UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 June 30, 2022

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 001-09819

DYNEX CAPITAL, INC.
(Exact name of registrant as specified in its charter)

Virginia	**52-1549373**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4991 Lake Brook Drive, Suite 100	
Glen Allen, Virginia	**23060-9245**
(Address of principal executive offices)	(Zip Code)

(804) 217-5800
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	DX	New York Stock Exchange
6.900% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value $0.01 per share	DXPRC	New York Stock Exchange

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

On July 29, 2022, the registrant had 44,517,141 shares outstanding of common stock, $0.01 par value, which is the registrant’s only class of common stock.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DYNEX CAPITAL, INC.
CONSOLIDATED BALANCE SHEETS
($s in thousands except per share data)

	June 30, 2022	December 31, 2021
ASSETS	*(unaudited)*	
Cash	$ 325,679	$ 366,023
Cash collateral posted to counterparties	111,449	55,284
Mortgage-backed securities (including pledged of $2,373,246 and $3,011,319, respectively), at fair value	2,659,386	3,181,839
Mortgage loans held for investment, at fair value	3,412	4,268
Receivable for securities pending settlement	2,516	2,771
Derivative assets	81,919	7,969
Accrued interest receivable	13,097	14,184
Other assets, net	6,879	7,400
Total assets	$ 3,204,337	$ 3,639,738
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$ 2,202,648	$ 2,849,916
Due to counterparties	71,894	2,471
Derivative liabilities	12,559	—
Cash collateral posted by counterparties	59,234	1,834
Accrued interest payable	1,811	1,365
Accrued dividends payable	7,608	6,541
Other liabilities	6,217	6,332
Total liabilities	2,361,971	2,868,459
Shareholders' equity:		
Preferred stock, par value $0.01 per share; 50,000,000 shares authorized; 4,460,000 and 4,460,000 shares issued and outstanding, respectively ($111,500 and $111,500 aggregate liquidation preference, respectively)	107,843	107,843
Common stock, par value $0.01 per share, 90,000,000 shares authorized; 43,517,234 and 36,665,805 shares issued and outstanding, respectively	435	367
Additional paid-in capital	1,218,298	1,107,792
Accumulated other comprehensive (loss) income	(145,521)	6,729
Accumulated deficit	(338,689)	(451,452)
Total shareholders' equity	842,366	771,279
Total liabilities and shareholders' equity	$ 3,204,337	$ 3,639,738

See notes to the consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
($s in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest income	$ 18,335	$ 13,393	$ 35,762	$ 27,285
Interest expense	(4,262)	(1,275)	(6,010)	(2,908)
Net interest income	14,073	12,118	29,752	24,377
Realized (loss) gain on sale of investments, net	(18,550)	2,008	(18,550)	6,705
Unrealized (loss) gain on investments, net	(65,103)	1,084	(176,354)	104
Gain (loss) on derivative instruments, net	106,412	(52,940)	326,623	54,861
Other operating expense, net	(295)	(323)	(616)	(703)
General and administrative expenses:				
Compensation and benefits	(3,402)	(3,233)	(6,868)	(6,329)
Other general and administrative	(3,799)	(2,473)	(7,441)	(4,845)
Net income (loss)	29,336	(43,759)	146,546	74,170
Preferred stock dividends	(1,923)	(1,923)	(3,847)	(4,482)
Preferred stock redemption charge	—	—	—	(2,987)
Net income (loss) to common shareholders	$ 27,413	$ (45,682)	$ 142,699	$ 66,701
Other comprehensive income:				
Unrealized (loss) gain on available-for-sale investments, net	$ (60,910)	$ 16,278	$ (152,250)	$ (44,181)
Reclassification adjustment for realized gain on available-for-sale investments, net	—	(2,008)	—	(6,705)
Total other comprehensive (loss) income	(60,910)	14,270	(152,250)	(50,886)
Comprehensive (loss) income to common shareholders	$ (33,497)	$ (31,412)	$ (9,551)	$ 15,815
Weighted average common shares-basic	39,190,251	31,973,587	37,964,617	29,395,463
Weighted average common shares-diluted	39,558,462	31,973,587	38,332,828	29,560,522
Net income (loss) per common share-basic	$ 0.70	$ (1.43)	$ 3.76	$ 2.27
Net income (loss) per common share-diluted	$ 0.69	$ (1.43)	$ 3.72	$ 2.26
Dividends declared per common share	$ 0.39	$ 0.39	$ 0.78	$ 0.78

See notes to the consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)
($s in thousands)

	Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
Balance as of December 31, 2021	4,460,000	$ 107,843	36,665,805	$ 367	$ 1,107,792	$ 6,729	$ (451,452)	$ 771,279
Stock issuance	—	—	267,288	3	4,242	—	—	4,245
Restricted stock granted, net of amortization	—	—	40,196	—	451	—	—	451
Other share-based compensation, net of amortization	—	—	—	—	395	—	—	395
Adjustments for tax withholding on share-based compensation	—	—	(15,407)	—	(236)	—	—	(236)
Stock issuance costs	—	—	—	—	(16)	—	—	(16)
Net income	—	—	—	—	—	—	117,209	117,209
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(14,431)	(14,431)
Other comprehensive loss	—	—	—	—	—	(91,340)	—	(91,340)
Balance as of March 31, 2022	4,460,000	$ 107,843	36,957,882	$ 370	$ 1,112,628	$ (84,611)	$ (350,597)	$ 785,633
Stock issuance	—	—	6,539,485	65	105,134	—	—	105,199
Restricted stock granted, net of amortization	—	—	31,020	—	440	—	—	440
Other share-based compensation, net of amortization	—	—	19,093	—	601	—	—	601
Adjustments for tax withholding on share-based compensation	—	—	(30,246)	—	(489)	—	—	(489)
Stock issuance costs	—	—	—	—	(16)	—	—	(16)
Net income	—	—	—	—	—	—	29,336	29,336
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(15,505)	(15,505)
Other comprehensive loss	—	—	—	—	—	(60,910)	—	(60,910)
Balance as of June 30, 2022	4,460,000	$ 107,843	43,517,234	$ 435	$ 1,218,298	$ (145,521)	$ (338,689)	$ 842,366
Balance as of December 31, 2020	7,248,330	$ 174,564	23,697,970	$ 237	$ 869,495	$ 80,261	$ (491,104)	$ 633,453

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Stock issuance	—	—	7,187,500	72	128,078	—	—	128,150
Redemption of preferred stock	(2,788,330)	(66,721)	—	—	—	—	(2,987)	(69,708)
Restricted stock granted, net of amortization	—	—	16,722	—	451	—	—	451
Adjustments for tax withholding on share-based compensation	—	—	(22,623)	—	(428)	—	—	(428)
Stock issuance costs	—	—	—	—	(270)	—	—	(270)
Net income	—	—	—	—	—	—	117,929	117,929
Dividends on preferred stock	—	—	—	—	—	—	(2,559)	(2,559)
Dividends on common stock	—	—	—	—	—	—	(10,586)	(10,586)
Other comprehensive loss	—	—	—	—	—	(65,156)	—	(65,156)
Balance as of March 31, 2021	4,460,000	$ 107,843	30,879,569	$ 309	$ 997,326	$ 15,105	$ (389,307)	$ 731,276
Stock issuance	—	—	3,463,708	34	68,268	—	—	68,302
Restricted stock granted, net of amortization	—	—	23,305	—	444	—	—	444
Other share-based compensation	—	—	—	—	100	—	—	100
Adjustments for tax withholding on share-based compensation	—	—	(22,016)	—	(425)	—	—	(425)
Stock issuance costs	—	—	—	—	(43)	—	—	(43)
Net loss	—	—	—	—	—	—	(43,759)	(43,759)
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(12,613)	(12,613)
Other comprehensive income	—	—	—	—	—	14,270	—	14,270
Balance as of June 30, 2021	4,460,000	$ 107,843	34,344,566	$ 343	$ 1,065,670	$ 29,375	$ (447,602)	$ 755,629

See notes to the consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
($s in thousands)

	Six Months Ended June 30,	
	2022	2021
Operating activities:		
Net income	$ 146,546	$ 74,170
Adjustments to reconcile net income to cash provided by operating activities:		
Realized loss (gain) on sale of investments, net	18,550	(6,705)
Unrealized loss (gain) on investments, net	176,354	(104)
Gain on derivative instruments, net	(326,623)	(54,861)
Amortization of investment premiums, net	51,988	60,123
Other amortization and depreciation, net	1,135	1,106
Share-based compensation expense	1,873	995
Decrease in accrued interest receivable	1,087	332
Increase (decrease) in accrued interest payable	446	(1,005)
Change in other assets and liabilities, net	(614)	(6,197)
Net cash provided by operating activities	70,742	67,854
Investing activities:		
Purchase of investments	(372,815)	(1,052,490)
Principal payments received on investments	168,321	223,706
Proceeds from sales of investments	327,700	474,657
Principal payments received on mortgage loans held for investment	828	1,171
Net receipts on derivatives, including terminations	334,910	425,889
Increase in cash collateral posted by counterparties	57,400	1,645
Net cash provided by investing activities	516,344	74,578
Financing activities:		
Borrowings under repurchase agreements	7,039,210	11,010,378
Repayments of repurchase agreement borrowings	(7,686,478)	(10,920,476)
Principal payments on non-recourse collateralized financing	—	(118)
Proceeds from issuance of common stock	109,444	224,350
Cash paid for redemption of preferred stock	—	(69,708)
Cash paid for stock issuance costs	—	(330)
Payments related to tax withholding for share-based compensation	(725)	(853)
Dividends paid	(32,716)	(42,798)
Net cash (used in) provided by financing activities	(571,265)	200,445
Net increase in cash including cash posted to counterparties	15,821	342,877
Cash including cash posted to counterparties at beginning of period	421,307	310,360
Cash including cash posted to counterparties at end of period	$ 437,128	$ 653,237
Supplemental Disclosure of Cash Activity:		
Cash paid for interest	$ 5,564	$ 3,906

See notes to the consolidated financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Dynex Capital, Inc. (the "Company") was incorporated in the Commonwealth of Virginia on December 18, 1987 and commenced operations in February 1988. The Company is an internally managed mortgage real estate investment trust, or mortgage REIT, which primarily earns income from investing on a leveraged basis in debt securities, the majority of which are specified pools of Agency mortgage-backed securities ("MBS") consisting of residential MBS ("RMBS"), commercial MBS ("CMBS"), and CMBS interest-only ("IO") securities and non-Agency MBS, which consist mainly of CMBS IO. Agency MBS have a guaranty of principal payment by a U.S. government-sponsored entity ("GSE") such as Fannie Mae and Freddie Mac, which are in conservatorship and are currently supported by a senior preferred stock purchase agreement from the U.S. Treasury. Non-Agency MBS are issued by non-governmental enterprises and do not have a guaranty of principal payment. The Company also invests in other types of mortgage-related securities, such as to-be-announced securities ("TBAs" or "TBA securities").

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company and its subsidiaries (together, "Dynex" or, as appropriate, the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all significant adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the consolidated financial statements have been included. Operating results for the three months ended June 30, 2022 are not necessarily indicative of the results that may be expected for any other interim periods or for the entire year ending December 31, 2022. The unaudited consolidated financial statements included herein should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K") filed with the SEC.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. The most significant estimates used by management include, but are not limited to, amortization of premiums and discounts and fair value measurements of its investments, including TBA securities accounted for as derivative instruments. These items are discussed further below within this note to the consolidated financial statements. The Company believes the estimates and assumptions underlying the consolidated financial statements included herein are reasonable and supportable based on the information available as of June 30, 2022.

Reclassifications

The margin deficit of $2,471 related to the Company's U.S. Treasury futures was reclassified from "derivative liabilities" to "due to counterparty" on the Company's consolidated balance sheet as of December 31, 2021.

Consolidation and Variable Interest Entities

The consolidated financial statements include the accounts of the Company and the accounts of its majority owned subsidiaries and variable interest entities ("VIE") for which it is the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation.

The Company consolidates a VIE if the Company is determined to be the VIE's primary beneficiary, which is defined as the party that has both: (i) the power to control the activities that most significantly impact the VIE's financial performance and (ii) the right to receive benefits or absorb losses that could potentially be significant to the VIE. The Company reconsiders its evaluation of whether to consolidate a VIE on an ongoing basis, based on changes in the facts and circumstances pertaining to the VIE. Though the Company invests in Agency and non-Agency MBS which are generally considered to be interests in VIEs, the Company does not consolidate these entities because it does not meet the criteria to be deemed a primary beneficiary.

Income Taxes

The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 (the "Tax Code") and the corresponding provisions of state law. To qualify as a REIT, the Company must meet certain tests including investing in primarily real estate-related assets and the required distribution of at least 90% of its annual REIT taxable income to shareholders after consideration of its net operating loss ("NOL") carryforward and not including taxable income retained in its taxable subsidiaries. As a REIT, the Company generally will not be subject to federal income tax on the amount of its income or capital gains that is distributed as dividends to shareholders.

The Company assesses its tax positions for all open tax years and determines whether the Company has any material unrecognized liabilities and records these liabilities, if any, to the extent they are deemed more likely than not to have been incurred.

Net Income (Loss) Per Common Share

The Company calculates basic net income (loss) per common share by dividing net income (loss) to common shareholders for the period by weighted-average shares of common stock outstanding for that period. Please see Note 2 for the calculation of the Company's basic and diluted net income (loss) per common share for the periods indicated.

The Company currently has unvested restricted stock, service-based restricted stock units ("RSUs") and performance-based stock units ("PSUs") issued and outstanding. Restricted stock awards are considered participating securities and therefore are included in the computation of basic net income per common share using the two-class method because holders of unvested shares of restricted stock are eligible to receive non-forfeitable dividends. Holders of RSUs and PSUs accrue forfeitable dividend equivalent rights over the period outstanding, receiving dividend payments only upon the settlement date if the requisite service-based and performance-based conditions have been achieved, as applicable. As such, RSUs and PSUs are excluded from the computation of basic net income per common share, but are included in the computation of diluted net income per common share unless the effect is to reduce a net loss or increase the net income per common share (also known as "anti-dilutive"). Upon vesting (or settlement, in the case of units), restrictions on transfer expire on each share of restricted stock, RSU, and PSU, and each such share or unit becomes one unrestricted share of common stock and is included in the computation of basis net income per common share.

Because the Company's 6.900% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") is redeemable at the Company's option for cash only and convertible into shares of common stock only upon a change of control of the Company (and subject to other circumstances) as described in Article IIIC of the Company's Restated Articles of Incorporation, the effect of those shares and their related dividends were excluded from the calculation of diluted net income per common share for the periods presented.

Cash

Cash includes unrestricted demand deposits at highly rated financial institutions. The Company's cash balances fluctuate throughout the year and may exceed Federal Deposit Insurance Corporation ("FDIC") insured limits from time to time. Although the Company bears risk to amounts in excess of those insured by the FDIC, it does not anticipate any losses as a result due to the financial position and creditworthiness of the depository institutions in which those deposits are held.

(amounts in thousands except share data)

Cash Collateral Posted To/By Counterparties

Cash collateral posted to/by counterparties represents amounts pledged/received to cover margin requirements related to the Company's financing and derivative instruments. If the amount pledged to a counterparty exceeds the amount received from a counterparty, the net amount is recorded as an asset within "cash collateral posted to counterparties", and if the amount received from a counterparty exceeds the amount pledged to a counterparty, the net amount is recorded as a liability within "cash collateral posted by counterparties" on the Company's consolidated balance sheets.

The following table provides a reconciliation of "cash" and "cash posted to counterparties" reported on the Company's consolidated balance sheet as of June 30, 2022 that sum to the total of the same such amounts shown on the Company's consolidated statement of cash flows for the three months ended June 30, 2022:

		June 30, 2022
Cash	$	325,679
Cash collateral posted to counterparties		111,449
Total cash including cash posted to counterparties shown on consolidated statement of cash flows	$	437,128

Mortgage-Backed Securities

The Company's MBS are recorded at fair value on the Company's consolidated balance sheet. Changes in fair value of MBS purchased prior to January 1, 2021 are designated as available-for-sale ("AFS") with changes in fair value reported in other comprehensive income ("OCI") as an unrealized gain (loss) until the security is sold or matures. Effective January 1, 2021, the Company elected the fair value option ("FVO") for all MBS purchased on or after that date with changes in fair value reported in net income as "unrealized gain (loss) on investments, net" until the security is sold or matures. Upon the sale of an MBS, any unrealized gain or loss within OCI or net income is reclassified to "realized gain (loss) on sale of investments, net" within net income using the specific identification method. Management elected the fair value option so that GAAP net income will reflect the changes in fair value for its future purchases of MBS in a manner consistent with the presentation and timing of the changes in fair value of its derivative instruments. Electing the fair value option is increasing as an industry trend for mortgage REITs who have not elected cash flow hedge accounting. "Unrealized gain (loss) on investments, net" also includes changes in fair value for mortgage loans held for investment for which the Company elected the fair value option effective January 1, 2020.

