

14. Action Upon Termination or Expiration of Term.

(a) From and after the effective date of termination or assignment of this Agreement pursuant to Sections 13 and 15 herein, the Manager shall not, subject to Section 14(b) below, be entitled to compensation for further services under this Agreement but shall be paid all compensation and reimbursable Expenses accruing to the date of termination, and the Termination Fee, if applicable. For the avoidance of doubt, if the date of termination occurs other than at the end of a fiscal quarter, compensation to the Manager accruing to the date of termination shall also include: management fees equal to the Quarterly Management Fee Amount for such final fiscal quarter, taking into account only the portion of such final fiscal quarter that this Agreement was in effect, and with appropriate adjustments to all relevant definitions. Upon such termination or expiration, the Manager shall reasonably promptly:

(i) after deducting any accrued compensation and reimbursement for Expenses to which it is then entitled, pay over to the Company all money collected and held for the account of the Company or any Subsidiary pursuant to this Agreement;

(ii) deliver to the Board of Trustees a full accounting, including a statement showing all payments collected and all money held by it, covering the period following the date of the last accounting furnished to the Board of Trustees with respect to the Company and through the termination date; and

(iii) deliver to the Board of Trustees all property and documents of the Company and any Subsidiary then in the Manager's possession or custody or under its control; provided, however, that the Manager shall have the right to retain copies of any documents and records solely to the extent necessary to comply with the bona fide record retention policy of Ellington or any regulations applicable to it.

(b) In connection with any termination of this Agreement pursuant to Section 13, the Manager shall use reasonable efforts to cooperate with the Company or any persons or entity designated by the Board of Trustees to succeed the Manager as the manager of the Company (a "Successor Manager") to accomplish an orderly transfer of the operation and management of the Company and its investment activities to such Successor Manager. For a period of thirty (30) days after the effective date of any termination of this Agreement pursuant to Section 13, the Manager shall be available, through its officers, during normal business hours and not to exceed a total of 15 hours during any week within such 30 day period, to answer questions from and consult with the Company or designated representatives of any Successor Manager with respect to the Company's business, operations and investment activities during the period prior to the termination ("Post-Termination Transition Assistance"). The Manager shall receive payment of a cash fee for any time spent providing Post-Termination Transition Assistance in an amount equal to \$500 per hour. Notwithstanding anything in this Section 14(b) to the contrary, the definition of Post-Termination Transition Assistance shall not include any of the Manager's responsibilities pursuant to Section 14(a), and the Manager shall not be compensated for any time spent by the Manager's officers to comply with Section 14(a).

15. Assignment.

The Manager may not assign its duties under this Agreement unless such assignment is consented to in writing by a majority of the Company's Independent Trustees. However, the Manager may assign to one or more of its Affiliates performance of any of its responsibilities hereunder without the approval of the Company's Independent Trustees so long as the Manager remains liable for any such Affiliate's performance hereunder and such assignment does not require the Company's approval under the Investment Advisers Act of 1940. Any permitted assignment shall bind the assignee under this Agreement in the same manner as the Manager is bound. In addition, the assignee shall execute and deliver to the Company a counterpart of this Agreement naming such assignee as the manager.

16. Release of Money or other Property Upon Written Request.

The Manager agrees that any money or other property of the Company or any Subsidiary held by the Manager under this Agreement shall be held by the Manager as custodian for the Company or any Subsidiary, and the Manager's records shall be clearly and appropriately marked to reflect the ownership of such money or other property by the Company. Upon the receipt by the Manager of a written request signed by a duly authorized officer of the Company requesting the Manager to release to the Company any money or other property then held by the Manager for the account of the Company under this Agreement, the Manager shall release such money or other property to the Company within a reasonable period of time, but in no event later than thirty (30) days following such request. Upon delivery of such money or other property to the Company, the Manager, Ellington, EMG Holdings and their Affiliates, directors, trustees, officers, managers, members and employees will not be liable to the Company, any Subsidiary, the Manager or any of their directors, trustees, officers, members, shareholders, managers, employees, owners or partners for any acts or omissions by the Company in connection with the money or other property released to the Company in accordance with the terms hereof. The Company shall indemnify the Manager, Ellington, EMG Holdings and their Affiliates, officers, directors, EARN Investment and Risk Management Committee members, partners, members, employees, agents and successors and assigns against any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever which arise in connection with the Manager's proper release of such money or other property to the Company in accordance with the terms of this Section 16. Indemnification pursuant to this Section 16 shall be in addition to any right of the Manager to indemnification under Section 11.

17. Notices.

Unless expressly provided otherwise in this Agreement, all notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered against receipt or upon actual receipt of (a) personal delivery, (b) delivery by a reputable overnight courier, (c) delivery by facsimile transmission but only if such transmission is confirmed, or (d) delivery by registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

The Company and any
of the Subsidiaries:

Ellington Residential Mortgage REIT
53 Forest Avenue - Suite 301
Old Greenwich, CT 06870
Attn: Chief Executive Officer
Facsimile: 203-698-0869

With a copy to:

Ellington Management Group, L.L.C.
53 Forest Avenue - Suite 301
Old Greenwich, CT 06870
Attn: Legal Department
Facsimile: 203-698-0869
Ellington Residential Mortgage Management LLC
53 Forest Avenue - Suite 301
Old Greenwich, CT 06870
Attn: Chief Executive Officer
Facsimile: 203-698-0869

The Manager:

With a copy to:

Ellington Management Group, L.L.C.
53 Forest Avenue - Suite 301
Old Greenwich, CT 06870
Attn: General Counsel
Facsimile: 203-698-0869

Any party may change the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 17 for the giving of notice.