Interest Income, Premium Amortization, and Discount Accretion. Interest income on MBS is accrued based on the outstanding principal balance (or notional balance in the case of interest-only, or "IO" securities) and their contractual terms. Premiums or discounts associated with the purchase of Agency MBS as well as any non-Agency MBS are amortized or accreted into interest income over the projected life of such securities using the effective yield method, and adjustments to premium amortization and discount accretion are made for actual cash payments. The Company's projections of future cash payments are based on input received from external sources and internal models and may include assumptions about the amount and timing of loan prepayment rates, fluctuations in interest rates, credit losses, and other factors. On at least a quarterly basis, the Company reviews and makes any necessary adjustments to its cash flow projections and updates the yield recognized on these assets.

The Company does not currently hold any non-Agency MBS that were purchased at a discount with credit ratings of less than 'AA' or not rated by any of the nationally recognized credit rating agencies at the time of purchase.

Determination of MBS Fair Value. The Company estimates the fair value of the majority of its MBS based upon prices obtained from pricing services and broker quotes. The remainder of the Company's MBS are valued by discounting the estimated future cash flows derived from cash flow models that utilize information such as the security's coupon rate, estimated prepayment speeds, expected weighted average life, collateral composition, estimated future interest rates, expected losses, and credit enhancements as well as certain other relevant information. Please refer to Note 6 for further discussion of MBS fair value measurements.

Allowance for Credit Losses. On at least a quarterly basis, the Company evaluates any MBS designated as AFS with a fair value less than its amortized cost for credit losses. If the difference between the present value of cash flows expected to be collected on the MBS is less than its amortized cost, the difference is recorded as an allowance for credit loss through net income up to and not exceeding the amount that the amortized cost exceeds current fair value. Subsequent changes in credit loss estimates are recognized in earnings in the period in which they occur. Because the majority of the Company's investments are higher credit quality and most are guaranteed by a GSE, the Company is not likely to have an allowance for credit losses related to its MBS recorded on its consolidated balance sheet.

Repurchase Agreements

The Company's repurchase agreements, which are used to finance its purchases of MBS, are accounted for as secured borrowings under which the Company pledges its securities as collateral to secure a loan, which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. The Company retains beneficial ownership of the pledged collateral, which is disclosed parenthetically on the Company's consolidated balance sheets. At the maturity of a repurchase agreement, the Company is required to repay the loan and concurrently receives back its pledged collateral from the lender or, with the consent of the lender, the Company may renew the agreement at the then prevailing financing rate. A repurchase agreement lender may require the Company to pledge additional collateral in the event of a decline in the fair value of the collateral pledged. Repurchase agreement financing is recourse to the Company and the assets pledged. Most of the Company's repurchase agreements are based on the September 1996 version of the Bond Market Association Master Repurchase Agreement, which generally provides that the lender, as buyer, is responsible for obtaining collateral valuations from a generally recognized source agreed to by both the Company and the lender, or, in an instance when such source is not available, the value determination is made by the lender.

Derivative Instruments

The Company's derivative instruments include U.S. Treasury futures, options on interest rate swaps ("swaptions") and TBA securities, which are forward contracts for the purchase or sale of Agency RMBS on a non-specified pool basis. Derivative instruments are accounted for at fair value, and changes in fair value, including gains and losses realized upon termination, maturity, or settlement, are recorded in "gain (loss) on derivative instruments, net" on the Company's consolidated statement of comprehensive income (loss). Cash receipts and payments related to derivative instruments are classified in the investing activities section of the consolidated statements of cash flows in accordance with the underlying nature or purpose of the derivative transactions.

The Company currently has short positions in U.S. Treasury futures contracts, which are valued based on exchange pricing with daily margin settlements. The margin excess or deficit outstanding is recorded as a receivable or payable as of the date of the Company's consolidated balance sheets. The Company realizes gains or losses on these contracts upon expiration at an amount equal to the difference between the current fair value of the underlying asset and the contractual price of the futures contract.

The Company's swaptions provide the Company the right, but not an obligation, to enter into an interest rate swap at a predetermined notional amount with a stated term and pay and receive rates in the future. Swaptions are valued based on exchange pricing without daily margin settlements. The Company may defer the premium payment until the effective date of the underlying interest rate swap agreement, recording a payable on its consolidated balance sheet. The premium payable and the fair value of the swaption are accounted for as a single unit of account. If a swaption expires unexercised, the realized loss on the swaption would be equal to the premium paid. If the swaption is exercised, the realized gain or loss on the swaption would be equal to the difference between the fair value of the underlying interest rate swap and the premium paid.

A TBA security is a forward contract ("TBA contract") for the purchase ("long position") or sale ("short position") of a non-specified Agency MBS at a predetermined price with certain principal and interest terms and certain types of collateral, but the particular Agency securities to be delivered are not identified until shortly before the settlement date. The Company accounts for long and short positions in TBAs as derivative instruments because the Company cannot assert that it is probable at inception and throughout the term of an individual TBA transaction that its settlement will result in physical delivery of the underlying Agency RMBS or that the individual TBA transaction will not settle in the shortest time period possible.

Please refer to Note 5 for additional information regarding the Company's derivative instruments as well as Note 6 for information on how the fair value of these instruments is calculated.

Share-Based Compensation

The Company's 2020 Stock and Incentive Plan (the "2020 Plan") reserves for issuance up to 2,300,000 common shares for eligible employees, non-employee directors, consultants, and advisors to the Company to be granted in the form of stock options, restricted stock, restricted stock units ("RSUs"), stock appreciation rights, performance-based stock units ("PSUs"), and performance-based cash awards (collectively, "awards"). As of June 30, 2022, 1,235,143 common shares are available for issuance under the 2020 Plan. Awards previously granted under the Company's 2018 Stock and Incentive Plan ("2018 Plan") or any other prior equity plan remain outstanding and valid in accordance with their terms, but no new awards will be granted under the 2018 Plan or any other prior equity plan.

Currently, the Company has shares of restricted stock and RSUs issued and outstanding which are treated as equity awards and recorded at their fair value using the closing stock price on the grant date. The compensation cost is recognized over the vesting period with a corresponding credit to shareholders' equity using the straight-line method.

The Company also has PSUs issued and outstanding which contain either Company performance-based or market performance-based conditions. PSUs subject to Company performance-based conditions are initially recognized as equity at their fair value which is measured using the closing stock price on the grant date multiplied by the number of units expected to vest based on an assessment of the probability of achievement of the Company performance-based conditions as of the grant date. The grant date fair value is recognized as expense on the Company's consolidated statements of comprehensive income within "Compensation and benefits" on a straight-line basis over the vesting period and adjusted if necessary based on any change in probability of achievement which is re-assessed as of each reporting date and on at least a quarterly basis.

PSUs subject to market performance-based conditions are recognized as equity at their grant date fair value determined through a Monte-Carlo simulation of the Company's common stock total shareholder return ("TSR") relative to the common stock TSR of the group of peer companies specified in the award agreement. Awards subject to market performance-based conditions are not assessed for probability of achievement and are not remeasured subsequent to issuance. The grant date fair value is recognized as expense on the Company's consolidated statements of comprehensive income within "Compensation and benefits" on a straight-line basis over the vesting period even if the market performance-based conditions are not achieved.

The Company does not estimate forfeitures for any of its share-based compensation awards, but adjusts for actual forfeitures in the periods in which they occur. Because RSUs and PSUs have forfeitable dividend equivalent rights that are paid only upon settlement, any accrued dividend equivalent rights ("DERs") on forfeited units are reversed with a corresponding credit to "Compensation and benefits."

Please see Note 7 for additional information about the Company's share-based compensation awards.

Contingencies

In the normal course of business, there may be various lawsuits, claims, and other contingencies pending against the Company. On a quarterly basis, the Company evaluates whether to establish provisions for estimated losses from those matters. The Company recognizes a liability for a contingent loss when: (a) the underlying causal event has occurred prior to the balance sheet date; (b) it is probable that a loss has been incurred; and (c) there is a reasonable basis for estimating that loss. A liability is not recognized for a contingent loss when it is only possible or remotely possible that a loss has been incurred, however, possible contingent losses shall be disclosed. If the contingent loss (or an additional loss in excess of any accrual) is at least a reasonable possibility and material, then the Company discloses a reasonable estimate of the possible loss or range of loss, if such reasonable estimate can be made. If the Company cannot make a reasonable estimate of the possible material loss, or range of loss, then that fact is disclosed.

(amounts in thousands except share data)

Recently Issued Accounting Pronouncements

The Company evaluates Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB") on at least a quarterly basis to evaluate applicability and significance of any impact on its financial condition and results of operations. There were no accounting pronouncements issued during the six months ended June 30, 2022 that are expected to have a material impact on the Company's financial condition or results of operations.

NOTE 2 – NET INCOME (LOSS) PER COMMON SHARE

Please refer to Note 1 for information regarding the Company's treatment of its preferred stock and stock awards in the calculation of its basic and diluted net income (loss) per common share and to Note 7 for information regarding the Company's stock award activity for the periods presented. The following table presents the computations of basic and diluted net income (loss) per common share for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Weighted average number of common shares outstanding - basic	39,190,251	31,973,587	37,964,617	29,395,463
Incremental common shares-unsettled RSUs	110,629	—	110,629	55,019
Incremental common shares-unsettled PSUs	257,582	—	257,582	110,040
Weighted average number of common shares outstanding - diluted	39,558,462	31,973,587	38,332,828	29,560,522
Net income (loss) to common shareholders	$ 27,413	$ (45,682)	$ 142,699	$ 66,701
Net income (loss) per common share-basic	$ 0.70	$ (1.43)	$ 3.76	$ 2.27
Net income (loss) per common share-diluted	$ 0.69	$ (1.43)	$ 3.72	$ 2.26

For the three months ended June 30, 2021, 165,059 of potentially dilutive RSUs and PSUs were excluded from the computation of diluted net loss per common share because including them would have been anti-dilutive for the period.

(amounts in thousands except share data)

NOTE 3 – MORTGAGE-BACKED SECURITIES

The following tables provide details on the Company's MBS by investment type as of the dates indicated:

	June 30, 2022			December 31, 2021		
	Current Face	Amortized Cost	Fair Value	Current Face	Amortized Cost	Fair Value
Agency RMBS	$ 2,478,879	$ 2,547,122	$ 2,219,619	$ 2,639,747	$ 2,713,907	$ 2,686,775
Agency CMBS	171,326	173,366	168,437	174,899	177,211	184,847
CMBS IO (1)	n/a	275,185	270,717	n/a	298,197	309,419
Non-Agency other	759	656	613	966	777	798
Total	$ 2,650,964	$ 2,996,329	$ 2,659,386	$ 2,815,612	$ 3,190,092	$ 3,181,839

(1) The notional balance for Agency CMBS IO and non-Agency CMBS IO was $10,438,417 and $7,540,114, respectively, as of June 30, 2022 and $10,630,713 and $8,635,666, respectively, as of December 31, 2021.

	June 30, 2022			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
MBS measured at fair value through OCI:				
Agency RMBS	$ 1,123,271	$ 22	$ (138,009)	$ 985,284
Agency CMBS	173,366	66	(4,995)	168,437
CMBS IO	231,612	2,294	(4,856)	229,050
Non-Agency other	656	2	(45)	613
Total	$ 1,528,905	$ 2,384	$ (147,905)	$ 1,383,384
MBS measured at fair value through net income:				
Agency RMBS	$ 1,423,851	$ —	$ (189,516)	$ 1,234,335
CMBS IO	43,573	39	(1,945)	41,667
Total	$ 1,467,424	$ 39	$ (191,461)	$ 1,276,002

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
MBS measured at fair value through OCI:				
Agency RMBS	$ 1,232,738	$ 7,779	$ (19,994)	$ 1,220,523
Agency CMBS	177,211	7,636	—	184,847
CMBS IO	276,354	11,713	(426)	287,641
Non-Agency other	777	63	(42)	798
Total	$ 1,687,080	$ 27,191	$ (20,462)	$ 1,693,809
MBS measured at fair value through net income:				
Agency RMBS	$ 1,481,169	$ —	$ (14,917)	$ 1,466,252
CMBS IO	21,843	57	(122)	21,778
Total	$ 1,503,012	$ 57	$ (15,039)	$ 1,488,030

(amounts in thousands except share data)

The majority of the Company's MBS are pledged as collateral for the Company's repurchase agreements, which are disclosed in Note 4. Actual maturities of MBS are affected by the contractual lives of the underlying mortgage collateral, periodic payments of principal, prepayments of principal, and the payment priority structure of the security; therefore, actual maturities are generally shorter than the securities' stated contractual maturities.

The following table presents information regarding unrealized gains and losses on investments reported within net income on the Company's consolidated statements of comprehensive income for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Agency RMBS	$ (64,398)	$ 981	$ (174,599)	$ 21
CMBS IO	(711)	16	(1,841)	16
Mortgage loans held for investment and other assets	6	87	86	67
Total unrealized (loss) gain on investments, net	$ (65,103)	$ 1,084	$ (176,354)	$ 104

The following table presents information regarding realized gains and losses sales of investments reported in the Company's consolidated statements of comprehensive income for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Realized gains on sales of MBS - AFS	$ —	$ 2,767	$ —	$ 7,516
Realized losses on sales of MBS - AFS	—	(759)	—	(811)
Realized gains on sales of MBS - FVO	—	—	—	—
Realized losses on sales of MBS - FVO	(18,550)	—	(18,550)	—
Total realized (loss) gain on sale of investments, net	$ (18,550)	$ 2,008	$ (18,550)	$ 6,705

The following table presents certain information for MBS designated as AFS that were in an unrealized loss position as of the dates indicated:

	June 30, 2022			December 31, 2021		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
Continuous unrealized loss position for less than 12 months:						
Agency MBS	$ 863,130	$ (81,063)	75	$ 1,051,233	$ (20,118)	23
Non-Agency MBS	62,025	(1,573)	61	11,667	(247)	14
Continuous unrealized loss position for 12 months or longer:						
Agency MBS	$ 386,087	$ (64,837)	8	$ —	$ —	—
Non-Agency MBS	5,916	(432)	11	1,241	(97)	6

The unrealized losses on the Company's MBS designated as AFS were the result of declines in market prices and were not credit related; therefore, the Company's allowance for credit losses on its MBS was $0 as of June 30, 2022 and December 31, 2021. The principal related to Agency MBS is guaranteed by the GSEs Fannie Mae and

(amounts in thousands except share data)

Freddie Mac. Although the unrealized losses are not credit related, the Company assesses its ability and intent to hold any MBS with an unrealized loss until the recovery in its value. This assessment is based on the amount of the unrealized loss and significance of the related investment as well as the Company's leverage and liquidity position. In addition, for its non-Agency MBS, the Company reviews the credit ratings, the credit characteristics of the mortgage loans collateralizing these securities, and the estimated future cash flows including projected collateral losses.

NOTE 4 – REPURCHASE AGREEMENTS

The Company's repurchase agreements outstanding as of June 30, 2022 and December 31, 2021 are summarized in the following tables:

	June 30, 2022			December 31, 2021		
Collateral Type	**Balance**	**Weighted Average Rate**	**Fair Value of Collateral Pledged**	**Balance**	**Weighted Average Rate**	**Fair Value of Collateral Pledged**
Agency RMBS	$ 1,825,113	1.22 %	$ 1,959,295	$ 2,408,126	0.17 %	$ 2,536,094
Agency CMBS	156,422	1.37 %	166,562	176,268	0.14 %	184,847
Agency CMBS IO	157,320	1.63 %	173,256	180,912	0.68 %	192,481
Non-Agency CMBS IO	63,793	2.48 %	74,133	84,610	0.99 %	97,897
Total repurchase agreements	$ 2,202,648	1.30 %	$ 2,373,246	$ 2,849,916	0.23 %	$ 3,011,319

The Company had repurchase agreement borrowings outstanding with 22 different counterparties as of June 30, 2022, and its equity at risk did not exceed 5% with any counterparty as of that date.