18. Binding Nature of Agreement; Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns as provided in this Agreement.

19. Entire Agreement; Amendments.

This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter of this Agreement. The express terms of this Agreement control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms of this Agreement. This Agreement may not be modified, supplemented or amended other than by an agreement in writing signed by the parties hereto.

20. Governing Law; Jurisdiction.

This Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State of New York without giving effect to such state's laws and principles regarding the conflict of interest laws (other than Section 5-1401 of the general obligations Law of the State of New York). Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the borough of Manhattan or the United States District Court located in the Southern District of New York, and the appellate courts to which orders and judgments thereof may be appealed, for the purpose of any action or judgment relating to or arising out of this Agreement or any of the transactions contemplated hereby and to the laying of venue in such court.

21. Waiver of Jury Trial.

Each party hereto acknowledges and agrees that any controversy which may arise under this Agreement is likely to involve complicated and difficult issues, and, therefore, each such party hereby irrevocably and unconditionally waives to the

fullest extent permitted by applicable law, any right such party may have to a trial by jury in respect to any action directly or indirectly arising out of, under or in connection with or relating to this Agreement or the transactions contemplated by this Agreement.

22. Indulgences, Not Waivers.

Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

23. Titles Not to Affect Interpretation.

The titles of sections, paragraphs and subparagraphs contained in this Agreement are for convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation of this Agreement.

24. Execution in Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts of this Agreement, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

25. Severability.

The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

26. Principles of Construction.

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires. All references to recitals, sections, paragraphs and schedules are to the recitals, sections, paragraphs and schedules in or to this Agreement unless otherwise specified.

27. Use of Name.

The Company acknowledges that it has adopted its name "Ellington Residential Mortgage REIT" and the name of its subsidiary, "Ellington Residential Mortgage LP" (together, the "Names") through the permission of the Manager. The Manager hereby grants a non-exclusive, non-sublicensable, non-transferable license to the Company and its Subsidiaries of the Names for only so long as the Manager serves as the manager of the Company. If the Manager or any successor to its business shall cease to furnish services to the Company under this Agreement or a similar contractual agreement, for any reason whatsoever, the Company at its own expense, shall as promptly as practicable, (i) take such action as is necessary to change the Company's name, and the name of any Subsidiary, to remove any reference to "Ellington" or any name, mark or logo type derived from it and (ii) cease to use the Names in any manner, including, but not limited to, use in any sales literature or promotional material, or in any manner reasonably indicating that the Company is managed by or otherwise associated with the Manager. The Company agrees to indemnify and hold harmless the Manager, Ellington, EMG Holdings and their Affiliates from and against any and all costs, losses, claims, damages or liabilities, joint or several, including, without limitation, reasonable attorney's fees and disbursements, which may arise out of the Company's use or misuse of the Names or out of any breach of or failure to comply with this Section 27. The above license covers the Names in its entirety and its use as a trademark and service mark. If the Company or its Subsidiaries wish to use (i) any derivation or combination of the Names or (ii) the Names as a corporate name, domain name, logo or social media identifier, it shall procure the prior written consent of the Manager, which shall not be unreasonably withheld.

[SIGNATURE PAGE FOLLOWS]

Exhibit A

INVESTMENT GUIDELINES OF ELLINGTON RESIDENTIAL MORTGAGE REIT

Capitalized terms used but not defined herein shall have the meanings ascribed thereto in that certain Fourth Amended and Restated Management Agreement, dated as of November 3, 2015, as may be amended from time to time (the "Management Agreement"), by and among Ellington Residential Mortgage REIT (the "Company"), for itself and each of its direct and indirect subsidiaries, and Ellington Residential Mortgage Management LLC (the "Manager").

1. From and after such time as the Board of Trustees determines to cause the Company to elect to be treated as a REIT for U.S. federal income tax purposes, no investment shall be made that would cause the Company to fail to qualify as a REIT under the Internal Revenue Code of 1986, as amended;
2. For so long as the Company is treated as a partnership for U.S. federal income tax purposes, any investment or activity that is expected to produce income that would not be "qualifying income" within the meaning of Section 7704(d) of the Code shall be conducted through a taxable corporate subsidiary of the Company;
3. No investment shall be made that would cause the Company to be regulated as an investment company under the Investment Company Act;
4. The Company shall not enter into Cross Transactions, Principal Transactions or Split Price Executions with the Manager or any of its Affiliates unless (i) such transaction is otherwise in accordance with these guidelines and the Management Agreement and (ii) the terms of such transaction are at least as favorable to the Company as to the Manager or such Affiliate (as applicable);
5. Any proposed material investment that is outside those targeted or other asset classes or targeted platforms or opportunities mentioned or otherwise described in or contemplated by any prospectus used in an Initial Public Offering or other disclosure package used in connection with any securities offering by the Company must be approved by at least a majority of the Independent Trustees.

These investment guidelines may be changed by the Company's board of trustees without the approval of its shareholders.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Laurence Penn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ellington Residential Mortgage REIT;

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

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

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

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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: November 4, 2015

/s/ Laurence Penn

Laurence Penn

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Lisa Mumford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ellington Residential Mortgage REIT;

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

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

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

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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: November 4, 2015

/s/ Lisa Mumford

Lisa Mumford

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Ellington Residential Mortgage REIT (the "Company") on Form 10-Q for the quarter ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurence Penn, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2015

/s/ Laurence Penn

Laurence Penn
Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report of Ellington Residential Mortgage REIT (the "Company") on Form 10-Q for the quarter ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lisa Mumford, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2015

/s/ Lisa Mumford

Lisa Mumford
Chief Financial Officer
(Principal Financial and Accounting Officer)