The following table provides information on the remaining term to maturity and original term to maturity for the Company's repurchase agreements as of the dates indicated:

	June 30, 2022			December 31, 2021		
Remaining Term to Maturity	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**
Less than 30 days	$ 1,742,085	1.46 %	53	$ 602,994	0.42 %	123
30 to 90 days	211,447	1.03 %	187	763,302	0.14 %	166
91 to 180 days	249,116	0.38 %	365	1,075,324	0.15 %	198
181 days to 1 year	—	— %	—	408,296	0.30 %	366
Total	$ 2,202,648	1.30 %	101	$ 2,849,916	0.23 %	198

The Company has an agreement with Wells Fargo Bank, N.A. for a committed repurchase facility, which has an aggregate maximum borrowing capacity of $250,000 and a maturity date of June 8, 2023. As of June 30, 2022, the Company had $69,067 outstanding with this facility at a weighted average borrowing rate of 2.36%. The remaining repurchase facilities available to the Company are uncommitted with no guarantee of renewal or terms of renewal.

The Company's counterparties, as set forth in the master repurchase agreement with the counterparty, require the Company to comply with various customary operating and financial covenants, including, but not limited to, minimum net worth and earnings, maximum declines in net worth in a given period, and maximum leverage requirements as well as maintaining the Company's REIT status. In addition, some of the agreements contain cross default features, whereby default under an agreement with one lender simultaneously causes default under agreements with other lenders. To the extent that the Company fails to comply with the covenants contained in these financing agreements or is otherwise found to be in default under the terms of such agreements, the counterparty has the right to accelerate amounts due under the master repurchase agreement. The Company believes it was in full compliance with all covenants in master repurchase agreements under which there were amounts outstanding as of June 30, 2022.

(amounts in thousands except share data)

The Company's repurchase agreements are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its repurchase agreements to these arrangements on a gross basis. The following table presents information regarding the Company's repurchase agreements as if the Company had presented them on a net basis as of June 30, 2022 and December 31, 2021:

				Gross Amount Not Offset in the Balance Sheet (1)		
	Gross Amount of Recognized Liabilities	**Gross Amount Offset in the Balance Sheet**	**Net Amount of Liabilities Presented in the Balance Sheet**	**Financial Instruments Posted as Collateral**	**Cash Posted as Collateral**	**Net Amount**
June 30, 2022						
Repurchase agreements	$ 2,202,648	$ —	$ 2,202,648	$ (2,202,648)	$ —	$ —
December 31, 2021						
Repurchase agreements	$ 2,849,916	$ —	$ 2,849,916	$ (2,849,916)	$ —	$ —

(1) Amounts disclosed for collateral received by or posted to the same counterparty include cash and the fair value of MBS up to and not exceeding the net amount of the repurchase agreement liability presented in the balance sheet. The fair value of the total collateral received by or posted to the same counterparty may exceed the amounts presented.

Please see Note 5 for information related to the Company’s derivatives, which are also subject to underlying agreements with master netting or similar arrangements.

NOTE 5 – DERIVATIVES

Types and Uses of Derivatives Instruments

Interest Rate Derivatives. During the three and six months ended June 30, 2022, the Company used short positions in U.S. Treasury futures and interest rate swaptions to mitigate the impact of changing interest rates on the fair value of its investments and its net interest earnings.

TBA Transactions. The Company purchases TBA securities as a means of investing in non-specified fixed-rate Agency RMBS and may also periodically sell TBA securities as a means of economically hedging its book value exposure to Agency RMBS. The Company holds long and short positions in TBA securities by executing a series of transactions, commonly referred to as “dollar roll” transactions, which effectively delay the settlement of a forward purchase (or sale) of a non-specified Agency RMBS by entering into an offsetting TBA position, net settling the paired-off positions in cash, and simultaneously entering into an identical TBA long (or short) position with a later settlement date. TBA securities purchased (or sold) for a forward settlement date are generally priced at a discount relative to TBA securities settling in the current month. This discount, often referred to as “drop income” represents the economic equivalent of net interest income (interest income less implied financing cost) on the underlying Agency security from trade date to settlement date. The Company accounts for all TBAs (whether net long or net short positions, or collectively “TBA dollar roll positions”) as derivative instruments because it cannot assert that it is probable at inception and throughout the term of an individual TBA transaction that its settlement will result in physical delivery of the underlying Agency RMBS, or that the individual TBA transaction will not settle in the shortest period possible.

(amounts in thousands except share data)

Gain (Loss) on Derivative Instruments, Net

The table below provides detail of the Company's "gain (loss) on derivative instruments, net" by type of derivative for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
Type of Derivative Instrument	**2022**	**2021**	**2022**	**2021**
U.S. Treasury futures	$ 150,475	$ (63,184)	$ 439,408	$ 32,464
Interest rate swaptions	26,502	(19,062)	51,940	38,701
Options on U.S. Treasury futures	—	(11,531)	—	1,086
TBA securities - long positions	(70,565)	40,837	(164,725)	(17,390)
Gain (loss) on derivative instruments, net	$ 106,412	$ (52,940)	$ 326,623	$ 54,861

The table below shows the balances for each type of derivative instrument on the Company's consolidated balance sheets as of the dates indicated:

Type of Derivative Instrument	Balance Sheet Location	Purpose	June 30, 2022	December 31, 2021
Interest rate swaptions	Derivative assets	Economic hedging	$ 55,142	$ 3,202
TBA securities	Derivative assets	Investing	26,777	4,767
Total derivatives assets			$ 81,919	$ 7,969
TBA securities	Derivative liabilities	Investing	$ 12,559	—
Total derivatives liabilities			$ 12,559	$ —

As of June 30, 2022, the Company had short positions in 5-year and 10-year U.S. Treasury futures contracts with a combined notional amount of $(4,350,000), which expire late in the third quarter of 2022, compared to a combined notional amount of $(3,890,000) as of December 31, 2021. Because the Company's U.S. Treasury futures are net settled on a daily basis, the carrying value on the Company's consolidated balance sheets nets to $0. The margin excess or deficit outstanding is recorded as a receivable or payable as of the date of the Company's consolidated balance sheets.

The following table provides details on the Company's interest rate swaptions held as of the dates indicated:

	Option			Underlying Payer Swap	
	Cost	**Fair Value**	**Average Term to Expiration**	**Notional Amount**	**Average Fixed Pay Rate**
As of June 30, 2022:	$ 9,375	$ 55,142	1 month	$ 500,000	1.60%
As of December 31, 2021	$ 9,375	$ 3,202	7 months	$ 500,000	1.60%

(amounts in thousands except share data)

The following table summarizes information about the Company's long positions in TBA securities as of the dates indicated:

	June 30, 2022	December 31, 2021
Implied market value (1)	$ 3,178,541	$ 1,531,188
Implied cost basis (2)	3,164,322	1,526,421
Net carrying value (3)	$ 14,219	$ 4,767

(1) Implied market value represents the estimated fair value of the underlying Agency MBS as of the dates indicated.
(2) Implied cost basis represents the forward price to be paid for the underlying Agency MBS as of the dates indicated.
(3) Net carrying value is the amount included on the consolidated balance sheets within "derivative assets" and "derivative liabilities" and represents the difference between the implied market value and the implied cost basis of the TBA securities as of the dates indicated.

Volume of Activity

The tables below summarize changes in the Company's derivative instruments for the six months ended June 30, 2022:

Type of Derivative Instrument	Beginning Notional Amount-Long (Short)	Additions	Settlements, Terminations, or Pair-Offs	Ending Notional Amount-Long (Short)
Interest rate swaptions	$ 500,000	$ —	$ —	$ 500,000
U.S. Treasury futures	(3,890,000)	(9,130,000)	8,670,000	(4,350,000)
TBA securities	1,530,000	14,957,000	(13,164,000)	3,323,000

Offsetting

The Company's derivatives are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its derivative assets and liabilities subject to these arrangements on a gross basis. Please see Note 4 for information related to the Company's repurchase agreements, which are also subject to underlying agreements with master netting or similar arrangements. The following tables present information regarding those derivative assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of June 30, 2022 and December 31, 2021:

	Offsetting of Assets					
				Gross Amount Not Offset in the Balance Sheet (1)		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Balance Sheet	Net Amount of Assets Presented in the Balance Sheet	Financial Instruments Received as Collateral	Cash Received as Collateral	Net Amount
June 30, 2022						
Interest rate swaptions	$ 55,142	$ —	$ 55,142	$ —	$ (55,142)	$ —
TBA securities	26,777	—	26,777	(8,093)	—	18,684
Derivative assets	$ 81,919	$ —	$ 81,919	$ (8,093)	$ (55,142)	$ 18,684
December 31, 2021						
Interest rate swaptions	$ 3,202	$ —	$ 3,202	$ —	$ (481)	$ 2,721
TBA securities	4,767	—	4,767	—	(1,353)	3,414
Derivative assets	$ 7,969	$ —	$ 7,969	$ —	$ (1,834)	$ 6,135

(amounts in thousands except share data)

	Offsetting of Liabilities					
				Gross Amount Not Offset in the Balance Sheet (1)		
	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Financial Instruments Posted as Collateral	Cash Posted as Collateral	Net Amount
June 30, 2022						
TBA securities	$ 12,559	$ —	$ 12,559	$ (8,093)	$ (4,466)	$ —
Derivative liabilities	$ 12,559	$ —	$ 12,559	$ (8,093)	$ (4,466)	$ —
December 31, 2021						
Derivative liabilities	$ —	$ —	$ —	$ —	$ —	$ —

(1) Amounts disclosed for collateral received by or posted to the same counterparty include cash and the fair value of MBS up to and not exceeding the net amount of the derivative asset or liability presented in the balance sheet. The fair value of the total collateral received by or posted to the same counterparty may exceed the amounts presented. Please refer to the consolidated balance sheets for the total fair value of financial instruments pledged as collateral for derivatives and repurchase agreements, which is shown parenthetically, and the total cash pledged or received as collateral which is disclosed in "cash collateral posted to/by counterparties."

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on the assumptions market participants would use when pricing an asset or liability and also considers all aspects of nonperformance risk, including the entity's own credit standing, when measuring fair value of a liability. ASC Topic 820 established a valuation hierarchy of three levels as follows:

- Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the measurement date.
- Level 2 – Inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs either directly observable or indirectly observable through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 – Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best estimate of how market participants would price the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The following table presents the Company's financial instruments that are measured at fair value on the Company's consolidated balance sheet by their valuation hierarchy levels as of the dates indicated:

(amounts in thousands except share data)

	June 30, 2022				December 31, 2021			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets carried at fair value:								
MBS	$ 2,659,386	$ —	$ 2,658,773	$ 613	$ 3,181,839	$ —	$ 3,181,041	$ 798
Mortgage loans held for investment	3,412	—	—	3,412	4,268	—	—	4,268
Derivative assets:								
Interest rate swaptions	55,142	—	55,142	—	3,202	—	3,202	—
TBA securities-long position	26,777	—	26,777	—	4,767	—	4,767	—
Total assets carried at fair value	$ 2,744,717	$ —	$ 2,740,692	$ 4,025	$ 3,194,076	$ —	$ 3,189,010	$ 5,066
Liabilities carried at fair value:								
TBA securities-long position	$ 12,559	$ —	$ 12,559	$ —	$ —	$ —	$ —	$ —
Total liabilities carried at fair value	$ 12,559	$ —	$ 12,559	$ —	$ —	$ —	$ —	$ —

The fair value measurements for the Company's MBS are considered Level 2 when there are substantially similar securities actively trading or for which there has been recent trading activity in their respective markets and are based on prices received from pricing services and quotes from brokers. In valuing a security, the pricing service uses either a market approach, which uses observable prices and other relevant information that is generated by market transactions of identical or similar securities, or an income approach, which uses valuation techniques to convert future amounts to a single, discounted present value amount. The Company reviews the prices it receives from its pricing sources as well as the assumptions and inputs utilized by its pricing sources for reasonableness. Examples of these observable inputs and assumptions include market interest rates, credit spreads, and projected prepayment speeds, among other things.

The Company owns other non-Agency MBS and mortgage loans that are considered Level 3 assets because there has been no recent trading activity of similar instruments upon which their fair value can be measured. The fair value for these Level 3 assets is measured by discounting the estimated future cash flows derived from cash flow models using significant inputs which are determined by the Company when market observable inputs are not available. Information utilized in those pricing models include the security's credit rating, coupon rate, estimated prepayment speeds, expected weighted average life, collateral composition, estimated future interest rates, expected credit losses, and credit enhancement as well as certain other relevant information. The Company used a constant prepayment rate assumption of 10%, default rate of 2%, loss severity of 20%, and a discount rate of 7.0% in measuring the fair value of its Level 3 assets as of June 30, 2022. Significant changes in any of these inputs in isolation may result in a significantly different fair value measurement. Level 3 assets are generally most sensitive to the default rate and severity assumptions.

The activity of the Company's Level 3 assets during the three and six months ended June 30, 2022 is presented in the following table:

(amounts in thousands except share data)

	Three Months Ended June 30, 2022		Six Months Ended June 30, 2022	
	Other Non-Agency MBS	Mortgage Loans	Other Non-Agency MBS	Mortgage Loans
Balance as of beginning of period	$ 706	$ 3,757	$ 798	$ 4,268
Change in fair value (1)	(28)	(25)	(64)	(18)
Principal payments	(104)	(316)	(207)	(828)
Accretion (amortization)	39	(4)	86	(10)
Balance as of end of period	$ 613	$ 3,412	$ 613	$ 3,412

(1) Change in fair value for mortgage loans is recorded within "unrealized gain (loss) on investments, net" in net income and change in fair value for other non-Agency MBS is recorded as unrealized gain (loss) in "other comprehensive income."

U.S. Treasury futures are valued based on closing exchange prices on these contracts and are classified accordingly as Level 1 measurements. The fair value of interest rate swaptions is based on the fair value of the underlying interest rate swap and time remaining until its expiration and is carried on the balance sheet net of any deferred premium to be paid upon expiration. The fair value of TBA securities is estimated using methods similar to those used to fair value the Company's Level 2 MBS.

NOTE 7 – SHAREHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

Preferred Stock. The Company's Board of Directors has designated 6,600,000 shares of the Company's preferred stock for issuance as Series C Preferred Stock, of which the Company has 4,460,000 of such shares outstanding as of June 30, 2022. The Series C Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption, and will remain outstanding indefinitely unless redeemed or otherwise repurchased or converted into common stock pursuant to the terms of the Series C Preferred Stock. Except under certain limited circumstances described in Article IIIC of the Company's Restated Articles of Incorporation, the Company may not redeem the Series C Preferred Stock prior to April 15, 2025. On or after that date, the Series C Preferred Stock may be redeemed at any time and from time to time at the Company's option at a cash redemption price of $25.00 per share plus any accumulated and unpaid dividends. Because the Series C Preferred Stock is redeemable only at the option of the issuer, it is classified as equity on the Company's consolidated balance sheet.

The Series C Preferred Stock pays a cumulative cash dividend equivalent to 6.900% of the $25.00 liquidation preference per share each year until April 15, 2025. The terms of the Series C Preferred Stock state that upon April 15, 2025 and thereafter, the Company will pay cumulative cash dividends at a percentage of the $25.00 liquidation value per share equal to an annual floating rate of 3-month LIBOR plus a spread of 5.461%. However, because 3-month LIBOR will cease to be a published rate as of June 30, 2023, the fallback provision provided in the terms of the Series C Preferred Stock will allow for the Company to appoint a third-party independent financial institution of national standing to select an industry accepted alternative base rate. The Company paid its regular quarterly dividend of $0.43125 per share of Series C Preferred Stock on July 15, 2022 to shareholders of record as of July 1, 2022.

Common Stock. During the three months ended June 30, 2022, the Company issued 6,539,485 shares of its common stock through its ATM program at an aggregate value of $105,199, net of $1,332 in broker commissions and fees.

Share-Based Compensation. Total share-based compensation expense recognized by the Company for the three and six months ended June 30, 2022 was $1,026 and $1,873, respectively, compared to $544 and $995 for the three and six months ended June 30, 2021, respectively.

The following tables present a rollforward of share-based awards for the periods indicated:

(amounts in thousands except share data)

	Six Months Ended June 30,			
	2022		2021	
Type of Award	**Shares**	**Weighted Average Grant Date Fair Value Per Share**	**Shares**	**Weighted Average Grant Date Fair Value Per Share**
Restricted stock:				
Awards outstanding, beginning of period	197,804	$ 15.27	281,761	$ 14.74
Granted	71,216	15.60	40,027	19.02
Vested	(116,234)	15.78	(123,984)	15.28
Awards outstanding, end of period	152,786	$ 15.04	197,804	$ 15.27
RSUs:				
Awards outstanding, beginning of period	55,019	$ 19.40	—	$ —
Granted	73,767	15.19	55,019	19.40
Settled	(18,157)	19.40	—	—
Awards outstanding, end of period	110,629	$ 16.59	55,019	$ 19.40
PSUs:				
Awards outstanding, beginning of period	110,040	$ 19.40	—	$ —
Granted	147,542	15.19	110,040	19.40
Settled	—	—	—	—
Awards outstanding, end of period	257,582	$ 16.99	110,040	$ 19.40

The number of RSUs that will potentially settle may range from 0% if the recipient's service-based vesting condition is not met to 100% if the service-based vesting condition is met. The number of PSUs that will potentially settle may range from 0% to 200% based on the achievement of the performance goals defined in the grant award. As of June 30, 2022, the Company expects 100% of all PSUs to be settled. The Company has DERs accrued for RSUs and PSUs of $129 and $263, respectively, as of June 30, 2022 compared to $50 and $100, respectively, as of December 31, 2021, which is included on the Company's consolidated balance sheet within "accrued dividends payable."

The following table discloses the grant date fair value of the Company's remaining unvested awards as of June 30, 2022, which will be amortized into compensation expense over the period disclosed:

	June 30, 2022	
	Remaining Compensation Cost	**WAVG Period of Recognition**
Restricted stock	$ 1,931	1.5 years
RSUs	1,643	2.3 years
PSUs	3,147	2.1 years
Total	$ 6,721	2.0 years

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

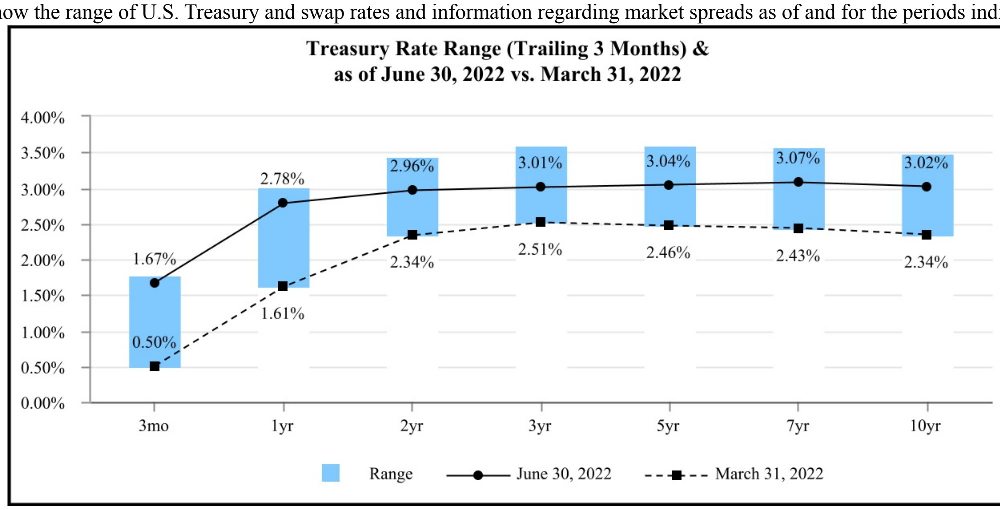
The following discussion should be read in conjunction with our unaudited consolidated financial statements and the accompanying notes included in Part I, Item 1. "Financial Statements" in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the accompanying notes included in Part II, Item 8 in our 2021 Form 10-K. References herein to "Dynex," the "Company," "we," "us," and "our" include Dynex Capital, Inc. and its consolidated subsidiaries, unless the context otherwise requires. In addition to current and historical information, the following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future business, financial condition or results of operations. For a description of certain factors that may have a significant impact on our future business, financial condition or results of operations, see "Forward-Looking Statements" at the end of this discussion and analysis.

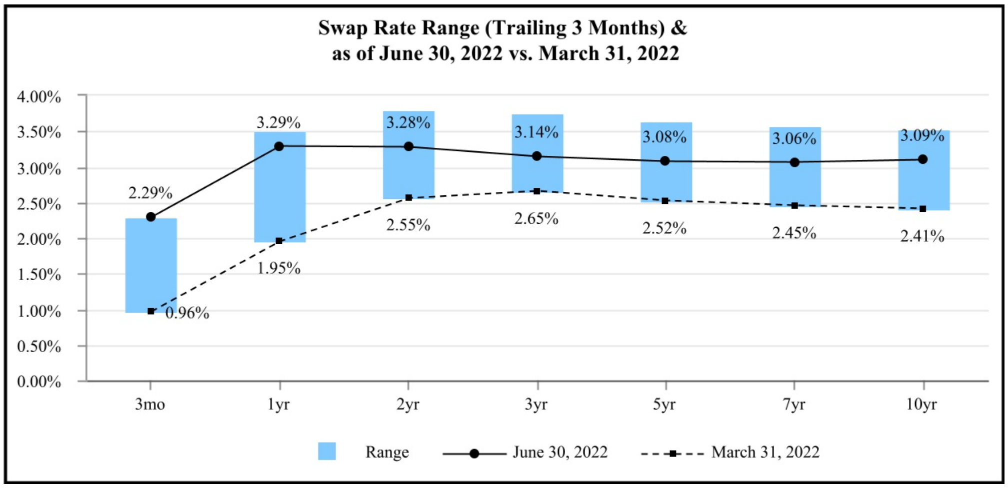
For more information about our business including our operating policies, investment philosophy and strategy, financing and hedging strategies, and other important information, please refer to Part I, Item 1 of our 2021 Form 10-K.

EXECUTIVE OVERVIEW

Market volatility in the second quarter was as high as it has been in several decades. Yields on the 10-year U.S. Treasury rose 113 basis points from 2.34% to 3.47% in mid-June before falling 47 basis points to close the quarter just above 3.00%. The 2-year, 3-year, and 5-year U.S. Treasuries behaved similarly, and the second quarter ended with higher interest rates and a flatter yield curve. 30-year mortgage rates rose 93 basis points during the second quarter of 2022 up to 5.83%. Realized volatility, which is a measure of how much prices actually move in a given day, is the highest it has been since the early 1980s, and this is true across prices for many asset classes including MBS, Treasuries, equities, credit sensitive assets, currencies and cryptocurrencies. Previously, Agency RMBS had been leading the way on spread widening as they are directly linked to the reduction of the Federal Reserve's asset purchase program and its balance sheet, but this quarter many other fixed income sectors also experienced significant spread widening. Spreads on lower coupon Agency RMBS moved the widest as market participants expected the Federal Reserve would sell lower coupons to combat inflation, a notion that the market has since discounted.

The charts below show the range of U.S. Treasury and swap rates and information regarding market spreads as of and for the periods indicated:





	Market Spreads as of:				
Investment Type:	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**Change in Spreads 2Q22**	**Change in Spreads Year to Date**
Agency RMBS: (1)					
2.0% coupon	31	10	3	21	28
2.5% coupon	41	21	11	20	30
3.0% coupon	40	34	22	6	18
3.5% coupon	36	48	6	(12)	30
4.0% coupon	31	60	35	(29)	(4)
Agency DUS (Agency CMBS)(2)	67	58	31	9	36
Freddie K AAA IO (Agency CMBS IO)(2)	170	150	105	20	65
AAA CMBS IO (Non-Agency CMBS IO)(2)	225	145	112	80	113

(1) Option adjusted spreads ("OAS") are based on Company estimates using third-party models and market data. The Company updated the third-party model used as of March 31, 2022. OAS shown as of December 31, 2021 has been restated from the 2021 Form 10-K for comparative purposes.

(2) Data represents the spread to swap rate on newly issued securities and is sourced from JP Morgan.

Second Quarter 2022 Performance Summary

Our total economic return to common shareholders for the second quarter of 2022 was $(1.06), or (5.8)% of beginning book value, consisting of the $(1.45) decline in book value per common share offset by dividends declared of $0.39 per common share. We began the second quarter of 2022 with our leverage including the cost basis of TBA positions at 6.1 times our shareholders' equity, with over 60% of our Agency portfolio in 2.0% and 2.5% coupons, and the balance in 3.0% and 3.5% coupons. Throughout the second quarter, we diversified our coupon exposure to include TBAs with 4.0% and 4.5% coupons, reducing our exposure to lower coupon assets which bore the brunt of spread widening. Our investment portfolio grew 18% on an amortized cost basis during the second quarter of 2022, and we increased our leverage to 6.6 times shareholders' equity by the end of the second quarter. We adjusted our hedge position to reflect the shifting portfolio mix, which substantially offset the impact of higher interest rates on the fair value of our investments. However, as mentioned above, the majority of our asset types experienced significant spread widening. As a result, realized and unrealized losses in the fair value of our investments exceeded gains on our hedges by $(49.2) million, which comprised the majority of the comprehensive loss to common shareholders of $(33.5) million, or $(0.85) per common share, for the second quarter of 2022 and contributed to the overall decline of $(1.45) in book value to $16.79 per common share as of June 30, 2022. Earnings available for distribution per common share, a non-GAAP measure, was $0.40 per common share for the second quarter of 2022, a decline of $0.04 per share from the prior quarter resulting primarily from higher repurchase agreement financing costs.

Through our at-the-market program, we raised approximately $105.2 million in common equity capital at a marginal net cost of capital of 9.7% based on our current dividend rate and an average net issue price of $16.09 during the second quarter of 2022. Though these issuances contributed $0.21 to the decline in book value per common share, we raised this capital in an environment where we believe high marginal return investment opportunities exist. Subsequently, we have been putting that capital to work as incremental risk-adjusted returns improve, and thus we expect a relatively short earn back period for the book value dilution.

The following table provides details about the changes in our financial position during the second quarter of 2022:

	Net Changes in Fair Value	Comprehensive Income	Common Book Value Rollforward	Per Common Share
Common shareholders' equity, March 31, 2022 (1)			$ 674,132	$ 18.24
Net interest income		$ 14,073		
TBA drop income		11,074		
G & A and other operating expenses		(7,496)		
Preferred stock dividends		(1,923)		
Changes in fair value:				
MBS and loans	$ (144,563)			
TBAs	(81,639)			
U.S. Treasury futures	150,475			
Interest rate swaptions	26,502			
Total net change in fair value		(49,225)		
Comprehensive loss to common shareholders			(33,497)	(0.85)
Capital transactions:				
Net proceeds from stock issuance			105,735	(0.21)
Common dividends declared			(15,505)	(0.39)
Common shareholders' equity, June 30, 2022 (1)			$ 730,865	$ 16.79

(1) Common shareholders' equity is total shareholders' equity less the aggregate liquidation preference of the Company's preferred stock of $111,500.

Current Outlook

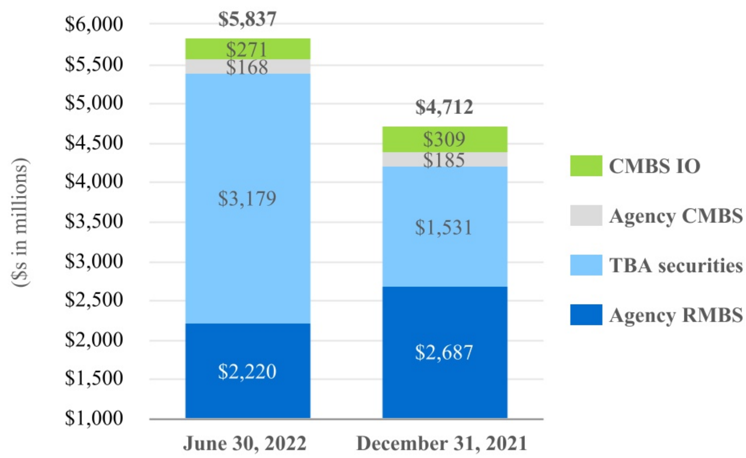
We believe that as the impacts from the COVID-19 pandemic begin to subside, the global economy is increasing in complexity given many factors including energy, human conflict, geopolitics, inflation, climate change and the global supply chain. Central banks are facing conflicting mandates between supporting employment and generating growth versus combating the worst global inflation since the 1970s. As a result, markets have been somewhat range-bound and data dependent with uncertainties regarding both inflationary and recessionary concerns mixed with periods of growth. As markets price in the possibility of a recession and the eventual next phase of quantitative easing by the Federal Reserve, we believe the U.S. Treasury yield curve is likely to invert between the 2-year and 10-year, possibly 30-year, points. Historically, flattening or inverting of the yield curve typically results in faster prepayment speeds and wider mortgage spreads in the Agency RMBS market. We have factored this premise into the positioning of our investment portfolio, which has become more barbell-shaped in its coupon allocation as we have moved out of 3.0% TBAs after the end of the second quarter. We also remain prepared for the possibility of continuing inflation pressures and coordinated hawkish behavior across global central banks. We expect that these factors will define the range in interest rates and keep market volatility elevated. Though we have slightly shifted our duration gap to relatively neutral with a bias toward lower rates, we are actively managing our hedges as we seek to remain prepared for multiple interest rate and spread scenarios.

We believe there is potential for historic investment opportunities ahead. We are still in the early months of quantitative tightening and in our view, the markets have yet to fully price in the impact of actual loss to liquidity. For the first time since the 1970s, there will be no secondary market presence from the GSE's or the Federal Reserve once they end their purchases in September. The demand previously provided by the Federal Reserve must be replaced by private capital, particularly as current conditions do not favor banks absorbing the net supply. We believe that spreads will likely move wider, creating additional opportunities to invest in assets with highly accretive returns. We have capacity to increase leverage and over $600.0 million in liquidity to deploy into assets that will benefit our earnings and book value as spreads tighten in the future. We continue to focus on minimizing large downside hits to book value while maintaining a highly liquid and flexible position with respect to our balance sheet.

FINANCIAL CONDITION

Investment Portfolio

Our investment portfolio, which consists primarily of Agency RMBS and TBA securities, has increased approximately 24% since December 31, 2021. The following chart compares the composition of our MBS portfolio including TBA securities as of the dates indicated:



RMBS.

The amortized cost of our Agency RMBS portfolio including TBA securities has increased approximately 35% since December 31, 2021. We have reduced our lower coupon TBA dollar roll positions and shifted into 3.0% and higher coupons while increasing our overall notional balance by $1.8 billion. We have shifted higher in the coupon stack in order to minimize the impact on our book value from spread widening because, as we anticipated, spreads moved widest in the lower coupons. The following tables compare our fixed-rate Agency RMBS investments including TBA dollar roll positions as of the dates indicated:

	June 30, 2022					
				Weighted Average		
Coupon	Par/Notional	Amortized Cost/ Implied Cost Basis (1)(3)	Fair Value (2)(3)	Loan Age (in months)(4)	3 Month CPR (4)(5)	Estimated Duration (6)
30-year fixed-rate:		*($s in thousands)*				
2.0%	$ 1,248,457	$ 1,266,375	$ 1,091,610	17	7.1 %	7.25
2.5%	1,095,110	1,141,384	992,388	21	9.2 %	7.31
4.0%	135,312	139,363	135,620	52	27.8 %	5.26
TBA 2.5%	353,000	322,721	318,114	n/a	n/a	7.31
TBA 3.0%	1,020,000	956,053	950,994	n/a	n/a	6.53
TBA 3.5%	800,000	762,313	769,832	n/a	n/a	5.68
TBA 4.0%	800,000	775,498	788,563	n/a	n/a	4.67
TBA 4.5%	350,000	347,737	351,039	n/a	n/a	3.87
Total	$ 5,801,879	$ 5,711,444	$ 5,398,160	21	9.3 %	6.27

Coupon	Par/Notional	Amortized Cost/ Implied Cost Basis (1)(3)	Fair Value (2)(3)	Weighted Average Loan Age (in months)(4)	Weighted Average 3 Month CPR (4)(5)	Weighted Average Estimated Duration (6)
	December 31, 2021					
30-year fixed-rate:		($s in thousands)				
2.0%	$ 1,311,069	$ 1,330,353	$ 1,312,190	11	8.0 %	6.69
2.5%	1,165,810	1,215,841	1,199,092	15	11.3 %	5.83
4.0%	162,868	167,713	175,493	45	34.1 %	3.09
TBA 2.0%	965,000	957,600	961,080	n/a	n/a	6.54
TBA 2.5%	190,000	193,563	193,585	n/a	n/a	5.23
15-year fixed-rate:						
TBA 1.5%	375,000	375,259	376,523	n/a	n/a	4.58
Total	$ 4,169,747	$ 4,240,329	$ 4,217,963	15	11.2 %	6.01

(1) Implied cost basis of TBAs represents the forward price to be paid for the underlying Agency MBS.
(2) Fair value of TBAs is the implied market value of the underlying Agency security as of the end of the period.
(3) TBAs are included on the consolidated balance sheet within "derivative assets/liabilities" at their net carrying value which is the difference between their implied market value and implied cost basis. Please refer to Note 5 of the Notes to the Consolidated Financial Statements for additional information.
(4) TBAs are excluded from this calculation as they do not have a defined weighted-average loan balance or age until mortgages have been assigned to the pool.
(5) Constant prepayment rate ("CPR") represents the 3-month CPR of Agency RMBS held as of date indicated. Securities with no prepayment history are excluded from this calculation.
(6) Duration measures the sensitivity of a security's price to the change in interest rates and represents the percent change in price of a security for a 100-basis point increase in interest rates. We calculate duration using third-party financial models and empirical data. Different models and methodologies can produce different estimates of duration for the same securities.

CMBS.

The CMBS in our investment portfolio consist mainly of Agency-issued, seasoned investments with a higher probability of appreciation in the underlying collateral versus newer issue bonds. The following table presents information about our Agency CMBS investments by weighted average life remaining until stated maturity as of the dates indicated:

($s in thousands) Weighted Average Life Remaining	June 30, 2022 Par Value	June 30, 2022 Amortized Cost	June 30, 2022 WAC(1)	December 31, 2021 Par Value	December 31, 2021 Amortized Cost	December 31, 2021 WAC(1)
0-2 years	$ 9,262	$ 9,384	4.65 %	$ 5,163	$ 5,231	5.47 %
2-5 years	132,260	133,801	3.11 %	67,747	67,740	2.93 %
5-7 years	5,136	5,246	3.34 %	77,287	79,255	3.40 %
7-10 years	11,726	11,855	3.46 %	11,760	11,899	3.46 %
10 years or longer	12,942	13,080	2.98 %	12,942	13,086	2.98 %
	$ 171,326	$ 173,366	3.22 %	$ 174,899	$ 177,211	3.25 %

(1) The weighted average coupon ("WAC") is the gross interest rate of the security weighted by the outstanding par balance.

CMBS IO.

The following tables present our CMBS IO investments by year of origination as of the dates indicated:

	June 30, 2022									
	Agency					Non-Agency				
($s in thousands)	Amortized Cost		Fair Value		Remaining WAL [1]	Amortized Cost		Fair Value		Remaining WAL [1]
Year of Origination:										
2010-2012	$	—	$	—	—	$	29	$	62	1
2013		3,834		5,324	5		3,009		2,965	6
2014		13,145		13,226	13		25,523		24,971	10
2015		18,820		18,935	18		32,578		32,067	17
2016		15,886		15,940	21		11,828		11,340	16
2017		20,485		20,260	33		5,258		5,080	25
2018		3,245		3,245	53		—		—	—
2019		75,335		73,168	50		—		—	—
2020		6,771		6,638	41		—		—	—
2021		20,819		18,968	57		—		—	—
2022		18,620		18,528	57		—		—	—
	$	196,960	$	194,232	45	$	78,225	$	76,485	16

	December 31, 2021									
	Agency					Non-Agency				
($s in thousands)	Amortized Cost		Fair Value		Remaining WAL [1]	Amortized Cost		Fair Value		Remaining WAL [1]
Year of Origination:										
2010-2012	$	2,120	$	2,311	3	$	454	$	480	3
2013		9,627		11,554	7		5,562		5,668	224
2014		16,768		17,231	15		33,630		34,123	72
2015		22,558		23,571	20		39,407		40,408	20
2016		18,186		18,901	24		13,405		13,430	16
2017		22,308		23,296	36		6,216		6,452	28
2018		3,408		3,687	55		—		—	—
2019		79,858		83,656	53		—		—	—
2020		2,847		2,873	45		—		—	—
2021		21,843		21,778	61		—		—	—
	$	199,523	$	208,858	40	$	98,674	$	100,561	50

(1) Remaining weighted average life (“WAL”) represents an estimate of the number of months of contractual cash flows remaining for the investments by year of origination.

Because effective yields on CMBS IO securities are dependent upon the performance of the underlying loans, our return on these investments may be negatively impacted if the loans default, resulting in foreclosures or liquidations of the loan collateral. Non-Agency-issued securities are generally expected to have a higher risk of default than Agency CMBS IO. We mitigate this risk by investing in senior tranches of mostly AAA-rated securities where we have evaluated the credit profile of the underlying loan pool and can monitor credit performance. All of our non-Agency CMBS IO were originated prior to 2018, the majority of which we believe have had underlying property value appreciation. Non-Agency issued CMBS IO are backed by loans secured by a number of different property types, which are shown in the table below as of June 30, 2022:

($s in thousands)	June 30, 2022	
	Fair Value	Percentage of Portfolio
Property Type:		
Retail	$ 21,712	28.4 %
Office	17,560	23.0 %
Multifamily	11,351	14.8 %
Hotel	10,191	13.3 %
Mixed use	5,678	7.4 %
Other (1)	9,993	13.1 %
Total non-Agency CMBS IO	$ 76,485	100.0 %

(1) Other property types collateralizing non-Agency CMBS IO do not comprise more than 5% individually.

Repurchase Agreements

We continue to maintain leverage within a lower range in order to reduce risk given our expectation of continued volatility in the markets. We expect our financing costs will continue to increase throughout 2022 as the markets price in expected increases in the Federal Funds Rate by the Federal Reserve. Please refer to Note 4 of the Notes to the Consolidated Financial Statements contained within this Quarterly Report on Form 10-Q as well as "Results of Operations" and "Liquidity and Capital Resources" contained within this Item 2 for additional information relating to our repurchase agreement borrowings.

Derivative Assets and Liabilities

Because our investment portfolio has increased and we have shifted higher in coupon, we have increased our interest rate hedges by $460.0 million since December 31, 2021. We have shifted from having a short duration gap to a more neutral position as we view an increasing interest rate scenario to be less likely than a flattening or inverting yield curve. Please refer to Note 5 of the Notes to the Consolidated Financial Statements for details on our interest rate derivative instruments as well as "Quantitative and Qualitative Disclosures about Market Risk" in Item 3 of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

The discussion below includes both GAAP and non-GAAP financial measures that management utilizes in its analysis of financial and operating performance. Please read the section "Non-GAAP Financial Measures" at the end of this section for additional important information about these financial measures.

Three Months Ended June 30, 2022 Compared to the Three Months Ended March 31, 2022

The following table summarizes the results of operations for the periods indicated:

$s in thousands	Three Months Ended June 30, 2022	Three Months Ended March 31, 2022
Net interest income	$ 14,073	$ 15,679
Realized gain on sale of investments, net	(18,550)	—
Unrealized loss on investments, net	(65,103)	(111,251)
Gain on derivative instruments, net	106,412	220,211
General and administrative expenses	(7,201)	(7,108)
Other operating expenses, net	(295)	(321)
Preferred stock dividends	(1,923)	(1,923)
Net income to common shareholders	27,413	115,287
Other comprehensive loss	(60,910)	(91,341)
Comprehensive (loss) income to common shareholders	$ (33,497)	$ 23,946

Net Interest Income

The following table presents information about our interest-earning assets and interest-bearing liabilities and their performance for the periods indicated:

	Three Months Ended					
	June 30, 2022			March 31, 2022		
($s in thousands)	Interest Income/Expense	Average Balance (1)(2)	Effective Yield/ Cost of Funds (3)(4)	Interest Income/Expense	Average Balance (1)(2)	Effective Yield/ Cost of Funds (3)(4)
Interest-earning assets:						
Agency RMBS	$ 12,860	$ 2,733,199	1.88 %	$ 12,486	$ 2,740,991	1.82 %
Agency CMBS	1,259	173,647	2.87 %	1,292	175,322	2.89 %
CMBS IO (5)	4,003	273,427	4.69 %	3,557	286,390	4.34 %
Non-Agency MBS and other investments (6)	213	4,404	6.66 %	92	4,925	6.35 %
Total:	$ 18,335	$ 3,184,677	2.18 %	$ 17,427	$ 3,207,628	2.11 %
Interest-bearing liabilities:	(4,262)	2,486,217	(0.68)%	(1,748)	2,806,212	(0.25)%
Net interest income/net interest spread	$ 14,073		1.50 %	$ 15,679		1.86 %

(1) Average balance for assets is calculated as a simple average of the daily amortized cost and excludes unrealized gains and losses as well as securities pending settlement if applicable.

(2) Average balance for liabilities is calculated as a simple average of the daily borrowings outstanding during the period.

(3) Effective yield is calculated by dividing the sum of gross interest income and scheduled premium amortization/discount accretion (both of which are annualized for any reporting period less than 12 months) and prepayment compensation and premium amortization/discount accretion adjustments (collectively, "prepayment adjustments"), which are not annualized, by the average balance of asset type outstanding during the reporting period.

(4) Cost of funds is calculated by dividing annualized interest expense by the total average balance of borrowings outstanding during the period with an assumption of 360 days in a year.

(5) Includes Agency and non-Agency issued securities.

(6) Interest income for non-Agency and other investments for the three months ended June 30, 2022 includes $0.1 million of interest income from cash and cash equivalents. Average balance and effective yield for non-Agency MBS and other investments excludes cash and cash equivalents.

Net interest income and net interest spread declined for the three months ended June 30, 2022 compared to the three months ended March 31, 2022 as the recent increases in the Federal Funds rate continue to impact the cost of repurchase agreement financing of our investment portfolio. The increase in interest expense compared to the prior quarter was partially offset by an increase in interest income resulting primarily from lower premium amortization due to slower prepayment speeds on Agency RMBS as well as an increase in net prepayment compensation on CMBS IO.

The following table presents the estimated impact on our net interest income due to changes in effective yield/cost of funds ("rate") and changes in average balance ("volume") of our interest-earning assets and interest-bearing liabilities for the periods indicated:

	Three Months Ended June 30, 2022 Compared to March 31, 2022			
	Increase (Decrease) Due to Change In			
($s in thousands)	**Rate**	**Volume**	**Prepayment Adjustments (1)**	**Total Change in Interest Income/Expense**
Interest-earning assets:				
Agency RMBS	$ 409	$ (35)	$ —	$ 374
Agency CMBS	(5)	1	(29)	(33)
CMBS IO (2)	8	(24)	462	446
Non-Agency MBS and other investments	3	118	—	121
Change in interest income	$ 415	$ 60	$ 433	$ 908
Change in interest expense	2,667	(153)	—	2,514
Total net change in net interest income	$ (2,252)	$ 213	$ 433	$ (1,606)

(1) Prepayment adjustments represent effective interest amortization adjustments related to changes in actual prepayment speeds and prepayment compensation, net of amortization adjustments for CMBS and CMBS IO.
(2) Includes Agency and non-Agency issued securities.

Adjusted Net Interest Income. Please refer to the section "Non-GAAP Financial Measures" for additional information about non-GAAP financial measures used by management to evaluate results of operations.

	Three Months Ended			
	June 30, 2022		March 31, 2022	
($s in thousands)	**Amount**	**Rate**	**Amount**	**Rate**
Net interest income/spread	$ 14,073	1.50 %	$ 15,679	1.86 %
Add: TBA drop income (1) (2)	11,074	0.34 %	9,728	0.22 %
Adjusted net interest income/spread	$ 25,147	1.84 %	$ 25,407	2.08 %

(1) TBA drop income is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.
(2) The impact of TBA drop income on adjusted net interest spread includes the implied average funding cost of TBA dollar roll transactions during the periods indicated.

During the first quarter of 2022, we started shifting into higher coupon TBA securities, and we continued this shift during the second quarter with moves into 4.0% and 4.5% coupons. The resulting increase in TBA drop income of $1.3 million, which also provided some offset of higher financing costs, helped to cushion the decline in our adjusted net interest income and adjusted net interest spread for the second quarter. Our notional balance of TBA securities increased to $3.3 billion with an average coupon of 3.47% as of June 30, 2022 from $1.5 billion with an average coupon of 3.10% as of March 31, 2022. The implied net interest spread on our TBA dollar roll transactions declined 7 basis points to 2.40% for the three months ended June 30, 2022 compared to 2.47% for the prior quarter. Dollar roll specialness, which is the difference between the implied financing rate on TBA dollar roll transactions and the repurchase agreement financing rate for our specified pools of Agency RMBS, declined 43 basis points since the first quarter of 2022 and was approximately 2 basis points lower than repurchase agreement rates for Agency RMBS this quarter.

Gains (Losses) on Investments and Derivative Instruments

The fair value of our investments is impacted by a number of factors including, among others, market volatility, changes in credit spreads, spot and forward interest rates, actual and anticipated prepayments, and supply/demand dynamics which are in turn impacted by, among other things, interest rates, capital flows, economic conditions, and government policies and actions, such as purchases and sales by the Federal Reserve. Because we use derivative instruments to economically hedge the impact of changing interest rates on our investment portfolio (including TBA securities), we evaluate our results by comparing how much the gain (loss) on our interest rate hedges offset the gain (loss) on our MBS and TBAs for any given period. Generally, increasing interest rates will cause a decline in the fair value of our MBS and TBAs and an increase in the fair value of our interest rate hedges. The extent to which these gains and losses offset one another depends on several factors, including, but not limited to, our asset allocation, coupon selection, type of interest rate hedges, and the timing of asset and derivative purchases, sales, maturities, and terminations.

The following table summarizes the total change in fair value of our investments and derivative instruments for the periods indicated:

	Three Months Ended	
($s in thousands)	**June 30, 2022**	**March 31, 2022**
Change in fair value of investments	$ (144,563)	$ (202,591)
Gain on derivative instruments, net	106,412	220,211
Total net increase (decrease) in fair value	$ (38,151)	$ 17,620

<u>*Change in Fair Value of Investments.*</u> The following table provides details on realized and unrealized gains and losses by investment type held in our portfolio (excluding TBA securities which are accounted for as derivative instruments) for the periods indicated:

	Three Months Ended June 30, 2022			
($s in thousands)	**Realized Gain (Loss) on Sale of Investments, Net**	**Unrealized Gain (Loss) on Investments, Net Recognized in Net Income**	**Unrealized Gain (Loss) on Investments, Net Recognized in OCI**	**Total Change in Fair Value of Investments**
Agency RMBS	$ (18,550)	$ (64,398)	$ (52,738)	$ (135,686)
Agency CMBS	—	—	(3,886)	(3,886)
CMBS IO	—	(711)	(4,258)	(4,969)
Non-Agency other	—	—	(28)	(28)
Mortgage loans held for investment and other assets	—	6	—	6
	$ (18,550)	$ (65,103)	$ (60,910)	$ (144,563)

	Three Months Ended March 31, 2022			
	Realized Gain (Loss) on Sale of Investments, Net	**Unrealized Gain (Loss) on Investments, Net**	**Other Comprehensive Loss**	**Total Change in Fair Value of Investments**
Agency RMBS	$ —	$ (110,201)	$ (73,034)	$ (183,235)
Agency CMBS	—	—	(8,679)	(8,679)

CMBS IO	—	(1,130)	(9,591)	(10,721)
Non-Agency other	—	—	(36)	(36)
Mortgage loans held for investment and other assets	—	80	—	80
	$ —	$ (111,251)	$ (91,340)	$ (202,591)

Agency RMBS sales during the three months ended June 30, 2022 consisted entirely of 2.5% coupons. We re-invested the sale proceeds into higher coupon TBA securities. As discussed in Executive Overview, we experienced declines in the fair value of our investments during both the three months ended June 30, 2022 and March 31, 2022 due to increasing interest rates and spread widening on the majority of our assets.

Gain (Loss) on Derivative Instruments, Net. Gain (loss) on derivative instruments, net is comprised of unrealized gains and losses due to changes in the fair value of derivative instruments we hold during the period as well as realized gains and losses on derivatives that we terminate or that expire or mature during the period. Results in any given reporting period are generally not comparable to results of another because we frequently adjust our hedging position in any given period and because the fair value of derivative instruments are impacted by market interest rates, which continuously change.

The following table provides information on our financial instruments accounted for as derivative instruments for the periods indicated:

	Three Months Ended	
($s in thousands)	**June 30, 2022**	**March 31, 2022**
Change in fair value of interest rate hedges:		
U.S. Treasury futures	$ 150,475	$ 288,934
Interest rate swaptions	26,502	25,438
Total gain on interest rate hedges	176,977	314,372
TBA securities:		
Change in fair value (1)	$ (81,639)	$ (103,889)
TBA drop income (2)	11,074	9,728
Total TBA dollar roll (loss) gain, net	(70,565)	(94,161)
Total gain on derivative instruments, net	$ 106,412	$ 220,211

(1) Changes in fair value for TBA securities include unrealized gains (losses) from open TBA dollar roll positions and realized gains (losses) on paired off or terminated positions.
(2) TBA drop income represents a portion of the change in fair value and is calculated by multiplying the notional amount of the net TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.

Six Months Ended June 30, 2022 Compared to the Six Months Ended June 30, 2021

Net Interest Income

Net interest income increased $5.4 million for the six months ended June 30, 2022 due primarily to a larger average balance of Agency RMBS with a higher effective yield compared to the six months ended June 30, 2021. Although the effective yield on Agency RMBS was higher, the effective yield on the total MBS portfolio for the six months ended June 30, 2022 remained unchanged compared to the same period in the prior year because Agency RMBS, which are lower yielding assets than the remainder of the asset types in the portfolio, comprised a larger percentage of total assets during the six months ended June 30, 2022 compared to the six months ended June 30, 2021. Our net interest spread for the six months ended June 30, 2022 declined 18 basis points compared to the same period in the prior year due to higher financing costs as a result of the Federal Reserve's increase in the Federal Funds rate.

The following table presents information about our interest-earning assets and interest-bearing liabilities and their performance for the periods indicated:

	Six Months Ended June 30,					
	2022			2021		
($s in thousands)	Interest Income/Expense	Average Balance (1)(2)	Effective Yield/ Cost of Funds (3)(4)	Interest Income/Expense	Average Balance (1)(2)	Effective Yield/ Cost of Funds (3)(4)
Interest-earning assets:						
Agency RMBS	$ 25,345	$ 2,737,073	1.85 %	$ 14,754	$ 1,842,785	1.60 %
Agency CMBS	2,552	174,480	2.89 %	3,792	235,974	3.03 %
CMBS IO (5)	7,560	279,873	4.81 %	8,434	352,516	4.45 %
Non-Agency MBS and other investments (6)	305	4,663	6.87 %	305	6,959	7.44 %
Total:	$ 35,762	$ 3,196,089	2.17 %	$ 27,285	$ 2,438,234	2.17 %
Interest-bearing liabilities:	(6,010)	2,645,331	(0.45)%	(2,908)	2,156,652	(0.27)%
Net interest income/net interest spread	$ 29,752		1.72 %	$ 24,377		1.90 %

(1) Average balance for assets is calculated as a simple average of the daily amortized cost and excludes unrealized gains and losses as well as securities pending settlement, if applicable.
(2) Average balance for liabilities is calculated as a simple average of the daily borrowings outstanding during the period.
(3) Effective yield is calculated by dividing the sum of gross interest income and scheduled premium amortization/discount accretion (both of which are annualized for any reporting period less than 12 months) and prepayment compensation and premium amortization/discount accretion adjustments (collectively, "prepayment adjustments"), which are not annualized, by the average balance of asset type outstanding during the reporting period.
(4) Cost of funds is calculated by dividing annualized interest expense by the total average balance of borrowings outstanding during the period with an assumption of 360 days in a year.
(5) Includes Agency and non-Agency issued securities.
(6) Interest income for non-Agency and other investments for the six months ended June 30, 2022 includes $0.1 million of interest income from cash and cash equivalents. Average balance and effective yield for non-Agency MBS and other investments excludes cash and cash equivalents.

The following table presents the estimated impact on our net interest income due to changes in effective yield/cost of funds ("rate") and changes in average balance ("volume") of our interest-earning assets and interest-bearing liabilities for the periods indicated:

($s in thousands)	Six Months Ended June 30, 2022 Compared to June 30, 2021			
	Increase (Decrease) Due to Change In			
	Rate	Volume	Prepayment Adjustments (1)	Total Change in Interest Income/Expense
Interest-earning assets:				
Agency RMBS	$ 3,436	$ 7,155	$ —	$ 10,591
Agency CMBS	13	(882)	(371)	(1,240)
CMBS IO (2)	200	(1,561)	487	(874)
Non-Agency MBS and other investments	27	(7)	(20)	—
Change in interest income	$ 3,676	$ 4,705	$ 96	$ 8,477
Change in interest expense	2,448	654	—	3,102
Total net change in net interest income	$ 1,228	$ 4,051	$ 96	$ 5,375

(1) Prepayment adjustments represent effective interest amortization adjustments related to changes in actual prepayment speeds and prepayment compensation, net of amortization adjustments for CMBS and CMBS IO.
(2) Includes Agency and non-Agency issued securities.

Adjusted Net Interest Income. Please refer to the section "Non-GAAP Financial Measures" for additional information about non-GAAP financial measures used by management to evaluate results of operations.

($s in thousands)	Six Months Ended June 30,			
	2022		2021	
	Amount	Rate	Amount	Rate
Net interest income/spread	$ 29,752	1.72 %	$ 24,377	1.90 %
Add: TBA drop income (1) (2)	20,802	0.26 %	20,745	0.03 %
Adjusted net interest income/spread	$ 50,554	1.98 %	$ 45,122	1.93 %

(1) TBA drop income is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.
(2) The impact of TBA drop income on adjusted net interest spread includes the implied average funding cost of TBA dollar roll transactions during the periods indicated.

Adjusted net interest income increased $5.4 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 due to the previously mentioned larger average balance of Agency RMBS with a higher effective yield. TBA drop income increased a modest $0.1 million for the six months ended June 30, 2022 compared to the same period in the prior year as the decline in average volume offset the impact of a higher implied net interest spread, which was 2.44% for the six months ended June 30, 2022 compared to 2.05% for the six months ended June 30, 2021. As a result, TBA dollar roll transactions had a larger impact on adjusted net interest spread of 26 basis points for the six months ended June 30, 2022 compared to 3 basis points for the six months ended June 30, 2021.

Gains (Losses) on Investments and Derivative Instruments

The fair value of our investments is impacted by a number of factors including, among others, market volatility, changes in credit spreads, spot and forward interest rates, actual and anticipated prepayments, and supply/demand dynamics which are in turn impacted by, among other things, interest rates, capital flows, economic conditions, and government policies and actions, such as purchases and sales by the Federal Reserve. Because we use derivative instruments to economically hedge the impact of changing interest rates on our investment portfolio (including TBA securities), we evaluate our results by comparing how much the gain (loss) on our interest rate hedges offset the gain (loss) on our MBS and TBAs for any given period. Generally, increasing interest rates will cause a decline in the fair value of our MBS and TBAs and an increase in the fair value of our interest rate hedges. The extent to which these gains and losses offset one another depends on several factors, including, but not limited to, our asset allocation, coupon selection, type of interest rate hedges, and the timing of asset and derivative purchases, sales, maturities, and terminations.

The following table summarizes the total change in fair value of our investments and derivative instruments for the periods indicated:

	Six Months Ended	
($s in thousands)	June 30, 2022	June 30, 2021
Change in fair value of investments	$ (347,154)	$ (44,077)
Gain on derivative instruments, net	326,623	54,861
Total net (decrease) increase in fair value	$ (20,531)	$ 10,784

Change in Fair Value of Investments. The following table provides details on realized and unrealized gains and losses by investment type held in our portfolio (excluding TBA securities which are accounted for as derivative instruments) for the periods indicated:

	Six Months Ended June 30, 2022			
($s in thousands)	Realized Gain (Loss) on Sale of Investments, Net	Unrealized Gain (Loss) on Investments, Net Recognized in Net Income	Unrealized Gain (Loss) on Investments, Net Recognized in OCI	Total Change in Fair Value
Agency RMBS	$ (18,550)	$ (174,599)	$ (125,772)	$ (318,921)
Agency CMBS	—	—	(12,565)	(12,565)
CMBS IO	—	(1,841)	(13,849)	(15,690)
Non-Agency other	—	—	(64)	(64)
Mortgage loans held for investment and other assets		86	—	86
	$ (18,550)	$ (176,354)	$ (152,250)	$ (347,154)

	Six Months Ended June 30, 2021			
	Realized Gain (Loss) on Sale of Investments, Net	Unrealized Gain (Loss) on Investments, Net Recognized in Net Income	Unrealized Gain (Loss) on Investments, Net Recognized in OCI	Total Change in Fair Value
Agency RMBS	$ 3,938	$ 21	$ (47,746)	$ (43,787)
Agency CMBS	2,767	—	(7,305)	(4,538)
CMBS IO	—	16	4,270	4,286
Non-Agency other	—	—	(105)	(105)
Mortgage loans held for investment and other assets	—	67	—	67
	$ 6,705	$ 104	$ (50,886)	$ (44,077)

The decline in fair value for the majority of our MBS portfolio during both the six months ended June 30, 2022 and June 30, 2021 was due to increasing interest rates and spread widening across the majority of our investments.

Gain (Loss) on Derivative Instruments, Net. Gain (loss) on derivative instruments, net is comprised of unrealized gains and losses due to changes in the fair value of derivative instruments we hold during the period as well as realized gains and losses on derivatives that we terminate or that expire or mature during the period. Results in any given reporting period are generally not comparable to results of another because we frequently adjust our hedging position in any given period and because the fair value of derivative instruments are impacted by market interest rates, which continuously change.

The following table provides information on our financial instruments accounted for as derivative instruments for the periods indicated:

	Six Months Ended	
($s in thousands)	**June 30, 2022**	**June 30, 2021**
Change in fair value of interest rate hedges:		
U.S. Treasury futures	439,408	32,464
Interest rate swaptions	51,940	38,701
Options on U.S. Treasury futures	—	1,086
Total gain on interest rate hedges	491,348	72,251
TBA securities:		
Change in fair value [(1)]	$ (185,528)	(38,135)
TBA drop income [(2)]	20,803	20,745
Total TBA dollar roll loss, net	(164,725)	(17,390)
Total gain on derivative instruments, net	$ 326,623	$ 54,861

(1) Changes in fair value for TBA securities include unrealized gains (losses) from open TBA dollar roll positions and realized gains (losses) on paired off or terminated positions.
(2) TBA drop income represents a portion of the change in fair value and is calculated by multiplying the notional amount of the net TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2022 increased $3.1 million compared to the six months ended June 30, 2021. The majority of this increase is related to the ongoing implementation of a new investment accounting system as well as new trading and portfolio management systems as part of a large-scale project to streamline and enhance the Company's operating platform. In addition, our amortization of share-based compensation increased $0.9 million for the six months ended June 30, 2022 compared to the same period in the prior year.

Non-GAAP Financial Measures

In addition to the Company's operating results presented in accordance with GAAP, management uses certain non-GAAP financial measures to evaluate results of the Company, which include the following: earnings available for distribution ("EAD") to common shareholders (including per common share), adjusted net interest income and the related metric adjusted net interest spread. Because these measures are used in the Company's internal analysis of financial and operating performance, management believes that they provide greater transparency to our investors of management's view of our economic performance. Management also believes the presentation of these measures, when

analyzed in conjunction with the Company's GAAP operating results, allows investors to more effectively evaluate and compare the performance of the Company to that of its peers, although the Company's presentation of its non-GAAP measures may not be comparable to other similarly-titled measures of other companies.

EAD to common shareholders is used by the Company as a measure of the investment portfolio's return based on the effective yield of its investments, net of financing costs and other normal recurring operating income/expenses, net. It is one of several factors our Board of Directors considers in determining the appropriate level of distributions to common shareholders. In addition to the non-GAAP reconciliation set forth below, which derives EAD to common shareholders from GAAP comprehensive income (loss) to common shareholders, EAD to common shareholders can also be determined by adjusting net interest income to include interest rate swap periodic interest benefit/cost (if any), drop income on TBA securities, general and administrative expenses, preferred dividends, and other normal recurring operating income or expense. Drop income generated by TBA dollar roll positions, which is included in "gain (loss) on derivative instruments, net" on the Company's consolidated statements of comprehensive income, is included in EAD to common shareholders and in adjusted net interest income because management views drop income as the economic equivalent of net interest income (interest income less implied financing cost) on the underlying Agency security from trade date to settlement date. For reporting periods during which the Company uses interest rate swaps to economically hedge the impact of changing interest rates on its borrowing costs from repurchase agreements, management also includes interest rate swap net periodic interest benefit/cost in adjusted net interest income because management considers such benefit/cost to represent either an offset to or an additional cost of financing in addition to GAAP interest expense. However, these non-GAAP measures do not provide a full perspective on our results of operations, and therefore, their usefulness is limited. For example, these non-GAAP measures do not include the changes in fair value of investments or changes in fair value of and costs of terminating derivative instruments used by management to economically hedge the impact of changing interest rates on the fair value of the Company's portfolio and book value per common share. As a result, these non-GAAP measures should be considered as a supplement to, and not as a substitute for, the Company's GAAP results as reported on its consolidated statements of comprehensive income. Additionally, similarly titled non-GAAP financial measures used by other companies may not be computed in the same or similar fashion. Reconciliations of EAD to common shareholders and adjusted net interest income to the related GAAP financial measures are provided below.

Reconciliations of GAAP to Non-GAAP Financial Measures:	Three Months Ended June 30, 2022	Three Months Ended March 31, 2022
($s in thousands except per share data)		
Comprehensive (loss) income to common shareholders	$ (33,497)	$ 23,946
Less:		
Change in fair value of investments [1]	144,563	202,591
Change in fair value of derivative instruments, net [2]	(95,338)	(210,483)
EAD to common shareholders	$ 15,728	$ 16,054
Average common shares outstanding	37,964,617	36,725,365
EAD per common share	$ 0.41	$ 0.44
Net interest income	$ 14,073	$ 15,679
TBA drop income [3]	11,074	9,728
Adjusted net interest income	$ 25,147	$ 25,407
General and administrative expenses	(7,201)	(7,109)
Other operating expense, net	(295)	(321)
Preferred stock dividends	(1,923)	(1,923)
EAD to common shareholders	$ 15,728	$ 16,054
Adjusted net interest spread [4]	1.84 %	2.08 %

(1) *Amount includes realized and unrealized gains and losses recorded in net income and other comprehensive income due to changes in the fair value of the Company's MBS and other investments.*
(2) *Amount includes unrealized gains and losses from changes in fair value of derivatives and realized gains and losses on terminated derivatives and excludes TBA drop income.*
(3) *TBA drop income is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.*
(4) *The reconciliation for adjusted net interest spread to net interest spread is shown in "Results of Operations - Adjusted Net Interest Income".*

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity include borrowings under repurchase arrangements and monthly principal and interest payments we receive on our investments. Additional sources may also include proceeds from the sale of investments, equity offerings, and net payments received from counterparties for derivative instruments. We use our liquidity to purchase investments, to pay amounts due on our repurchase agreement borrowings, and to pay our operating expenses and dividends on our common and preferred stock. We also use our liquidity to meet margin requirements for our repurchase agreements and derivative transactions, including TBA contracts, under the terms of the related agreements. We may also periodically use liquidity to repurchase shares of the Company's stock.

Our liquidity fluctuates based on our investment activities, our leverage, capital raising activities, and changes in the fair value of our investments and derivative instruments. Our most liquid assets include unrestricted cash and cash equivalents and unencumbered Agency RMBS, CMBS, and CMBS IO. As of June 30, 2022, our most liquid assets were $608.9 million compared to $533.1 million as of December 31, 2021. We are continuing to maintain higher levels of available liquidity and lower absolute levels of leverage to protect our book value and to provide us greater financial flexibility against market volatility, which we believe is likely to continue for the near-term, especially given potential risk events on the horizon, such as the Federal Reserve's quantitative tightening measure and the impact on global markets stemming from the war between Russia and Ukraine.

We continuously assess the adequacy of our liquidity under various scenarios based on changes in the fair value of our investments and derivative instruments due to market factors such as changes in the absolute level of interest rates and the shape of the yield curve, credit spreads, lender haircuts, and prepayment speeds. In performing these analyses, we will also consider the current state of the fixed income markets and the repurchase agreement markets in order to determine if market forces such as supply-demand imbalances or structural changes to these markets could change the liquidity of MBS or the availability of financing.

Our perception of the liquidity of our investments and market conditions significantly influence our targeted leverage. In general, our leverage will increase if we view the risk-reward opportunity of higher leverage on our capital outweighs the risk to our liquidity and book value. Our leverage, which we calculate using total liabilities plus the cost basis of TBA long positions, increased to 6.6x shareholders' equity as of June 30, 2022 from 5.7x as of December 31, 2021 primarily as a result of our increased investment in TBA securities. We include the cost basis of our TBA securities in evaluating our leverage because it is possible under certain market conditions that it may be uneconomical for us to roll a TBA long position into future months, which may result in us having to take physical delivery of the underlying securities and use cash or other financing sources to fund our total purchase commitment.

Our repurchase agreement borrowings are principally uncommitted with terms renewable at the discretion of our lenders and generally have original terms to maturity of overnight to six months, though in some instances we may enter into longer-dated maturities depending on market conditions. We seek to maintain unused capacity under our existing repurchase agreement credit lines with multiple counterparties, which helps protect us in the event of a counterparty's failure to renew existing repurchase agreements. As part of our continuous evaluation of counterparty risk, we maintain our highest counterparty exposures with broker dealer subsidiaries of regulated financial institutions or primary dealers.

The following table presents information regarding the balances of our repurchase agreement borrowings as of and for the periods indicated:

	Repurchase Agreements		
($s in thousands)	Balance Outstanding As of Quarter End	Average Balance Outstanding For the Quarter Ended	Maximum Balance Outstanding During the Quarter Ended
June 30, 2022	$ 2,202,648	$ 2,486,217	$ 2,949,918
March 31, 2022	2,952,802	2,806,212	2,973,475
December 31, 2021	2,849,916	2,701,191	2,873,523
September 30, 2021	2,527,065	2,529,023	2,590,185
June 30, 2021	2,321,043	2,155,200	2,415,037
March 31, 2021	2,032,089	2,158,121	2,437,163

For our repurchase agreement borrowings, we are required to post and maintain margin to the lender (i.e., collateral in excess of the repurchase agreement financing) in order to support the amount of the financing. This excess collateral is often referred to as a "haircut" and is intended to provide the lender protection against fluctuations in fair value of the collateral and/or the failure by us to repay the borrowing at maturity. The weighted average haircut for our borrowings as of June 30, 2022 was consistent with prior periods, which has typically averaged less than 5% for borrowings collateralized with Agency RMBS and CMBS and between 13-16% for borrowings collateralized with CMBS IO.

The collateral we post in excess of our repurchase agreement borrowing with any counterparty is also typically referred to by us as "equity at risk", which represents the potential loss to the Company if the counterparty is unable or unwilling to return collateral securing the repurchase agreement borrowing at its maturity. The counterparties with whom we have the greatest amounts of equity at risk may vary significantly during any given period due to the short-term and generally uncommitted nature of the repurchase agreement borrowings. As of June 30, 2022, the Company had repurchase agreement amounts outstanding with 22 of its 37 available repurchase agreement counterparties and did not have more than 5% of equity at risk with any counterparty or group of related counterparties.

As discussed in our 2021 Form 10-K, we have various financial and operating covenants in certain of our repurchase agreements, which we monitor and evaluate on an ongoing basis for compliance as well as impacts these customary covenants may have on our operating and financing flexibility. Currently, we do not believe we are subject to any covenants that materially restrict our financing flexibility. We were in full compliance with our debt covenants as of June 30, 2022, and we are not aware of any circumstances which could potentially result in our non-compliance in the foreseeable future.

Derivative Instruments

Derivative instruments we enter into may require us to post initial margin at inception and daily variation margin based on subsequent changes in their fair value. Daily variation margin requirements also entitle us to receive collateral from our counterparties if the value of amounts owed to us under the derivative agreement exceeds the minimum margin requirement. The collateral posted as margin by us is typically in the form of cash. As of June 30, 2022, we had cash collateral posted to our counterparties of $111.4 million and cash collateral posted by our counterparties of $59.2 million under these agreements.

Collateral requirements for interest rate derivative instruments are typically governed by the central clearing exchange and the associated futures commission merchant, which may establish margin requirements in excess of the clearing exchange. Collateral requirements for our TBA contracts are governed by the Mortgage-Backed Securities Division ("MBSD") of the Fixed Income Clearing Corporation and, if applicable, by our third-party brokerage agreements, which may establish margin levels in excess of the MBSD. Our TBA contracts, which are subject to master securities forward transaction agreements published by the Securities Industry and Financial Markets Association as well as supplemental terms and conditions with each counterparty, generally provide that valuations for our TBA contracts and any pledged collateral are to be obtained from a generally recognized source agreed to by both

parties. However, in certain circumstances, our counterparties have the sole discretion to determine the value of the TBA contract and any pledged collateral. In such instances, our counterparties are required to act in good faith in making determinations of value. In the event of a margin call, we must generally provide additional collateral on the same business day.

Dividends

As a REIT, we are required to distribute to our shareholders amounts equal to at least 90% of our REIT taxable income for each taxable year after certain deductions. When declaring dividends, our Board of Directors considers the requirements for maintaining our REIT status and maintaining compliance with dividend requirements of the Series C Preferred Stock. In addition, our Board of Directors considers, among other things, our total economic return, EAD to common shareholders, taxable income, gains and losses including carryforwards for tax purposes, the Company's long-term outlook for future performance, and trends in the investment and financing markets.

Our net deferred tax hedge gains have increased substantially to $363.3 million as of June 30, 2022 compared to $27.0 million as of December 31, 2021. The following table provides the projected amortization of deferred tax hedge gains as of June 30, 2022 that will be recognized as taxable income over the periods indicated:

Tax Year of Recognition for Remaining Hedge Gains, Net	**June 30, 2022**
($ in thousands)	
2022	$ 18,053
2023	35,202
2024	37,774
2025	39,484
2026 and thereafter	232,831
	$ 363,344

As of June 30, 2022, we had $202.8 million in capital loss carryforwards, the majority of which expire in 2027. We also had a net operating loss carryforward of $17.4 million, of which $8.1 million expires at the end of 2022.

We generally fund our dividend distributions through our cash flows from operations. If we make dividend distributions in excess of our operating cash flows during the period, whether for purposes of meeting our REIT distribution requirements or other strategic reasons, those distributions are generally funded either through our existing cash balances or through the return of principal from our investments (either through repayment or sale). Please refer to "Operating and Regulatory Structure" within Part I, Item 1, "Business" as well as Part I, Item 1A, "Risk Factors" of our 2021 Form 10-K for additional important information regarding dividends declared on our taxable income.

RECENT ACCOUNTING PRONOUNCEMENTS

There were no accounting pronouncements issued during the six months ended June 30, 2022 that are expected to have a material impact on the Company's financial condition or results of operations. Please refer to Note 1 of the Notes to the Consolidated Financial Statements contained within Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of our financial condition and results of operations are based in large part upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We base these estimates and judgments on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual results, however, may differ from the estimated amounts we have recorded.

Critical accounting estimates are defined as those that require management's most difficult, subjective or complex judgments, and which may result in materially different results under different assumptions and conditions. Our critical accounting estimates are discussed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2021 Form 10-K under “Critical Accounting Estimates.” There have been no significant changes in our critical accounting estimates during the three and six months ended June 30, 2022.

FORWARD-LOOKING STATEMENTS

Certain written statements in this Quarterly Report on Form 10-Q that are not historical facts constitute “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 (the “Exchange Act”). Statements in this report addressing expectations, assumptions, beliefs, projections, future plans and strategies, future events, developments that we expect or anticipate will occur in the future, and future operating results, capital management, and dividend policy are forward-looking statements. Forward-looking statements are based upon management’s beliefs, assumptions, and expectations as of the date of this report regarding future events and operating performance, taking into account all information currently available to us, and are applicable only as of the date of this report. Forward-looking statements generally can be identified by use of words such as “believe”, “expect”, “anticipate”, “estimate”, “plan”, “may”, “will”, “intend”, “should”, “could” or similar expressions. We caution readers not to place undue reliance on our forward-looking statements, which are not historical facts and may be based on projections, assumptions, expectations, and anticipated events that do not materialize. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statement whether as a result of new information, future events, or otherwise.

Forward-looking statements in this Quarterly Report on Form 10-Q may include, but are not limited to statements about:

- Our business and investment strategy including our ability to generate acceptable risk-adjusted returns and our target investment allocations, and our views on the future performance of MBS and other investments;
- Our views on the macroeconomic environment, monetary and fiscal policy, and conditions in the investment, credit, interest rate and derivatives markets;
- Our views on inflation, market interest rates and market spreads;
- Our views on the effect of actual or proposed actions of the Federal Reserve or other central banks with respect to monetary policy (including the targeted Federal Funds Rate), and the potential impact of these actions on interest rates, borrowing costs, inflation or unemployment;
- The effect of regulatory initiatives of the Federal Reserve, the Federal Housing Finance Agency, other financial regulators, and other central banks;
- Our financing strategy including our target leverage ratios, our use of TBA dollar roll transactions, and anticipated trends in financing costs including TBA dollar roll transaction costs, and our hedging strategy including changes to the derivative instruments to which we are a party, and changes to government regulation of hedging instruments and our use of these instruments;
- Our investment portfolio composition and target investments;
- Our investment portfolio performance, including the fair value, yields, and forecasted prepayment speeds of our investments;
- Our liquidity and ability to access financing, and the anticipated availability and cost of financing;
- Our capital stock activity including the impact of stock issuances and repurchases;
- The amount, timing, and funding of future dividends;
- Our use of our tax NOL carryforward and other tax loss carryforwards;
- Future competition for, and availability of, investments, financing and capital;
- Estimates of future interest expenses, including related to the Company’s repurchase agreements and derivative instruments;
- The status and effect of legislative reforms and regulatory rule-making or review processes, and the status of reform efforts and other business developments in the repurchase agreement financing market;

- Market, industry and economic trends, and how these trends and related economic data may impact the behavior of market participants and financial regulators;
- Uncertainties regarding ongoing hostilities between Russia and the Ukraine and the related impacts on macroeconomic conditions, including, among other things, interest rates;
- The financial position and credit worthiness of the depository institutions in which the Company's MBS and cash deposits are held;
- The impact of applicable tax and accounting requirements on us including our tax treatment of derivative instruments such as TBAs, interest rate swaps, options and futures;
- Our future compliance with covenants in our master repurchase agreements, ISDA agreements, and debt covenants in our other contractual agreements;
- Our reliance on a single service provider of our trading, portfolio management, risk reporting and accounting services systems;
- The implementation in a timely and cost-effective manner of our operating platform, which includes trading, portfolio management, risk reporting, and accounting services systems, and the anticipated benefits thereof; and
- Possible future effects of the COVID-19 pandemic.

Forward-looking statements are inherently subject to risks, uncertainties and other factors that could cause our actual results to differ materially from historical results or from any results expressed or implied by such forward-looking statements. Not all of these risks and other factors are known to us. New risks and uncertainties arise over time, and it is not possible to predict those events or how they may affect us. The projections, assumptions, expectations or beliefs upon which the forward-looking statements are based can also change as a result of these risks or other factors. If such a risk or other factor materializes in future periods, our business, financial condition, liquidity and results of operations may vary materially from those expressed or implied in our forward-looking statements.

While it is not possible to identify all factors that may cause actual results to differ from historical results or from any results expressed or implied by forward-looking statements, or that may cause our projections, assumptions, expectations or beliefs to change, some of those factors include the following:

- the risks and uncertainties referenced in this Quarterly Report on Form 10-Q, especially those incorporated by reference into Part II, Item 1A, "Risk Factors," and in particular, adverse effects of the ongoing COVID-19 pandemic and any governmental or societal responses thereto;
- our ability to find suitable reinvestment opportunities;
- changes in domestic economic conditions;
- geopolitical events, such as terrorism, war or other military conflict, including increased uncertainty regarding the ongoing hostility between Russia and the Ukraine and the related impact on macroeconomic conditions as a result of such conflict;
- changes in interest rates and credit spreads, including the repricing of interest-earning assets and interest-bearing liabilities;
- our investment portfolio performance particularly as it relates to cash flow, prepayment rates and credit performance;
- the impact on markets and asset prices from changes in the Federal Reserve's policies regarding the purchases of Agency RMBS, Agency CMBS, and U.S. Treasuries;
- actual or anticipated changes in Federal Reserve monetary policy or the monetary policy of other central banks;
- adverse reactions in U.S. financial markets related to actions of foreign central banks or the economic performance of foreign economies including in particular China, Japan, the European Union, and the United Kingdom;
- uncertainty concerning the long-term fiscal health and stability of the United States;
- the cost and availability of financing, including the future availability of financing due to changes to regulation of, and capital requirements imposed upon, financial institutions;
- the cost and availability of new equity capital;
- changes in our leverage and use of leverage;
- changes to our investment strategy, operating policies, dividend policy or asset allocations;

- the quality of performance of third-party service providers, including our sole third-party service provider for our critical operations and trade functions;
- the loss or unavailability of our third-party service provider's service and technology that supports critical functions of our business related to our trading and borrowing activities due to outages, interruptions, or other failures;
- the level of defaults by borrowers on loans underlying MBS;
- changes in our industry;
- increased competition;
- changes in government regulations affecting our business;
- changes or volatility in the repurchase agreement financing markets and other credit markets;
- changes to the market for interest rate swaps and other derivative instruments, including changes to margin requirements on derivative instruments;
- uncertainty regarding continued government support of the U.S. financial system and U.S. housing and real estate markets, or to reform the U.S. housing finance system including the resolution of the conservatorship of Fannie Mae and Freddie Mac;
- the composition of the Board of Governors of the Federal Reserve;
- the political environment in the U.S.;
- systems failures or cybersecurity incidents; and
- exposure to current and future claims and litigation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to losses resulting from changes in market factors. Our business strategy exposes us to a variety of market risks, including interest rate, spread, prepayment, credit, liquidity, and reinvestment risks. These risks can and do cause fluctuations in our liquidity, comprehensive income and book value as discussed below.

Interest Rate Risk

Investing in interest-rate sensitive investments such as MBS and TBA securities subjects us to interest rate risk. Interest rate risk results from investing in securities that have a fixed coupon or when the coupon may not immediately adjust for changes in interest rates. Interest rate risk also results from the mismatch between the duration of our assets versus the duration of our liabilities and hedges. The amount of the impact will depend on the composition of our portfolio, our hedging strategy, the effectiveness of our hedging instruments as well as the magnitude and the duration of the change in interest rates.

We manage interest rate risk within tolerances set by our Board of Directors. We use interest rate hedging instruments to mitigate the impact of changing interest rates on the market value of our assets and on our interest expense from repurchase agreements used to finance our investments. Our hedging methods are based on many factors, including, but not limited to, our estimates with regard to future rates as well as expected levels of prepayments of our assets. If prepayments are slower or faster than assumed, the maturity of our investments will also differ from our expectations, which could reduce the effectiveness of our hedging strategies and may cause losses and adversely affect our cash flow. Estimates of prepayment speeds can vary significantly by investor for the same security, and therefore estimates of security and portfolio duration can vary significantly between market participants.

Because we continuously monitor market conditions, economic conditions, interest rates and other market activity and frequently adjust the composition of our investments and hedges throughout any given period, the projections provided below are limited in usefulness because the modeling assumes no changes to the composition of our investment portfolio and hedging instruments as of the dates indicated. Changes in types of our investments, the returns earned on these investments, future interest rates, credit spreads, the shape of the yield curve, the availability of financing, and/or the mix of our investments and financings including derivative instruments may cause actual results to differ significantly from the modeled results shown in the tables below. There can be no assurance that assumed events used to model the results shown below will occur, or that other events will not occur, that will affect the outcomes; therefore, the modeled results shown in the tables below and all related disclosures constitute forward-looking statements.

The table below shows the projected sensitivity of our net interest income as of the dates indicated assuming an instantaneous parallel shift in interest rates and no changes in the composition of our investment portfolio:

	Projected Change in Net Interest Income Due To			
	Decrease in Interest Rates of		Increase in Interest Rates of	
	50 Basis Points	**25 Basis Points**	**25 Basis Points**	**50 Basis Points**
June 30, 2022	163.1 %	81.8 %	(81.8)%	(163.6)%
December 31, 2021	(1)	8.3 %	(9.7)%	(20.0)%

(1) Because the Company does not assume financing rates will be less than 0%, a parallel downward shift in interest rates of 50 basis points is not presented for the portfolio as of December 31, 2021.

Because our MBS portfolio as of the periods indicated in the table above was comprised of low coupon assets at a fixed rate and the rates on our repurchase agreement borrowings adjust more frequently, a parallel increase in interest rates beyond a certain point would increase our borrowing costs with little or no benefit to our interest income. Conversely, a parallel decrease in interest rates would lower our borrowing costs without causing a decline in our interest income. The increase in projected sensitivity as of June 30, 2022 is significantly higher than the projected sensitivity as of December 31, 2021 because, as shown by the graphs in Item 2, “Executive Overview”, interest rates as of June 30, 2022 were significantly higher than interest rates as of December 31, 2021.

Management considers changes in the shape of the interest rate curves in assessing and managing portfolio interest rate risk on the market value of its investments and common equity. Because interest rates do not typically move in a parallel fashion from quarter to quarter (as can be seen by the graphs for U.S. Treasury and swap rates in Item 2, “Executive Overview”), the tables below show the projected sensitivity of the market value of our financial instruments and the percentage change in shareholders’ equity assuming instantaneous parallel shifts and non-parallel shifts in market interest rates. The overall market value sensitivity of our investments and hedges as of June 30, 2022 has declined modestly compared to that as of December 31, 2021.

Type of Instrument [(1)]	June 30, 2022							
	Parallel Decrease in Interest Rates of				Parallel Increase in Interest Rates of			
	100 Basis Points		50 Basis Points		50 Basis Points		100 Basis Points	
	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity
RMBS	2.7 %	21.7 %	1.4 %	10.9 %	(1.3)%	(10.8)%	(2.6)%	(21.1)%
CMBS	0.1 %	1.0 %	0.1 %	0.5 %	(0.1)%	(0.5)%	(0.1)%	(1.0)%
CMBS IO	0.1 %	0.9 %	— %	0.4 %	(0.1)%	(0.4)%	(0.1)%	(0.9)%
TBAs	2.7 %	21.7 %	1.4 %	11.7 %	(1.6)%	(12.9)%	(3.3)%	(26.5)%
Interest rate hedges	(6.0)%	(48.0)%	(2.9)%	(23.7)%	2.8 %	22.9 %	5.6 %	45.1 %
Total	(0.4)%	(2.7)%	— %	(0.2)%	(0.3)%	(1.6)%	(0.5)%	(4.4)%

Type of Instrument [(1)]	December 31, 2021							
	Parallel Decrease in Interest Rates of				Parallel Increase in Interest Rates of			
	100 Basis Points		50 Basis Points		50 Basis Points		100 Basis Points	
	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity
RMBS	2.6 %	18.6 %	1.6 %	11.1 %	(1.9)%	(13.5)%	(4.0)%	(28.5)%
CMBS	0.2 %	1.4 %	0.1 %	0.7 %	(0.1)%	(0.7)%	(0.2)%	(1.3)%
CMBS IO	0.2 %	1.1 %	0.1 %	0.6 %	(0.1)%	(0.6)%	(0.2)%	(1.1)%
TBAs	1.4 %	9.7 %	0.9 %	6.1 %	(1.1)%	(7.5)%	(2.3)%	(15.9)%
Interest rate hedges	(6.9)%	(49.1)%	(3.5)%	(24.6)%	3.5 %	24.9 %	7.0 %	49.5 %
Total	(2.5)%	(18.3)%	(0.8)%	(6.1)%	0.3 %	2.6 %	0.3 %	2.7 %

Non-Parallel Shifts		June 30, 2022		December 31, 2021	
Basis Point Change in 2-year UST	Basis Point Change in 10-year UST	% of Market Value [(1)]	% of Common Equity	% of Market Value [(1)]	% of Common Equity
+25	0	0.2 %	1.6 %	0.3 %	2.5 %
+25	+50	(0.3)%	(2.4)%	0.2 %	1.3 %
+50	+25	— %	(0.3)%	0.1 %	2.5 %
+50	+100	(0.7)%	(6.0)%	— %	0.1 %
0	-25	0.1 %	0.9 %	(0.2)%	(1.2)%
-10	-50	0.1 %	0.9 %	(0.6)%	(4.0)%
-25	-75	(0.1)%	(0.5)%	(1.3)%	(9.0)%

(1) Includes changes in market value of our investments and derivative instruments, including TBA securities, but excludes changes in market value of our financings which are not carried at fair value on our balance sheet due to their short-term maturities. The projections for market value do not assume any change in credit spreads.

Over the course of the past six months, we have shifted our interest rate risk position from a relatively shorter duration which protected our book value from increasing interest rates to a more neutral position now that we view further increases in interest rates to be less likely, and further flattening and potentially inverting of the yield curve to be more likely scenarios.

Spread Risk

Spread risk is the risk of loss from an increase in the market spread between the yield on an investment versus its benchmark index. Changes in market spreads represent the market's valuation of the perceived riskiness of an asset relative to risk-free rates, and widening spreads reduce the market value of our investments as market participants require additional yield to hold riskier assets. Market spreads could change based on macroeconomic or systemic factors as well as the factors specific to a particular security such as prepayment performance or credit performance. Other factors that could impact credit spreads include technical issues such as supply and demand for a particular type of security or Federal Reserve monetary policy. We do not hedge spread risk given the complexity of hedging credit spreads and in our opinion, the lack of liquid instruments available to use as hedges.

Fluctuations in spreads typically vary based on the type of investment. Sensitivity to changes in market spreads is derived from models that are dependent on various assumptions, and actual changes in market value in response to changes in market spreads could differ materially from the projected sensitivity if actual conditions differ from these assumptions.

The Company's exposure to changes to market spreads has not materially shifted for our investment portfolio as of June 30, 2022 versus our investment portfolio as of December 31, 2021. The table below shows the projected sensitivity of the market value of our investments given the indicated change in market spreads as of the dates indicated:

	June 30, 2022		December 31, 2021	
	Percentage Change in		Percentage Change in	
Basis Point Change in Market Spreads	**Market Value of Investments [1]**	**% of Common Equity**	**Market Value of Investments [1]**	**% of Common Equity**
+20/+50 [2]	(1.3)%	(10.7)%	(1.3)%	(9.2)%
+10	(0.6)%	(5.2)%	(0.6)%	(4.4)%
-10	0.6 %	5.2 %	0.6 %	4.4 %
-20/-50 [2]	1.3 %	10.7 %	1.3 %	9.2 %

(1) Includes changes in market value of our MBS investments, including TBA securities.
(2) Assumes a 20-basis point shift in Agency and non-Agency RMBS and CMBS and a 50-basis point shift in Agency and non-Agency CMBS IO.

Prepayment Risk

Prepayment risk is the risk of an early, unscheduled return of principal on an investment. We are subject to prepayment risk from premiums paid on investments, which are amortized as a reduction in interest income using the effective yield method under GAAP. Our comprehensive income and book value per common share may also be negatively impacted by prepayments if the fair value of the investment materially exceeds the par balance of the underlying security. Principal prepayments on our investments are influenced by changes in market interest rates and a variety of economic, geographic, government policy and other factors beyond our control, including GSE policy with respect to loan forbearance and delinquent loan buy-outs.

We seek to manage our prepayment risk on our MBS by diversifying our investments and investing in securities which either contain loans for which the underlying borrowers have some disincentive to refinance (such as low principal balance remaining, credit characteristics of the borrower, or geographic location of the property) or have some sort of prepayment prohibition or yield maintenance as is the case with CMBS and CMBS IO. Loans underlying our CMBS and CMBS IO securities typically have some form of prepayment protection provisions (such as prepayment lock-outs) or prepayment compensation provisions (such as yield maintenance or prepayment penalties). Because CMBS IO consist of rights to interest on the underlying commercial mortgage loan pools and do not have rights to principal payments on the underlying loans, prepayment risk on these securities is particularly acute without these prepayment protection provisions. There are no prepayment protections if the loan defaults and is partially or wholly repaid earlier as a result of loss mitigation actions taken by the underlying loan servicer. Please refer to Item 2, “Financial Condition-CMBS IO” for additional information on the composition of the Company’s investment in CMBS IO.

Credit Risk

Credit risk is the risk that we will not receive all contractual amounts due on investments that we own due to default by the borrower or due to a deficiency in proceeds from the liquidation of the collateral securing the obligation. Credit losses on loans could result in lower or negative yields on our investments.

Agency RMBS and Agency CMBS have credit risk to the extent that Fannie Mae or Freddie Mac fails to remit payments on the MBS for which they have issued a guaranty of payment. Given the improved financial performance and conservatorship of these entities and the continued support of the U.S. government, we believe this risk is low.

Agency and non-Agency CMBS IO represent the right to excess interest and not principal on the underlying loans. These securities are exposed to the loss of investment basis in the event a loan collateralizing the security liquidates without paying yield maintenance or prepayment penalty. This will typically occur when the underlying loan is in default and proceeds from the disposition of the loan collateral are insufficient to pay the prepayment consideration. To mitigate credit risk of investing in CMBS IO, we invest in primarily AAA-rated securities in senior tranches, which means we receive the highest payment priority and are the last to absorb losses in the event of a shortfall in cash flows.

Liquidity Risk

We have liquidity risk principally from the use of recourse repurchase agreements to finance our ownership of securities. Our repurchase agreements are renewable at the discretion of our lenders and do not contain guaranteed roll-over terms. If we fail to repay the lender at maturity, the lender has the right to immediately sell the collateral and pursue us for any shortfall if the sales proceeds are inadequate to cover the repurchase agreement financing. In addition, declines in the market value of our investments pledged as collateral for repurchase agreement borrowings and for our derivative instruments may result in counterparties initiating margin calls for additional collateral.

Our use of TBA long positions as a means of investing in and financing Agency RMBS also exposes us to liquidity risk in the event that we are unable to roll or terminate our TBA contracts prior to their settlement date. If we are unable to roll or terminate our TBA long positions, we could be required to take physical delivery of the underlying securities and settle our obligations for cash, which could negatively impact our liquidity position or force us to sell assets under adverse conditions if financing is not available to us on acceptable terms.

For further information, including how we attempt to mitigate liquidity risk and monitor our liquidity position and in particular, during the current economic crisis, please refer to “Liquidity and Capital Resources” in Item 2 of this Quarterly Report on Form 10-Q.

Reinvestment Risk

We are subject to reinvestment risk as a result of the prepayment, repayment and sales of our investments. In order to maintain our investment portfolio size and our earnings, we need to reinvest capital received from these events into new interest-earning assets or TBA securities, and if market yields on new investments are lower, our interest income will decline. In addition, based on market conditions, our leverage, and our liquidity profile, we may decide to not reinvest the cash flows we receive from our investment portfolio even when attractive reinvestment opportunities are available, or we may decide to reinvest in assets with lower yield but greater liquidity. If we retain capital or pay dividends to return capital to shareholders rather than reinvest capital, or if we invest capital in lower yielding assets for liquidity reasons, the size of our investment portfolio and the amount of income generated by our investment portfolio will likely decline.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2022 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 SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended June 30, 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

To the Company's knowledge, there are no pending or threatened legal proceedings, which, in management's opinion, individually or in the aggregate, could have a material adverse effect on the Company's results of operations or financial condition.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors discussed in Part I, Item 1A, "Risk Factors" of our 2021 Form 10-K. Risks and uncertainties identified in our forward-looking statements contained in this Quarterly Report on Form 10-Q together with those previously disclosed in the 2021 Form 10-K or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See "Forward-Looking Statements" contained in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q as well as Part I, Item 1A, "Risk Factors" in our 2021 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

On May 11, 2022, the Company's Board of Directors authorized a new share repurchase program (the "Program") of up to $60 million of the Company's outstanding shares of common stock and up to $30 million of the Company's Series C Preferred Stock through open market transactions, privately negotiated transactions, trading plans adopted in accordance with Rule 10b5-1 under the Exchange Act, block transactions or otherwise. The Program permits the Company to repurchase shares of common stock or Series C Preferred Stock at any time or from time-to-time at management's discretion. The actual means and timing of any shares purchased under the Program will depend on a variety of factors, including, but not limited to, the market prices of the common stock and the Series C Preferred Stock, as applicable, general market and economic conditions, and applicable legal and regulatory requirements. The Program does not obligate the Company to purchase any shares, and any open market repurchases under the Program will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. The Program, which replaces the Company's prior repurchase program that expired on March 31, 2022, is authorized through March 31, 2024, although it may be modified or terminated by the Board at any time.

The Company has not repurchased any shares of its Series C Preferred Stock. The following table summarizes repurchases of our common stock that occurred during the three months ended June 30, 2022:

Issuer Purchases of Equity Securities

	Total Number of Shares	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
				($s in thousands)
April 1 - 30, 2022	—	$ —	—	$ 60,000
May 1 - 31, 2022 (1)	29,936	—	—	60,000
June 1 - 30, 2022 (1)	330	—	—	60,000
	30,266	$ —	—	

(1) These shares were withheld from certain employees to satisfy tax withholding obligations arising upon the vesting of share-based compensation. Accordingly, these shares are not included in the calculation of approximate dollar value of shares that may yet be purchased under the Program authorized by the Company's Board of Directors.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Restated Articles of Incorporation, effective May 14, 2021 (incorporated herein by reference to Exhibit 3.1 to Dynex's Current Report on Form 8-K filed May 18, 2021).
3.2	Amended and Restated Bylaws, effective as of May 11, 2021 (incorporated herein by reference to Exhibit 3.2 to Dynex's Current Report on Form 8-K filed May 12, 2021).
4.1	Specimen of Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to Dynex's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019).
4.3	Specimen of 6.900% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (incorporated herein by reference to Exhibit 4.4 to Dynex's Registration Statement on Form 8-A12B filed February 18, 2020).
10.23.8	Amendment No. 8 to Master Repurchase and Securities Contract dated as of January 21, 2022 between Issued Holdings Capital Corporation, Dynex Capital, Inc. (as guarantor) and Wells Fargo Bank, N.A. (incorporated herein by reference to Exhibit 10.23.8 to Dynex's Annual Report on Form 10-K for the year ended December 31, 2021).
10.35.3	Amendment No. 3, dated June 3, 2022, to the Distribution Agreement by and among Dynex Capital, Inc., J.P. Morgan Securities LLC, JMP Securities LLC, JonesTrading Institutional Services LLC and BTIF, LLC (incorporated herein by reference to Exhibit 10.1 to Dynex's Current Report on Form 8-K filed June 3, 2022).
10.41.4	Form of Performance Unit Award Agreement for Executive Officers (for awards on or after February 23, 2022) under the Dynex Capital, Inc. 2020 Stock and Incentive Plan (incorporated herein by reference to Exhibit 10.41.4 to Dynex's Annual Report on Form 10-K for the year ended December 31, 2021).
10.41.5	Form of Restricted Stock Unit Award Agreement for Executive Officers (for awards on or after February 23, 2022) under the Dynex Capital, Inc. 2020 Stock and Incentive Plan (incorporated herein by reference to Exhibit 10.41.5 to Dynex's Annual Report on Form 10-K for the year ended December 31, 2021).
10.44	Employment Agreement by and between Dynex Capital, Inc. and Robert S. Colligan, dated as of July 18, 2022 (incorporated herein by reference to Exhibit 10.1 to Dynex's Current Report on Form 8-K filed July 18, 2022).
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following materials from Dynex Capital, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022, formatted in iXBRL (Inline Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.
104	The cover page from Dynex Capital, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022, formatted in iXBRL (Inline Extensible Business Reporting Language) (included with Exhibit 101).

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.

		DYNEX CAPITAL, INC.
Date:	August 1, 2022	/s/ Byron L. Boston
		Byron L. Boston Chief Executive Officer, Co-Chief Investment Officer, and Director (Principal Executive Officer)
Date:	August 1, 2022	/s/ Stephen J. Benedetti
		Stephen J. Benedetti Executive Vice President, Chief Financial Officer and Chief Operating Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATIONS

I, Byron L. Boston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dynex Capital, Inc.;
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: August 1, 2022

/s/ Byron L. Boston
Byron L. Boston
Principal Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Stephen J. Benedetti, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dynex Capital, Inc.;
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: August 1, 2022	/s/ Stephen J. Benedetti
	Stephen J. Benedetti
	Principal Financial Officer

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906

In connection with the Quarterly Report on Form 10-Q of Dynex Capital, Inc. (the “Company”) for the three months ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, as the Principal Executive Officer of the Company and the Principal Financial Officer of the Company, respectively, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

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

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

Date: August 1, 2022

/s/ Byron L. Boston
Byron L. Boston
Principal Executive Officer

Date: August 1, 2022

/s/ Stephen J. Benedetti
Stephen J. Benedetti
Principal Financial Officer